Absa Group Limited

Annual report

for the year ended 31 December 2010

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www.absa.co.za

Member of the BARCLAYS Group

ABSA

Introduction

JSE-listed South African companies, with year-ends from 28 February 2011, are required to produce integrated reports in accordance with the King Code of Governance Principles for South Africa 2009 (King III).

The Integrated Reporting Committee of South Africa defines an integrated report as “a report that incorporates, in clear language, material information from these and other sources to enable stakeholders to evaluate the organisation’s performance and to make an informed assessment about its ability to create and sustain value. An integrated report should provide stakeholders with a concise overview of an organisation, integrating and connecting important information about strategy, risks and opportunities and relating them to social, environmental, economic and financial issues”.

This amounts to more than merely merging the sustainability and annual reports. The intention is for companies to integrate environmental, social and governance (ESG) issues as well as their strategies and risks into the mainstream of business thinking, actions and reporting. Absa sees the path to integrated reporting as a journey which starts with changing mindsets, processes and then reporting. Based on the activities undertaken in 2010, Absa will be ready to produce its first integrated report for the year ending 31 December 2011.

Absa’s 2010 annual report

Progress towards integrating the ESG elements will readily be noticed in the Group’s 2010 annual report. Key changes in layout and disclosure from the 2009 report are:

» including non-financial indicators in many sections of the report;

» introducing independent assurance on a limited basis for a number of non-financial indicators; and

» determining 12 key material topics. These material topics provide the framework to confirm our assessment that Absa has created economic, environmental and social value for itself and its stakeholders, and serves as the basis for our broader sustainability reporting.

Absa's integrated reporting journey

At the annual general meeting (AGM), we are seeking shareholders' approval to change the Company'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 website. We believe this change will enable us to distribute more relevant information to our stakeholders. The 2010 annual report contains detailed information pertaining to our material topics. Going forward, Absa's material topics will be a focal point for our integrated reporting.

Scope and boundary of the 2010 annual report

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 Group'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 post 31 December 2010, this has been included and noted.

Since the release of Absa'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 Group. Therefore, the scope of the 2010 report has remained largely unchanged. Changes to the structure of the Group during the year have been noted in the directors' report. The report covers the entire Group, comprising retail, commercial, corporate and investment banking and financial services.

Absa's reporting ethos

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

We will build on this 2010 report, assisted by feedback on the content and form as we move towards our first integrated report for the year ending 31 December 2011.

Garth Griffin
Group Chairman

Maria Ramos
Group Chief Executive

Navigation and content aids:

	Web provides the relevant links to the website.		People
	Further reading boxes refer the reader to other parts of the report that contain relevant information.		Planet
	A **video** has been provided on the website.		Profit
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Who we are and what we do

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

Our company

Absa Group Limited (Absa or the Group), listed on the JSE Limited, is one of South Africa's largest financial services groups offering a complete range of banking, insurance and wealth management products and services. Absa's business is conducted primarily in South Africa. It also has equity holdings in banks in Mozambique and Tanzania and representative offices in Namibia and Nigeria.

Absa 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.

Total customer base

11,8 million

(2009: 11,7 million)

Total staffed outlets

1 007

(2009: 1 062)

Total permanent employees

36 770

(2009: 36 150)

BBBEE[1] Codes of Good Practice status

Level 3

(2009: Level 4)

Total assets

R716,5 billion

(2009: R710,8 billion)

Market capitalisation

R100,5 billion

(2009: R92,3 billion)

Note

[1]*Broad-based black economic empowerment.*

Our legal structure

Absa Group Limited

Absa Bank Limited (100%)

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

Commercial Banking
- Absa Business Bank

Investment Banking
- Absa Capital
- Absa Wealth

Absa Financial Services Limited (100%)

Insurance
- Absa Life Limited (Absa Life)
- Absa *idirect* Limited
- Absa Insurance Company Limited
- Absa Insurance Risk Management Services Limited

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

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

Other
- Absa Insurance and Financial Advisers (Proprietary) Limited

Other subsidiaries

Banking
- Barclays Bank Mozambique S.A. (95,9%)
- National Bank of Commerce Limited (Tanzania) (55%)
- Woolworths Financial Services (Proprietary) Limited (50% + 1 share)

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

Other
- Absa Capital Representative Office (Nigeria) Limited
- Absa Development Company Holdings (Proprietary) Limited
- Absa Namibia (Proprietary) Limited
- AllPay Consolidated Investment Holdings (Proprietary) Limited
- Absa Trading and Investments Solutions Holdings Limited

Associates, joint ventures and other interests

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

Our strategy

Purpose

To be partners in growing prosperity for all our stakeholders.

Vision

To be the best provider of financial services in South Africa and selected African markets.

One Absa strategy

Sustainable growth in targeted markets

Balance sheet optimisation and proactive risk management

Simple, streamlined Group for customer delivery

Customer- and people-centred organisation

One Absa strategy

The One Absa strategy comprises four key pillars to position the Group for sustainable growth. To implement the One Absa strategy successfully, the Group has created a range of strategic workstreams. The table below indicates the key objectives across these workstreams, highlights the actions taken during 2010 and the benefits of the strategy:

Strategic pillars	Key objectives
Pillar 1: Sustainable growth in targeted markets **What** » To become the leading financial services group in South Africa and selected African countries, while improving profitability and returns.	**How** » Develop innovative products aimed at growing revenue where the Group is currently under-represented, thereby unlocking value chains and growing the customer base. » Drive current markets with growth potential and seek to increase value generation by providing targeted services and offerings. » Implement innovative methods to meet customer needs, while reducing the current cost-to-serve.
Pillar 2: Balance sheet optimisation and proactive risk management **What** » To maintain a strong balance sheet that can withstand economic and financial shocks.	**How** » Balance risk and reward, while ensuring optimal liquidity and capital management by using capital where Absa generates high returns. » Manage all the major risks facing the Group in a prudent manner.

2010 achievements	2010 benefits
» Co-coverage of high-end corporate clients through the establishment of a corporate bank. » Invested in a transactional banking platform for business clients. » Enhanced functionality for customer self-service and anywhere/anytime banking through new services such as tap 'n go cards, agri procurement cards and *idirect* insurance. » Completed a new retail customer segmentation aimed at changing the retail franchise from a customer volume to value focused unit. » Converted a number of branches to a refocused format offering simple and easy banking and insurance.	**Impact on people** » Improved access to banking. » Innovative product and service offerings. » Provision of end-to-end financial solutions. » Improved customer service. **Impact on profit** » Return on average equity greater than cost of equity. » Growth in profit before taxation. » Reduced cost-to-serve in refocused branches. » Improved cross-sell ratios in entry-level and corporate banking.
» Implemented and extended new Alco and balance sheet management processes. » Maintained high capital ratios. » Increased surplus liquidity buffers. » Lengthened the funding profile. » Actively grew the deposit base by 6%. » Reduced the loan concentration risk. » Improved the non-performing loans cover. » Implemented a new Group-wide risk reporting platform. » Improved fraud detection mechanisms and platforms.	**Impact on profit** » Increased core retail and commercial deposits. » Strong liquidity and capital ratios. » Improved capital allocation driving return on economic capital. » Improved quality of credit portfolios and returns. » Strengthened risk operations.

One Absa strategy

Strategic pillars	Key objectives
Pillar 3: Simple, streamlined Group for customer delivery **What** » Instilling a culture of operating as a fully integrated organisation, in a manner that generates efficiencies and places the customer at the centre of everything the Group does.	**How** » Simplify engagement with certain customer groups to improve sales effectiveness. » Systematically re-engineer major customer processes, thereby reducing costs while improving service delivery. » Consolidate and optimise the distribution network by focusing service offerings and delivery on customer needs, thereby freeing up excess capacity and reducing the cost-to-serve. » Consolidate and rationalise infrastructure and utility activities to reduce duplication and improve utilisation.
Pillar 4: Customer- and people-centred organisation **What** » Deliver leading-edge customer service, using the most talented and motivated people.	**How** » Understand the key root causes for customer dissatisfaction and reduce these. » Better co-ordinate customer relationships and interactions, increasing customer loyalty, spend and portfolio size. » Help customers adapt their transactional behaviour to improve their experience and bank more efficiently. » Better match employee roles to core skills sets, personal and career growth objectives, thereby improving the employee value proposition and strengthening talent management. » Seek to provide a work environment that promotes ongoing learning by providing employee training and mentoring.

Focus for 2011

The Group is committed to improving its return on risk-weighted assets and average equity over the medium term. Streamlining the business for service delivery remains a key priority.

Cost management is top of mind. The Group will further strengthen its balance sheet, including continuing to grow its surplus liquidity buffers. High levels of capital will be retained.

Africa, which offers one of the best growth opportunities globally, remains important to the Group. Absa and Barclays will work closely to build on an already strong combined franchise.

2010 achievements	2010 benefits
» Introduced a new foreign exchange platform that significantly enhanced customer service delivery. » Re-platformed Mozambican and Tanzanian operations. » Expanded electronic statements and messaging. » Implemented new short-term and life administration systems. » Streamlined the cash management process. » Enhanced the home loan origination processes. » Implemented a new branch format and coverage pilot aimed at aligning branch configuration to customer demand. » Completed the Absa Towers West building and successfully reduced office space occupied. » Systematically reduced paper-based processing through the use of workflows and imaging.	**Impact on people** » Simplified processes. » Enhanced system availability. » Quicker turnaround times. » Improved customer experience. **Impact on planet** » Reduced paper-based processes. » Reduced physical statements mailed. » Lowered space requirements. » Introduced sustainable green infrastructure. **Impact on profit** » Cost efficiencies. » Eliminated surplus property rental costs. » Lower processing costs in targeted areas.
» Enhancements made to existing service offerings including internet banking. » Rolled out new entry-level customer education points in selected outlets. » Successfully piloted an electronic FICA[1] process. » Simplified key customer documents to improve understanding and communicate in plain language. » Introduced an online training platform for Retail Banking employees. » Implemented best practice operational management tools and techniques to better match available employee capacity to demand in operational areas. » Introduced the One Absa employee engagement programme.	**Impact on people** » Improved employee engagement. » Enhanced employee wellbeing. » Strong employee identification with Absa's goals and objectives. » Improved customer experience and engagement. » Enhanced financial literacy. **Impact on planet** » Reduced travel requirements. **Impact on profit** » Optimised human capital in the processing environment.

Note

[1] *Financial Intelligence Centre Act, No. 38 of 2001.*

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 Further reading Retail Banking 104	**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] Further reading Absa Business Bank 108	**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.

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)	**23 291**	22 976	1
Attributable earnings (Rm)	**3 353**	1 945	72
Headline earnings (Rm)	**3 232**	1 749	85
Return on regulatory capital (%)	**20,7**	11,7	
Cost-to-income ratio (%)	**57,1**	53,2	
Impairment losses ratio (%)	**1,49**	2,30	
Average risk-weighted assets (Rbn)	**160**	153	5

Group headline earnings contribution[2]

	2010	2009	Change %
Total income (Rm)	**11 626**	11 498	1
Attributable earnings (Rm)	**2 903**	3 235	(10)
Headline earnings (Rm)	**2 848**	3 206	(11)
Return on regulatory capital (%)	**22,8**	28,9	
Cost-to-income ratio (%)	**55,0**	48,9	
Impairment losses ratio (%)	**0,90**	0,91	
Average risk-weighted assets (Rbn)	**128**	114	12

Our business model

Segment	Business scope
Investment Banking Absa Capital » Investment Banking » Markets » Private Equity and Infrastructure Investments » Absa Wealth Further reading Absa Capital 112	**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.
Financial Services » Life Insurance » Short-term Insurance » Investments » Fiduciary » Distribution Further reading Financial Services 116	The **Financial Services** segment provides insurance, fiduciary and non-banking related investment products and services. These are offered through a well established and unique financial services operating model that combines the strengths of a traditional bancassurance model with a pure distributor model. This integrated model enables Absa to efficiently provide financial services to all market segments in sub-Saharan Africa.

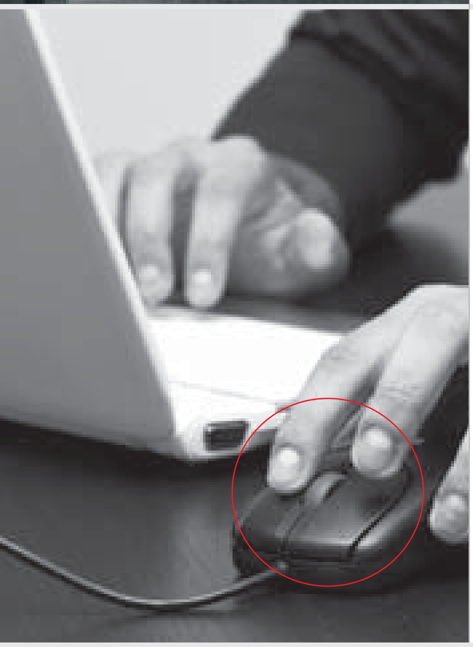
Note

[1] *Calculated after the allocation of corporate and funding centres.*

Key financial performance indicators

Group headline earnings contribution[1]

	2010	2009	Change %
Total income (Rm)	**5 226**	4 446	18
Attributable earnings (Rm)	**1 480**	288	>100
Headline earnings (Rm)	**1 527**	1 272	20
Return on regulatory capital (%)	**16,0**	12,9	
Cost-to-income ratio (%)	**54,3**	51,9	
Average risk-weighted assets (Rbn)	**98**	101	(3)



	2010	2009	Change %
Attributable earnings (Rm)	**1 290**	1 284	0
Headline earnings (Rm)	**1 291**	1 300	(1)
Net premium income (Rm)	**4 468**	3 845	16
Return on equity (%)	**34,8**	37,9	
Embedded value of new business (Rm)	**465**	294	58
Combined ratio (%)	**94,8**	96,2	
Assets under management (Rbn)	**163**	145	12

Our performance

Profit

Statement of comprehensive income

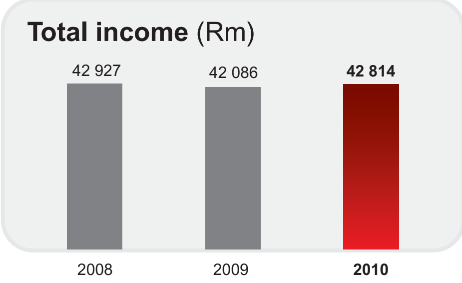
	2010	2009[1]	Change %
Total income (Rm)	**42 814**	42 086	2
Impairment losses on loans and advances (Rm)	**(6 005)**	(8 967)	33
Operating expenses (Rm)	**(24 070)**	(20 857)	(15)
Operating profit before income tax (Rm)	**11 851**	9 842	20
Profit attributable to ordinary equity holders of the Group (Rm)	**8 118**	6 840	19
Headline earnings[2] (Rm)	**8 041**	7 621	6
» Retail Banking	**3 232**	1 749	85
» Absa Business Bank	**2 848**	3 206	(11)
» Absa Capital	**1 527**	1 272	20
» Financial Services	**1 291**	1 300	(1)
» Head office, inter-segment eliminations and other	**(857)**	94	>(100)
Economic profit (Rm)	**562**	750	(25)

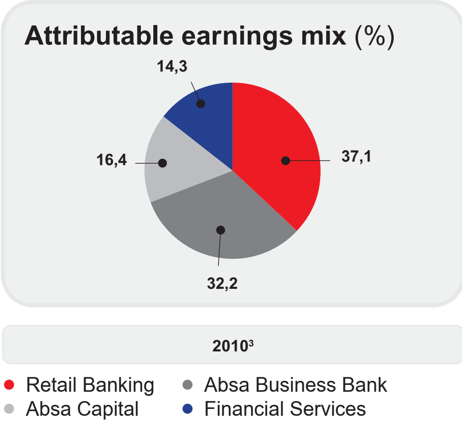
Notes

[1]*Comparatives have been reclassified.*

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

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



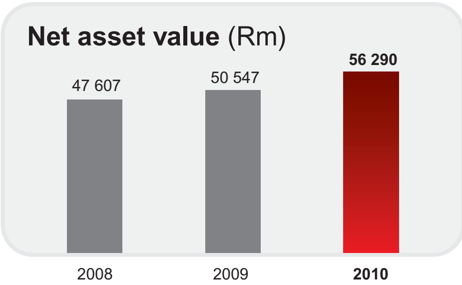


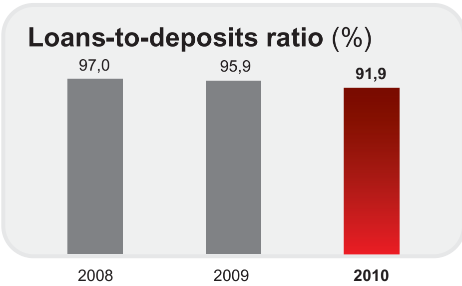
Statement of financial position

	2010	2009[1]	Change %
Loans and advances to customers (Rm)	**498 635**	506 163	(1)
Deposits due to customers (Rm)	**378 111**	356 365	6
Net asset value (Rm)	**56 290**	50 547	11
Total assets (Rm)	**716 470**	710 796	1
Risk-weighted assets (Rm)	**422 713**	386 264	9
Capital adequacy ratio (%)			
» Core Tier 1	**11,7**	11,5	
» Tier 1	**12,8**	12,7	
» Total	**15,5**	15,6	
Loans-to-deposits ratio (%)	**91,9**	95,9	

Note

[1]*Comparatives have been reclassified.*

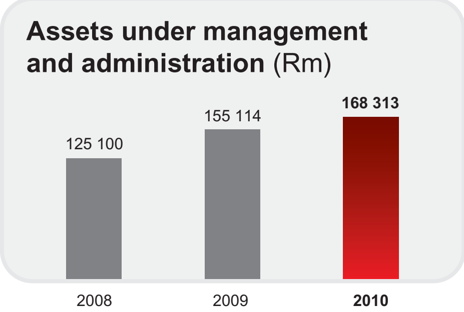




Profit

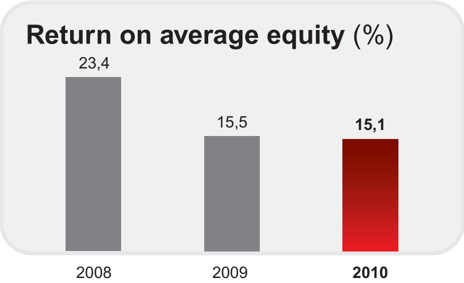
Assets under management and administration

	2010	2009	Change %
Assets under management and administration (Rm)	**168 313**	155 114	9
» Financial Services	**163 415**	145 453	12
› Money market	**66 256**	55 320	20
› Non-money market	**97 159**	90 133	8



Financial returns

	2010 %	2009 %
Return on average equity	**15,1**	15,5
Return on regulatory capital	**20,5**	20,2
Return on average economic capital	**19,7**	18,2
Return on average assets	**1,12**	1,02
Return on risk-weighted assets	**1,99**	1,97

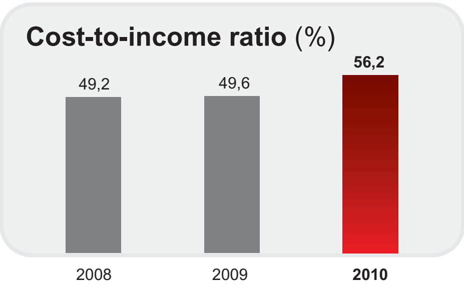


Operational performance

	2010 %	2009 %
Net interest margin on average interest-bearing assets	**4,01**	3,74
Impairment losses on loans and advances as a percentage of average loans and advances to customers (impairment losses ratio)	**1,20**	1,74
Non-performing advances as a percentage of loans and advances to customers	**7,7**	7,0
Non-interest income as a percentage of total operating income	**45,5**	48,1
Cost-to-income ratio	**56,2**	49,6
Cost-to-assets ratio	**3,3**	2,8
Effective tax rate, excluding indirect taxation	**27,5**	23,8
Home Loans average loan-to-value (LTV) ratio on a mark-to-market valuation[1] (%)	**44,3**[A]	45,9

Note

[1]*Loan-to-value ratio of outstanding home loans stock (ordinary building and further advances classified either as scored loans and advances or not scored loans and advances), based on a mark-to-market (MTM) valuation (total outstanding amount (excluding accounts in the legal process) as a percentage of the most recent property valuation (MTM)).*



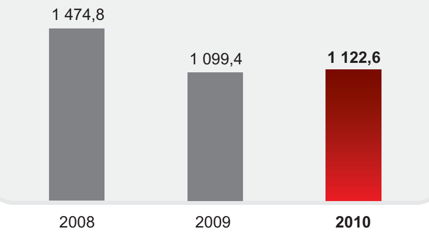
Our performance

Profit

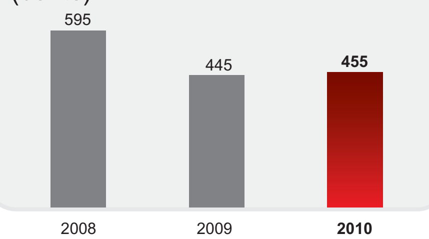
Share statistics

	2010	2009	Change %
Headline earnings per share (cents)	**1 122,6**	1 099,4	2
Diluted headline earnings per share (cents)	**1 115,7**	1 072,0	4
Basic earnings per share (cents)	**1 133,3**	986,7	15
Diluted earnings per share (cents)	**1 126,4**	962,2	17
Dividends per ordinary share relating to income for the year (cents)	**455**	445	2
Dividend cover (times)	**2,5**	2,5	
Net asset value per share (cents)	**7 838**	7 038	11
Tangible net asset value per share (cents)	**7 588**	6 865	11
Number of ordinary shares in issue (millions)	**718,2**	718,2	
Weighted average number of ordinary shares in issue (millions)	**716,3**	693,2	
Weighted average diluted number of ordinary shares in issue (millions)	**720,7**	711,5	

Headline earnings per share (cents)



Dividends per ordinary share (cents)



People

Customers

	2010	2009	Change %
Total banking customer base (millions)	**11,8**	11,7	1
» Total number of South African banking customers[1] (millions)	**11,1**[A]	11,0	1
Contractual financial services relationships (millions)	**5,8**	5,6	4
Number of new small business loans approved[2]	**11 625**[A]	14 503	(20)
Percentage of complaints resolved at first point of contact (%)	**81**	54	
Average days taken to resolve complaints (days)	**1,27**	3,00	
Number of complaints as a percentage of the total number of South African banking customers[3] (%)	**1,74**[A]	1,19[4]	—
Outlets	**1 007**	1 062	
Self-service terminals	**8 963**	8 945	
Internet banking customers ('000)	**1 094,5**	1 005,2	9
Cellphone banking customers ('000)	**2 513,0**	1 670,4	50

Notes

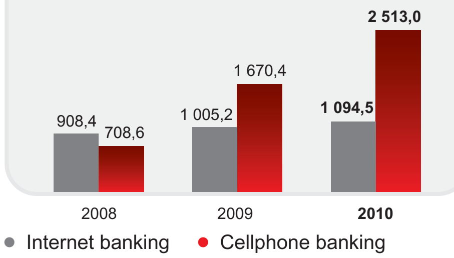
[1] *Total number of customers with active Absa core banking products such as cheque accounts, savings accounts, secured and unsecured loans. Excludes wills, life policies, BBM, NBC, WFS and VMSA.*

[2] *The number of new small business loans approved (overdrafts, term loans, mortgages, vehicle and asset finance (including dealers sales), and commercial loans (excluding CAF)) paid out to SME businesses (defined as businesses with a turnover of less than R10 million who are registered via Cipro and have a level of banking exposure (excluding micro-enterprise finance).*

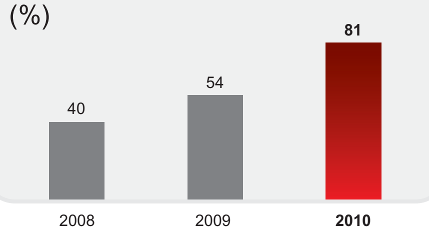
[3] *Number of customer complaints in South Africa logged by touch points on the Absa complaint management system as a percentage of the number of South African customers as at 31 December.*

[4] *Restated to align with the methodology applied in 2010.*

Internet and cellphone banking customers ('000)



Percentage of complaints resolved at first point of contact (%)



People

Employees

	2010	2009	Change %
Total permanent and non-permanent employees (number)	**43 239**	42 796	1
Total South African permanent and non-permanent employees[1] (number)	**39 782**[A]	39 531	1
Total permanent employees (number)	**36 770**	36 150	2
Percentage of female employees[2] (%)	**65,2**	65,5	
Percentage of African, Coloured and Indian employees[2] (%)	**64,2**	61,7	
Permanent employee turnover rate for South Africa[3] (%)	**10,1**[A]	12,3	
Total South African training spend[4] (Rm)	**372**[A]	282	32
Employee opinion survey participation[2] (%)	**91**	82	

Notes

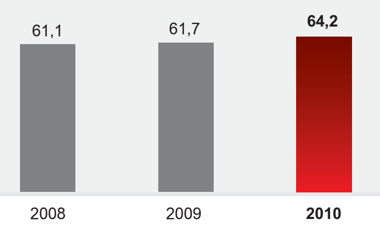
[1]*Number of employees includes permanent and temporary employees legally employed and paid by Absa payroll including 'regular' contracts; interns; graduates; specialists and brokers (excluding pension brokers). It covers operational and non-operational full-time, part-time, two thirds and commission paid employees. It also includes contingency workforce, which is all agency, contractors and self-employed employees paid via a third party for services rendered. The number excludes BBM, NBC and WFS.*

[2]*Excludes non-permanent employees, WFS, NBC and BBM.*

[3]*Number of terminations as a percentage of the average permanent headcount in South Africa (excluding WFS).*

[4]*Training spend is all verifiable and reportable spend on learning and skills programmes including accredited and non-accredited training; bursaries; learnership allowance; related travel; an employee matric equivalency programme and interventions focused on employees with disabilities.*

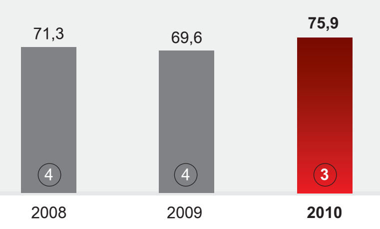
Percentage of African, Coloured and Indian employees[2] (%)



Transformation

	2010	2009
Broad-based black economic empowerment (BBBEE) Codes of Good Practice – total score	**75,9**	69,6
» Equity ownership	**8,2**	8,8
» Management and control	**6,0**	5,6
» Employment equity	**10,7**	9,2
» Skills development	**12,5**	10,6
» Procurement	**18,5**	15,4
» Enterprise development	**15,0**	15,0
» Socio-economic development	**5,0**	5,0
BBBEE status	**Level 3**	Level 4

BBBEE Codes of Good Practice score and status



Our performance

People

Community

	2010	2009	Change %
» Total socio-economic development (SED) spend in South Africa[1] (Rm)	83[A]	102	(19)
» Total employees supported across all SED programmes	7 012	5 255	33
» Number of work hours to support volunteering	27 472	9 719	>100
» Number of personal hours to support volunteering	4 405	1 051	>100
» Financial literacy initiatives – number of consumers reached	356 156	386 803	(8)

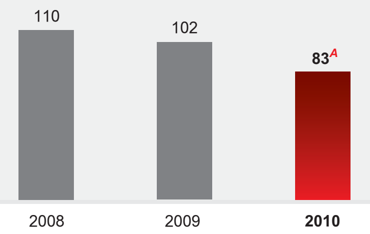
Note

In terms of the BBBEE CoGP, SED (which includes corporate social investment and consumer education) is 1% net profit after tax for the prior year thus the declining trend in recent years.

[1]Socio-economic spend is the rand value of:

- *CSI including donations, CSI related sponsorships and direct costs associated with the implementation of CSI; and*
- *Consumer education spend focussing on financial literacy initiatives including supplier payments, financial literacy/consumer related sponsorships and direct costs associated with the implementation of consumer education.*

Total socio-economic development spend (Rm)



Planet

Environment

	2010	2009	Change %
» Total transactions reviewed in accordance with Equator Principles[2] (number)	7[A]	12	
» Carbon footprint[3] ('000 tonnes CO_2)	415	[5]	
» Electricity consumption[4] (GWh)	469	461	2
» Paper consumption (tonnes)	2 453	2 401[6]	2
» Paper recycled (tonnes)	780	881	(11)
» Business travel[7] (millions km)	140	[5]	

Notes

[2]Total number of project finance transactions that have been reviewed for environmental and social risks as per the Equator Principles.

[3]Carbon footprint comprises of 95% electricity with the balance being business travel.

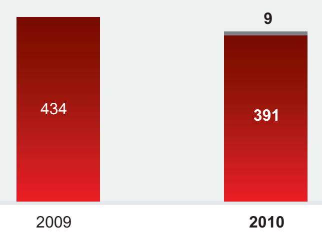
[4]Data has been collected through the installation of meters. Consumption has been estimated where meters are not installed. 2010 data is based on a small sample of actual metered data. Additional meters will be installed in 2011 to significantly enhance reporting in this regard.

[5]Not available.

[6]Restated.

[7]Includes company and functional vehicles, employee kilometer claims and car rental (but excludes flights).

Carbon emissions from electricity ('000 tonnes CO_2)



Sustainability review

Contents

Sustainability review

Pages 21 – 72

Absa's sustainability reporting including its stakeholder engagement approach and materiality framework to confirm that the Group continues to create economic, environmental and social value for itself and its stakeholders.

High-level overview

Introduction

Sustainability is a fundamental responsibility that is owed to shareholders, employees, customers, society and the environment. The Group understands that the needs of shareholders are of primary importance. However, Absa must balance this with doing business in a manner that is good for communities while keeping in mind that the planet has limited resources that affect and influences operations. The welfare of employees, customers and society in general, as well as the growing pressure on natural resources, is increasingly being tied to the financial performance and sound governance of the business.

As for many South African companies, 2010 was a year in which Absa continued to grow its role in sustainable development in a way that is relevant and material to the business and its stakeholders. It is believed that the largest contribution Absa can make to society and the environment is by operating a commercially successful business in a responsible manner.

Sustainability strategy and approach

In 2008, Absa developed six sustainable development themes in order to further facilitate value creation for all stakeholders. These themes took into account broad-based black economic empowerment (BBBEE), national development goals, the Millennium Development Goals, global corporate responsibility indices such as the JSE SRI Index, the Carbon Disclosure Project, the Global Reporting Initiative, the Financial Sector Charter, the Barclays Responsible Banking framework, and various local and global standards aimed at the stability of the financial sector.

Highlights

- Return on average equity remained above the cost of equity.
- Strong capital position maintained.
- BBBEE status improved from a Level 4 to a Level 3 contributor.
- Increased participation in the annual employee opinion survey.
- Enhanced access to financial services with, improved distribution channel accessibility and reach, product development and consumer education.
- Improved logging and resolution of customer complaints.
- Maintained IT system availability and stability of core systems.
- Completion of a gas energy centre in the new Absa Towers West building, supporting the energy requirements of the Absa head office complex.
- Absa was recognised as one of the best performing companies in the 2010 JSE SRI Index.

High-level overview

In line with King III, Absa's approach to sustainable development underwent a change in thinking, activity and reporting. In achieving a more integrated view of economic, social, environmental and governance considerations in its business operations, Absa has migrated from the six sustainable development themes identified previously to an approach that focuses on what is material to the Group and its stakeholders.

Through the introduction of 12 material topics, the Group is actively managing those significant issues which are of interest to stakeholders. Each topic reflects on the relevant governance, financial, social and environmental impacts.

The selection of the material topics was informed by the principle that if a topic influences, or is likely to influence, the decisions and actions of the Group or its stakeholders, then the topic is material and thus informs the focus of reporting.

Although the material topics are relevant to one or more pillars of the One Absa strategy, the Group believes that it is through the customer- and people-centred strategic pillar that many of the benefits relating to sustainable development will be realised. It is through motivated employees who clearly understand Absa's goals, that sustainability gains traction and becomes integral to the business.

Sustainability governance and accountability

Accountability for sustainability lies with the Absa Group board. Absa's sustainability status is presented to the board on a quarterly basis as part of the board scorecard. The Group Audit and Compliance Committee, a board committee, oversees Absa's external reporting.

Reporting standards and assurance

Absa references the Global Reporting Initiative (GRI) reporting framework and the King III principles in its sustainability reporting.

As part of the journey towards integrated reporting, Absa appointed PricewaterhouseCoopers Inc. and Ernst & Young Inc. to provide independent limited assurance on select information within the annual report. As Absa's South African operations constitute the majority of Group, the scope has been limited to South Africa. These sustainability indicators, which are linked with a number of the disclosed material topics, are:

- » Home Loans average loan-to-value (LTV) ratio on a mark-to-market valuation
- » Number of new small business loans approved
- » Total number of transactions reviewed in accordance with the Equator Principles
- » Total South African training spend
- » Total number of South African banking customers
- » Number of complaints as a percentage of the total number of South African banking customers
- » Total rand value of socio-economic development spend in South Africa
- » Total number of South African permanent and non-permanent employees
- » Permanent employee turnover rate for South Africa

For easy identification, this selected information is marked with [A] throughout the report. A detailed assurance statement appears on page 24 of this report.

Group value added statement

For the year ended 31 December

Value added is defined as the value created by the Group's activities and is determined as income less impairments and other operating expenditure. Absa's value added statement shows the total wealth created by the Group and how it was distributed to the Group's stakeholders, taking into account the amounts retained and reinvested in the Group for the replacement of assets and the development of operations.

	2010 Rm	2009 Rm
Value added		
Interest and similar income	**54 241**	65 247
Non-interest income	**19 474**	20 232
Impairment losses on loans and advances	**(6 005)**	(8 967)
Other operating expenditure	**(7 000)**	(7 803)
	60 710	68 709
Value allocated		
To employees	**12 537**	10 816
Salaries	**9 707**	8 872
Variable remuneration and share-based payments	**1 398**	867
Post-retirement benefits	**635**	551
Training and skills spend	**269**	195
Other	**528**	331
To communities		
Socio-economic development spend	**83**	102
To government	**4 033**	3 253
Direct taxation	**3 262**	2 340
Indirect taxation	**771**	913
To depositors and policyholders	**34 307**	46 032
Interest expense and similar charges	**30 901**	43 393
Benefits due to policyholders from Financial Services	**3 406**	2 639
To shareholders	**3 511**	4 221
Ordinary dividends	**3 191**	3 800
Preference dividends	**320**	421
To retention for expansion and growth	**6 239**	4 285
Depreciation and amortisation	**1 312**	1 245
Retained income for year	**4 927**	3 040
	60 710	68 709

	2010 %	2009 %
Value added		
Interest and similar income	**89,3**	95,0
Non-interest income	**32,1**	29,4
Impairment losses on loans and advances	**(9,9)**	(13,0)
Other operating expenditure	**(11,5)**	(11,4)
	100,0	100,0
Value allocated		
To employees	**20,6**	15,8
Salaries	**16,0**	12,9
Variable remuneration and share-based payments	**2,3**	1,3
Post-retirement benefits	**1,0**	0,8
Training and skills spend	**0,4**	0,3
Other	**0,9**	0,5
To communities		
Socio-economic development spend	**0,1**	0,1
To government	**6,7**	4,7
Direct taxation	**5,4**	3,4
Indirect taxation	**1,3**	1,3
To depositors	**56,5**	67,1
Interest expense and similar charges	**50,9**	63,2
Benefits due to policyholders from Financial Services	**5,6**	3,9
To shareholders and policyholders	**5,8**	6,1
Ordinary dividends	**5,3**	5,5
Preference dividends	**0,5**	0,6
To retention for expansion and growth	**10,3**	6,2
Depreciation and amortisation	**2,2**	1,8
Retained income for year	**8,1**	4,4
	100,0	100,0

Independent assurance report to the directors of Absa Group Limited

Introduction

We have been engaged by the directors of Absa Group Limited to perform an independent limited assurance engagement in respect of selected Identified Sustainability Information included in Absa Group Limited's Sustainability Review Report as incorporated in the Annual Report for the year ended 31 December 2010 (the Report).

Scope and subject matter

The following Identified Sustainability Information for Absa Group Limited's South African operations was selected for an expression of limited assurance:

» Home Loans average loan-to-value (LTV) ratio on a mark-to-market valuation (pages 15, 35, 55, 56)

» Number of new small business loans approved (pages 16, 58, 108)

» Total number of transactions reviewed in accordance with the Equator Principles (pages 18, 55, 57)

» Total South African training spend (pages 17, 61)

» Total number of South African banking customers (pages 16, 52)

» Number of complaints as a percentage of the total number of South African banking customers (pages 16, 52)

» Total rand value of socio-economic development spend in South Africa (pages 18, 66)

» Total number of South African permanent and non-permanent employees (pages 17, 61)

» Permanent employee turnover rate for South Africa (%) (pages 17, 37, 61)

The Identified Sustainability Information as indicated above has been marked by the symbol [A] throughout the Report for identification purposes. Criteria applied for the Identified Sustainability Information is that identified by Absa Group Limited and is indicated in the Report as footnotes on the corresponding page on which data appears.

Our responsibility in performing our independent limited assurance engagements is to Absa Group Limited only and in accordance with the terms of reference for this engagement as agreed with them. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than Absa Group Limited, for our work, for this report, or for the conclusions we have reached.

Directors responsibilities

Absa Group Limited's directors are responsible for the preparation and presentation of the Identified Sustainability Information, as incorporated in the Report, in accordance with the identified criteria. This responsibility includes: designing, implementing and maintaining appropriate performance management and systems to record, monitor and improve the accuracy, completeness and reliability of the Identified Sustainability Information and to enable preparation of the Identified Sustainability Information in the Report that meets the requirements of the relevant criteria, and contains all relevant disclosures that could materially affect any of the conclusions drawn.

Auditor's responsibilities

Our responsibility is to express our limited assurance conclusion, to the directors, on the Identified Sustainability Information contained in the Report, for the year ended 31 December 2010, based on our limited assurance engagement.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance engagements other than audits or reviews of historical financial information* issued by the International Auditing and Assurance Standards Board. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance on the Identified Sustainability Information as per the terms of our engagement.

Basis of work – inherent limitations

The procedures selected depend on our judgement, including the assessment of the risk of material misstatement of the subject matter and the purpose of our engagement. In making these assessments, we have considered internal controls relevant to the entities preparation and presentation of the Identified Sustainability Information, in order to design procedures appropriate for gathering sufficient appropriate assurance evidence to determine that the Identified

Sustainability Information is not materially misstated or misleading as set out in the summary of work performed. Our assessment of relevant internal control is not for the purpose of expressing a conclusion on the effectiveness of the entity's internal controls.

We planned and performed our work to obtain all the information and explanations that we considered necessary to provide a basis for our limited assurance conclusion pertaining to the Identified Sustainability Information. We have no responsibility to update this report for events and circumstances occurring after the date of the report, nor will we perform any work in this regard.

Where a limited assurance conclusion is expressed, our evidence gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

We provide no assurance over any web-related content except for the specific Identified Sustainability Information included as part of this Report as described in the scope of our engagement above.

Non-financial data is subject to more inherent limitations than financial data, given both the nature and the methods used for determining, calculating, sampling or estimating such data. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements.

We have not carried out any work on data reported for prior reporting periods nor in respect of future projections and targets. We have not conducted any work outside of the agreed scope and therefore restrict our opinion to the Identified Sustainability Information.

Summary of work performed

Our procedures included examination, on a test basis, of evidence relevant to the Identified Sustainability Information. It also included an assessment of the significant estimates and judgements made by the directors in the preparation of the Identified Sustainability Information.

Our work consisted of:

- inspecting and observing processes that Absa Group Limited have in place for determining the Identified Sustainability Information included in the Report;
- obtaining an understanding of the systems used to generate, aggregate and report the Identified Sustainability Information;
- conducting interviews with management at the sampled operations and at corporate head office;
- evaluating the data generation and reporting processes against the reporting criteria;
- performing key controls testing and testing the accuracy of data reported on a sample basis; and
- compare the consistency between the Identified Sustainability Information and related statements in the Report.

Conclusion

Limited assurance

Based on our limited assurance procedures described in this report and subject to the limitations above, nothing has come to our attention causing us to believe that the Identified Sustainability Information selected for limited assurance and indicated with the symbol [A] in the Report, for the year ended 31 December 2010, has not been prepared, in all material respects, in accordance with the criteria as described in the relevant footnotes in the Report.

PricewaterhouseCoopers Inc.
Director: Herman Zulch
Registered Auditor
Chartered Accountant (SA)

2 Eglin Road
Sunninghill

15 April 2011

Ernst & Young Inc.
Director: Alasdair Stewart
Registered Auditor
Chartered Accountant (SA)

Wanderers Office Park
52 Corlett Drive, Illovo

15 April 2011

Stakeholder engagement

Highlights

- Increased employee engagement through the employee opinion survey and a Group-wide people management survey.
- A supplier internet site was established to communicate Absa's ethics, policies and procedures pertaining to suppliers.
- Conducted more than 135 000 customer-related surveys during 2010, covering all customer channels and segments.
- Hosted a number of local community events, dialogue sessions and workshops aimed at facilitating information and skills sharing.
- Commenced Absa's integrated reporting journey.

Our stakeholders

Today's organisations are faced with ever-changing circumstances and challenges. It is therefore necessary to establish and maintain mutually beneficial relationships with stakeholders. These relationships must be characterised by regular two-way communication, focus on matters of mutual interest, and trust earned through ethical conduct.

Absa uses the widely accepted definition that a stakeholder is a person, group, or organisation that has direct or indirect stake in Absa because it can affect or be affected by the Group's strategy, policies and actions. While the Group accepts the principle of self-legitimisation of stakeholding, it is noted that not all stakeholders are equal and each have different considerations.

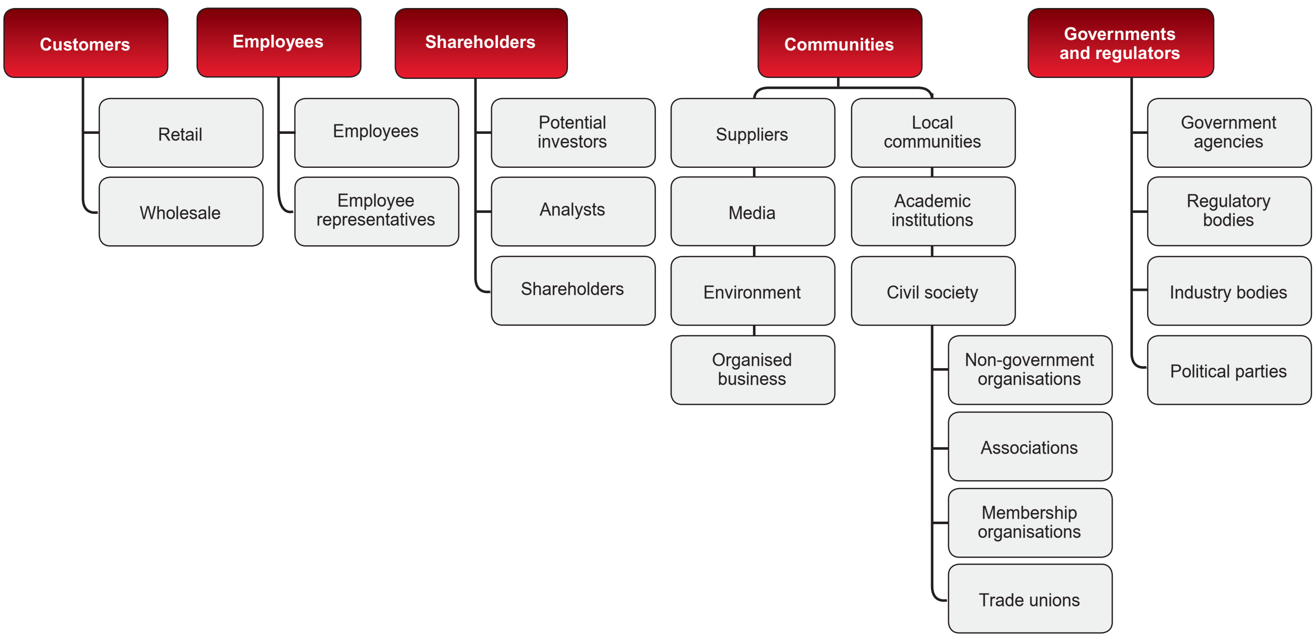
In defining its stakeholders, Absa has been guided by the nature of its stakeholders' expectations and as such grouped stakeholders with similar interests.

The Absa Group board has defined the Group's stakeholder groups as being:

- **customers,** without whom the Group would not have a business purpose;
- **employees,** who make it all possible;
- **shareholders** to whom the financial perspective is important;
- **the communities and the environment** in which Absa operates; and
- **governments and regulators,** who create the environment in which the Group operates. In addition to this, it is imperative to ensure that transformation remains a core imperative in the Group.

Absa is committed to creating sustainable value for each stakeholder and has a clear segmentation model with tailored engagements to suit each grouping.

Absa's key stakeholders



Stakeholder engagement approach and governance

Absa uses various policies and methodologies governing communication and conduct with stakeholders to cater for their diverse and sometimes conflicting interests and concerns. This is a continuous process and policies and methodologies are widely informed by best practice, corporate governance and legislative requirements, as well as risk and reputation management principles.

Absa has a formal, decentralised stakeholder engagement model with a practical framework designed around the Group's main stakeholder groups, while ensuring relevance to the issues that have been identified as material to the sustainability of Absa. As a result, engagement is undertaken by a number of specific business units.

In engaging with stakeholders, the Group aims to provide a consistent message within the context of the One Absa strategy, which further mirrors the Group's corporate ethics and values.

Absa's stakeholder management strategy hinges on:

- internal stakeholder participation;
- external stakeholder participation;
- stakeholder risk and opportunity identification;
- enhancing Group stakeholder engagement; and
- engaging on new platforms and in new ways as they evolve.

Absa employs diverse mechanisms at various levels to secure feedback, from small group discussions, such as analyst meetings with management, to formalised quantitative research such as customer perception audits and employee opinion surveys. The frequency and blend of mechanisms are informed by both the stakeholder and the matter under consideration. Emphasis is on substance over form.

2010 review

The Group understands that successful stakeholder management is not only about needs and expectations, but also the ongoing identification, prioritisation and management of issues that have the greatest impact on all stakeholders. In the year under review various issues have been responded to.

Customers

Absa's customer agenda is embodied within the One Absa strategy pillar – a customer and people-centred organisation. On the continuous journey to exceed customer expectations, the Group regularly seeks out customers' opinions about products and services through customer focus groups and surveys, complaints and compliments, and responses to marketing and advertising.

The current key customer issues are customer service levels, system availability, access to financial services, the cost of banking, information security and customer indebtedness. In response to these Absa has, *inter alia*, introduced a Debt Solutions Helpline and the Absa Debt Counselling Call Centre; continued to secure and protect systems and information against unauthorised access and fraud attempts; invested in the improvement of its systems; left fees unchanged for 18 months in the retail banking environment and created an entry-level and inclusive banking unit.

Employees

In order to achieve the Group's goal of being truly customer-centred, the organisation must be resourced with talented, energised and passionate people. This will be achieved by fostering healthy and mutually beneficial relationships with all the Group's employees. A number of surveys are conducted to ascertain employees' views including the annual employee opinion survey. Other major engagement tools include the Group Chief Executive's blog, internal television broadcasts and the employee magazine.

Training and development, reward, succession planning, employment equity are some of the core issues to the Group's employees. Each of these continued to receive attention in the year under review.

Shareholders

As determined by interaction with the market, shareholders expect detailed financial disclosure as well as updates on strategy and performance expectations. Key shareholders concerns include sustainable earnings growth, revenue opportunities, cost management initiatives, positive shareholder returns, capital and liquidity improvement, as well as integrated risk and credit management.

The Group interacts with the investment market on an ongoing basis through one-on-one meetings and group meetings with senior management. Presentations are made to the market, which include the Group's annual and interim financial results, specific investor days and conferences. Senior management also participate in road-shows with both local and international investors. Interaction with shareholders is undertaken through the Group's annual report, annual general meeting and directly.

Communities

Local communities, academic institutions, and civil society

The Group employs a consistent approach to community development through corporate social investment and consumer education initiatives. Matters requiring focus include education, skills development and job creation, health and other general welfare matters. Absa provides funding to projects that create sustainable value for the communities by maximising opportunities for both short- and long-term financial inclusiveness and growth. Absa's development initiatives are projects aimed at providing viable and sustainable solutions in response to local and national priorities. These involve deliberate partnerships with key partners who are experts in a particular field offering holistic and practical models to address key priorities. The key drivers are to provide both social and economic benefits to communities and individual beneficiaries. In addition to one-on-one communication with project partners, the Group engages widely through various stakeholder engagement events.

Media

It is necessary to engage with a wide spectrum of national and international media on a daily basis on a wide array of topics. Absa interacts with the media, in a consistent, open and transparent manner. The Group strives to be responsive to media queries and other requests for information about the business in order to maintain Absa's integrity and brand reputation. Communication is undertaken primarily through media briefings in preparation for events hosted by the Group or by Absa's stakeholders, media releases, media conferences, interviews with approved employees and responses to direct media queries.

Environment

Various stakeholders within the community such as non-governmental organisations and organised business are keenly interested in Absa's response to environmental issues. Issues are dealt with through ongoing dialogues that range from the direct impact of the Group's operations on the environment, proposed bills and legislation as well as the lending practices with a focus on environmental and social risks. These matters are dealt with through a range of interactions including participation in regular industry discussion groups including the National Business Initiative and the Banking Association of South Africa.

Organised business

Organised business refers to the formation of strategic partnerships to create and maintain a platform for the business and government sectors to work together to improve the economy. Absa has committed to support organised business for mutually beneficial purposes. The Group has maintained a strong relationship (financial and advisory) with organised business as a whole, both formally and informally, through direct engagement and electronic correspondence. The key expectations of organised business include participation in the development of industry policy, business intelligence through various workshops and dialogues as well as financial support towards initiatives resulting in the sustainable development of the economy. Absa responds to issues accordingly through the appropriate channels.

Suppliers

Absa requires goods and services on time, to specification, from reputable, quality suppliers. Absa's procurement strategy is to primarily deliver savings through strategic sourcing and secondly to apply BBBEE requirements. Costs are managed through effective category management and overall supplier relationship management. As a result, engagement with suppliers occurs on a daily basis, using different partnering approaches.

In response to concerns regarding transparency of practice and entering the Absa procurement supply chain, a supplier internet site has been instituted to communicate to current and prospective suppliers on Absa's ethics, policies and procedures pertaining to suppliers as well as the Absa sourcing calendar. The site also offers tools such as a BBBEE self-assessment toolkit. A dedicated supplier share call number is available for suppliers to contact Absa directly for enquiries and complaints handling.

Trade unions

Absa has a recognition agreement with one trade union (Sasbo) in relation to its South African operations, and all non-managerial employees are included in the bargaining unit which currently constitutes 68% of the total employee base. In terms of the agreement with Sasbo, all organisational changes are referred for consultation prior to execution and Absa strictly conforms to the requirements of the Labour Relations Act.

NBC engages with two recognised trade unions namely FIBUCA to which 54% of employees are affiliated and TUICO which represents 8% of employees. The remaining 38% of employees are non-unionised. BBM has a collective workers agreement with the trade union SNEB to which 65% of employees are affiliated.

Governments and regulators

Governments

The national governments in the countries in which the Group operates, set the regulatory environment. Absa strives to promote good relations with various government agencies and regulatory bodies. The Group manages key issues through improved governance and compliance to laws and regulations as well as participation in roundtable discussions. Engagement with governments usually takes the form of scheduled meetings, events and campaigns.

Regulators and industry bodies

Dialogue with regulators takes the form of briefing sessions and one-on-one interactions with the relevant senior management in the Group. Absa also participates in various discussion forums and committees lead by industry bodies tackling industry specific and wider economic issues.

Political parties

Absa is a committed supporter of the multiparty democracy in South Africa and supports good governance and healthy competition of ideas in the country's policy-making environment through the democracy support programme. Absa contributed 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.

Focus for 2011

Attention will be placed on the implementation of a broader and more inclusive stakeholder engagement framework and the application of the principles of materiality, inclusiveness, completeness and responsiveness in a more structured and formal manner. This will include:

- establishing more formal and appropriate channels of communication;
- providing appropriate information in a language best suited to the audience;
- addressing stakeholder needs and issues as soon as reasonably possible;
- responding considerately to stakeholder issues; and
- establishing internal and external benchmarks for measurement of success.

Materiality

Introduction

The past three years have been testing for the greater financial services industry. This has highlighted the need to ensure sustainable value creation, not only for shareholders, but for all stakeholders over the long term. With this in mind, Absa has aligned its reporting to address those topics that impact the Group's future sustainability.

Identifying Absa's material topics

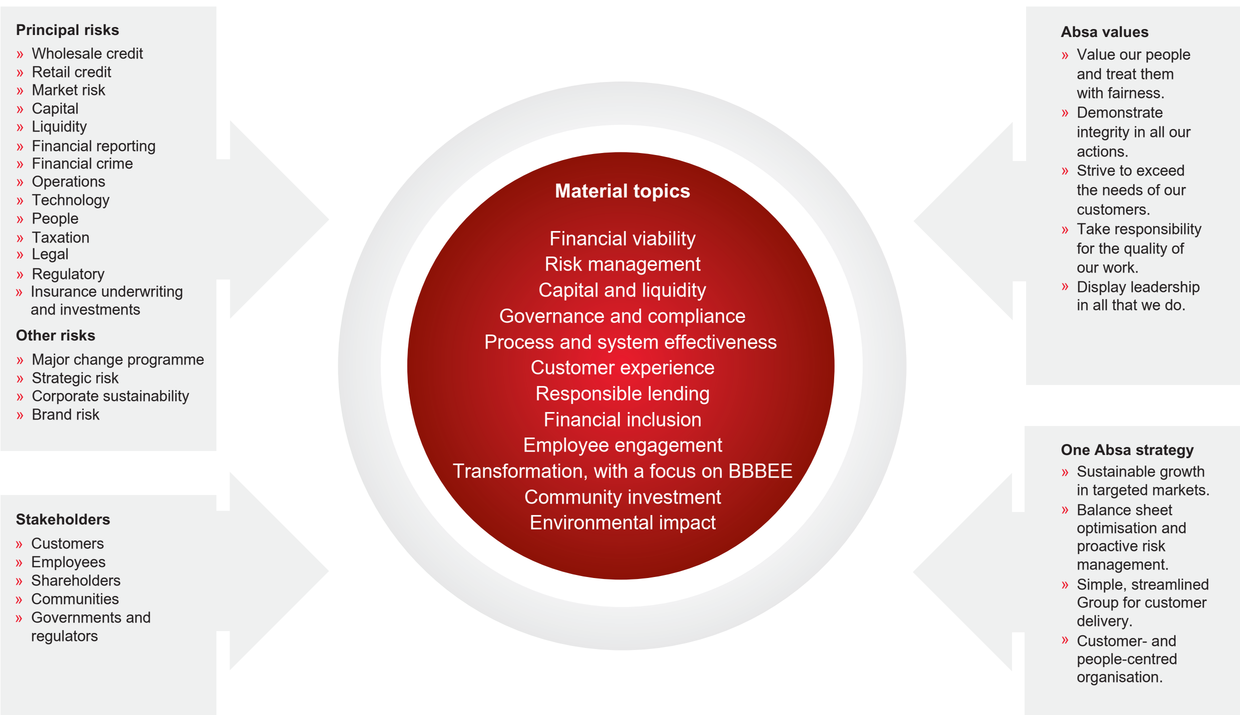
Materiality is seen as a cornerstone of integrated reporting and provides a view of what the Group and its stakeholders deem important. Material topics have a direct or indirect impact on whether an organisation creates or erodes economic, environmental and social value for itself, its stakeholders and society.

A number of topics were identified as material to the Absa Group and its stakeholders. These were identified by looking at:

» what stakeholders consider important;
» core issues and future challenges;
» relevant laws and regulations;
» key organisational values, policies, strategies, goals and targets;
» significant risks;
» critical factors for enabling organisational success;
» core competencies of the organisation; and
» the One Absa strategy.

The identified topics were mapped by taking cognisance of the level of importance to the Group and its stakeholders. The mapping indicated that the Group should provide disclosure on 12 key topics.

Material topics



Our 2010 material topics

Material topic		Description
Financial viability		Sustainable growth creating value for all stakeholders.
Risk management		Identifying and managing significant risks that impact on the Group's sustainability.
Capital and liquidity		Ensuring that the Group has the correct levels of capital and liquidity to meet its business requirements.
Governance and compliance		Being an ethical company that maintains high standards of governance.

2010 highlights

- Solid financial performance with an increase in headline earnings of 6% to R8 billion.
- Return on average equity (RoE) remained above the cost of equity (CoE).
- Net asset value per share increased by 15% compounded over five years.
- Early successes from the One Absa strategy positions Absa well for future growth.
- Strengthened the balance sheet.

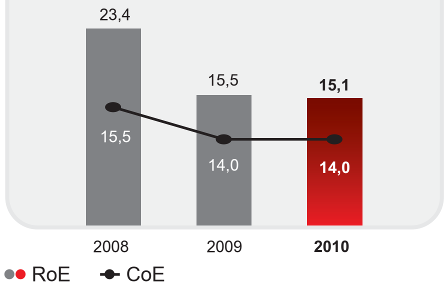
- Enhanced the quality of new business.
- Reduced impairments by improving the Group's collection activities.
- Managed interest rate risk in the banking book to low levels.
- Enhanced operational risk controls.
- Improved principal risk identification.
- Upgraded traded market risk measurement systems.

- Strong capital position maintained.
- Board targets incorporated adequate capital buffers above minimum regulatory requirements.
- Retained investment grade credit rating.
- Significant increase in surplus liquid assets held.
- Continued improvement in term of funding.
- Loans-to-deposits ratio improved to 91,9% in 2010 from 95,9% in 2009.

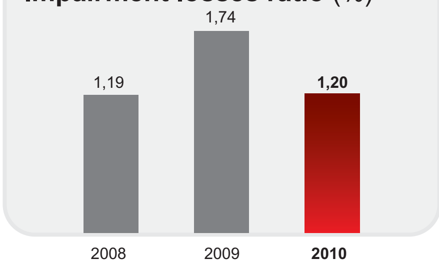
- Substantial application of King III.
- High levels of adherence to local and international governance standards.
- Established the Information Technology Steering Committee as a Group Exco subcommittee.
- Complied with all applicable laws, regulations, standards and codes.

Measuring achievement

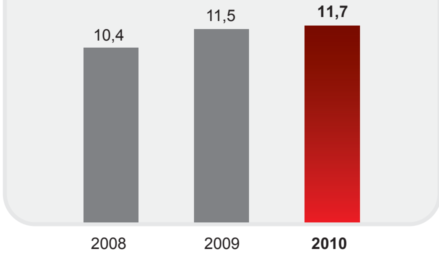
RoE relative to the CoE (%)



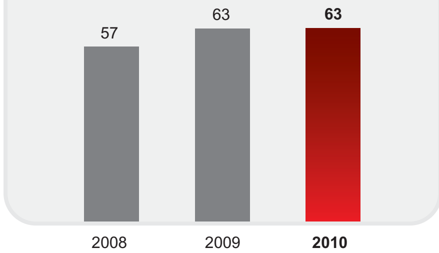
Impairment losses ratio (%)



Core Tier 1 capital adequacy ratio (%)



Percentage of independent board members (%)



Our 2010 material topics

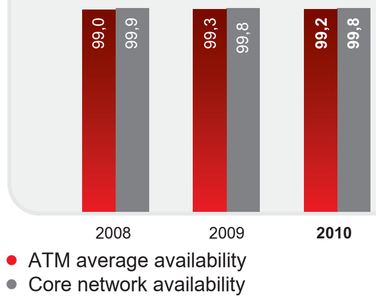
Material topic		Description
Process and system effectiveness		Process and system effectiveness for simple, streamlined customer service delivery.
Customer experience		Ensuring that the customer remains at the centre of everything the Group does.
Responsible lending		Promoting fair, transparent, sustainable, and responsible access to credit.
Financial inclusion		Providing innovative, appropriate and sustainable financial services to those historically excluded.

2010 highlights

- Delivered several major programmes, including:
  - a new foreign exchange platform; and
  - new short-term and life insurance administration systems.
- Maintained IT system availability and stability of core systems.
- Implemented workflow and imaging in mainstream business processing.
- Re-designed several key customer-facing processes.
- Continued to reduce the number of Severity 1 incidents down to 10 in 2010 from 20 in 2009.

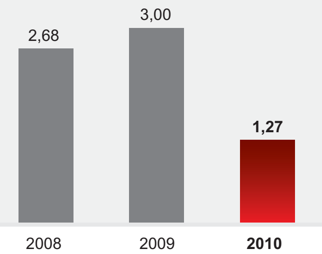
Measuring achievement

System availability (%)



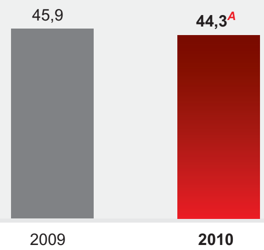
- Overall satisfaction with the Group's service delivery remained stable throughout 2010.
- In the 2010 *Orange Index* customer service benchmark study Absa, achieved second position in banking for the second year.
- Improved logging and resolving customer complaints across all channels.
- Launched a number of innovative products, including:
  - Western Union money transfers on cellphone and internet banking platforms; and
  - point-of-sale dynamic currency conversion.
- Embedded Treating Customers Fairly principles.

Average days to resolve complaints (days)



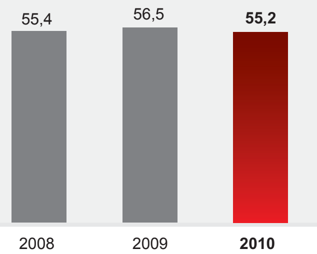
- Implemented a Debt Solutions Helpline and the Absa Debt Counselling Call Centre to assist customers in financial distress.
- Lowered the Home Loan average LTV ratio on a mark-to-market valuation to 44,3% for December 2010 from 45,9% for December 2009.
- Applied the Equator Principles requirements to project finance transactions.

Home Loans average LTV on a mark-to-market valuation (%)



- Created an entry-level and inclusive banking unit.
- Launched a refocused branch approach.
- Improved access mechanisms through branchless and mobile banking.
- Expanded micro-enterprise finance, focusing on the self-employed low-income segment.

Market share for individual savings accounts (%)



Our 2010 material topics

Material topic		Description
Employee engagement		Ensuring a motivated and engaged workforce.
Transformation, with a focus on broad-based black economic empowerment		Ensuring that the Group's shareholders, employees, suppliers and customers represent the demographics of South Africa.
Community investment		Adding value to the communities in which the Group operates.
Environmental impact		Managing Absa's impact on the environment.

2010 highlights

- Improved participation in the 2010 employee opinion survey.
- Reduced employee turnover rate.
- Met the CoGP target for training spend on historically disadvantaged individuals.
- 1 850 learners participated in Absa's learnership programme during 2010.
- More than R20 million invested in bursaries for employees to further their education.

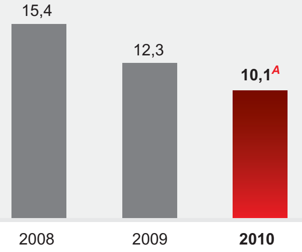
- BBBEE status improved from a Level 4 to a Level 3 contributor.
- Absa Group spent 74,7% (R9 907 million) of total procurement with BBBEE accredited suppliers.
- 3% (R284 million) of Absa's leviable salary bill was invested in qualifying skills development, including:
  - the introduction of the Absa Disability Coaching Programme; and
  - 1 719 unemployed matriculants and graduates undertook learnerships.
- 7,1% (R570 million) of Absa's net profit after tax invested in enterprise development.

- Invested R83 million in qualifying socio-economic development initiatives on a national, provincial and local level.
- Significant increase in employees involved in community projects.
- Independent research confirmed that the Bubomi financial literacy programme significantly improved financial capabilities of participants.
- Won two Mail & Guardian Investing in the Future Awards in the partnership and sports development categories, runner-up in the enterprise development category and special commendation in the employee community involvement category.

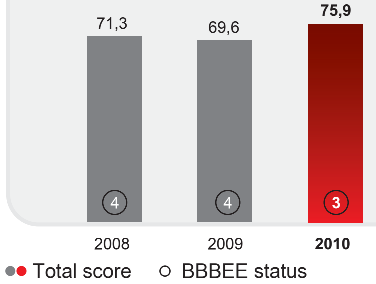
- Increased energy efficiency by improving and replacing infrastructure.
- Implemented a project to improve the measurement of electricity use.
- Completed the gas energy centre in the new Absa Towers West building providing security of electricity supply and reducing carbon dioxide (CO_2) emissions.
- CO_2 emissions dropped by 7% year-on-year as a result of the lower carbon factor of gas emissions.
- Exposed and educated credit processing managers on the principles embodied in responsible environmental finance.

Measuring achievement

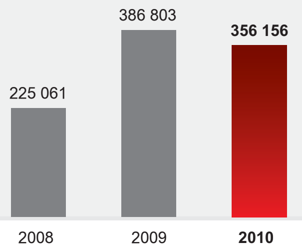
Permanent employee turnover rate for South Africa (%)



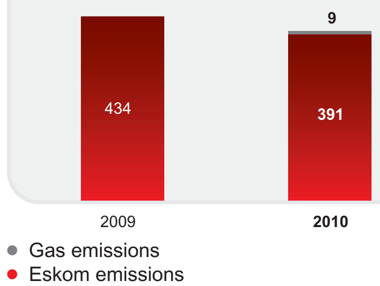
BBBEE Codes of Good Practice score and status



Number of consumers reached through financial literacy initiatives



Carbon emissions from electricity ('000 tonnes CO_2)



Material topics – Financial viability

Sustainable growth creating value for all stakeholders.

Highlights

- Early successes from the One Absa strategy positions Absa well for future growth.
- Solid financial performance with an increase in headline earnings of 6% to R8 billion.
- Return on average equity (RoE) remained above the cost of equity (CoE).
- Net asset value per share increased by 15% compounded over five years.
- Strengthened the balance sheet.

Key performance indicators

	2010	2009	Change %
Revenue growth: five-year compounded (%)	**11**	4[2]	
Headline earnings growth: five-year compounded (%)	**5**	8[2]	
Attributable earnings contribution[1] (%)			
» Retail Banking	**37,1**	28,8	
» Absa Business Bank	**32.2**	47,9	
» Absa Capital	**16,4**	4,3	
» Financial Services	**14,3**	19,0	
Return on average equity (%)	**15,1**	15,5	
Cost of equity (%)	**14,0**	14,0	
Return on risk-weighted assets (%)	**1,99**	1,97	
Loans and advances to customers (Rm)	**498 635**	506 163	(1)
Deposits due to customers (Rm)	**378 111**	356 365	6
Total assets (Rm)	**716 470**	710 796	1
Market capitalisation (Rbn)	**100,5**	92,3	9

[1]Calculated after the allocation of corporate, capital and funding centres.
[2]Compound annual growth rate based on 4,75 years owing to the Group's March year end in 2005.

Absa's stance

The recent global financial turbulence reinforced the need for strong governance, liquidity, risk management and economic sustainability. The Group's financial stability is critical for ensuring value creation for its stakeholders. Implementing the One Absa strategy and effectively mitigating risks are the key drivers of future financial viability.

An important component of the strategy is to ensure that the Group has a more diverse earnings base, with the intention of obtaining 30% of earnings from Retail Banking, 25% from ABB, 25% from Absa Capital and 20% from the Group's Financial Services operations by 2012. This will ensure a sound future earnings base.

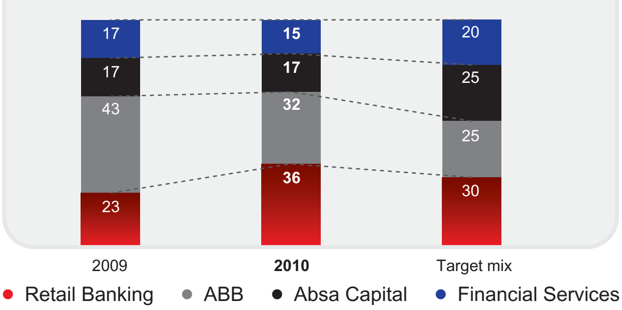
2010 review

The One Absa strategy remains pivotal in ensuring sustainable future growth. In 2010, attention was paid to enhancing business-as-usual operations, improving growth in targeted areas and strenghtening the core fundamentals of the Group's business.

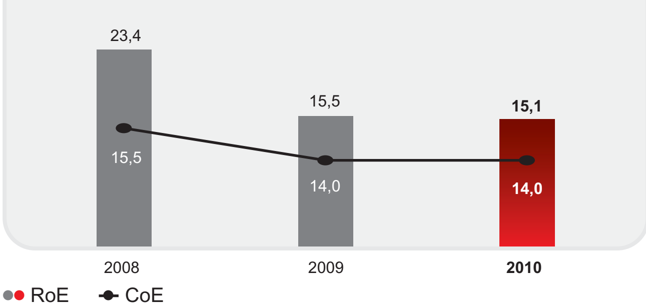
This was achieved through the implementation of a range of strategic workstreams that form the cornerstone of the One Absa strategy. Evidence of early success became increasingly evident during the year.

Highlights include the formation of the corporate bank, which will operate alongside Absa Capital thereby benefitting from its convergence model and product expertise. The aim is to serve clients with the most appropriate products while reducing costs.

Headline earnings contribution (%)



RoE relative to CoE (%)



Although the corporate business was only migrated in the fourth quarter of 2010, some early wins already demonstrate the new model's benefits. The Group gained several high profile clients in the second half of 2010. In addition, Absa won 33 new multinational corporate relationships, which highlights the value of working closely with Barclays. Cash and electronic banking revenues increased strongly, resulting in transactional banking gaining 4% market share in 2010.

Streamlining the Group's business as usual operations continued to receive attention. Substantial investments were undertaken in 2010 to ensure enhanced processes and systems. This included deploying the proven Barclays foreign exchange platform, replatforming core systems in the Group's African operations, enhancing front-end systems in branches, replacing life and short-term insurance technology platforms and preparing for the implementation of the Advanced Internal Ratings Based (AIRB) approach for the wholesale portfolio.

A robust balance sheet and strong risk management are critical enablers for any financial services organisation to have. Focus in 2010 has been on maintaining high capital levels, improving the Group's liquidity profile and growing the deposit base. The Group grew deposits due to customers by 6%, with Retail Banking increasing its deposits base by 4% for the year, to further cement its leading market share. ABB experienced a 7% growth in deposits mainly from cheque accounts, fixed deposits, foreign currency, and savings and transmission accounts. Absa Capital's 8% increase was primarily owing to strong growth in cheque accounts.

Focus for 2011

In 2011, emphasis will continue to be placed on implementing the Group's strategic workstreams and embedding them in operations.

Specific emphasis will be placed on:

» Improving the Group's return on risk-weighted assets.

» Cost management as the Group aims to restrict cost growth to single digits.

» Further strengthening the Group's balance sheet by increasing surplus liquid assets and maintaining high capital levels.

Further reading

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Material topics – Risk management

Identifying and managing significant risks that impact on the Group's sustainability.

Highlights

- Enhanced the quality of new business.
- Reduced impairments by improving the Group's collection activities.
- Managed interest rate risk in the banking book to low levels.
- Enhanced operational risks controls.
- Improved principal risk identification.
- Upgraded traded market risk measurement systems.

Absa's stance

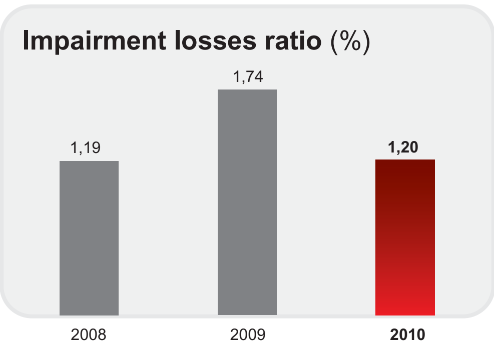
The Group places high importance on robust risk management processes to enable it to respond effectively to the demands of the environment.

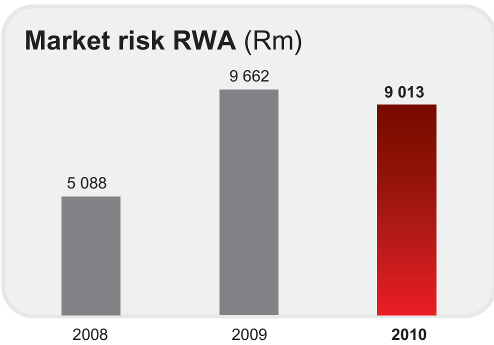
The Group applies a structured and disciplined approach to managing risks, which is a pillar of the One Absa strategy. The Group has a board-approved principal risks policy (PRP), which defines the major risks that the Group is exposed to. The PRP sets out the detail and scope of the risks, and the business responsibility for managing them and high-level procedures for risk management.

The Group's principal risk framework, in conjunction with the identified material topics, ensure the relevant controls and disclosures are in place for integrated risk management and responsible, ethical and sustainable growth.

Key performance indicators

	2010	2009	Change %
Impairments losses ratio (%)	**1,20**	1,74	
Non-performing advances as a percentage of loans and advances (%)	**7,7**	7,0	
Traded market risk DVaR (Rm)	**27,9**	31,7	(12)
Equity investments in the banking book RWAs (Rbn)	**25 911**	28 657	(10)
Market risk RWAs	**9 013**	9 662	





The table below provides an overview of principal risks and a reference to the material topics as contained in this section of the report:

Principal risk	Material topic
Wholesale credit	Risk management and responsible lending.
Retail credit	Risk management, responsible lending and financial inclusion.
Market risk	Risk management.
Capital	Capital and liquidity.
Liquidity	Capital and liquidity.
Financial reporting	Covered by the required disclosures in the annual report.
Financial crime	Risk management as well as governance and compliance.
Operations	Process and systems effectiveness.
Operations (product development)	Responsible lending, financial inclusion as well as process and systems effectiveness.
Technology	Process and systems effectiveness.
People	Employee engagement and transformation.
Taxation	Covered by the required disclosures in the annual report.
Legal	Covered by the required disclosures in the annual report.
Regulatory	Capital and liquidity, governance and compliance, responsible lending and transformation.
Insurance underwriting and investments	Covered by the required disclosures in the annual report.

Other risks

In addition to the above principal risks is the corporate sustainability principal risk which ensures the Group manages risks relating to people and the planet. Reference should be made to the following material topics: customer experience, responsible lending, financial inclusion, employee engagement, transformation, community investment and environmental impact.

Material topics – Risk management

2010 review

During the year, the Group managed its risk within its risk appetite. Key highlights and achievements are detailed below:

Credit risk

The Group's impairment losses on loans and advances improved by 33% during 2010. This was driven by customers' improved ability to make payments given lower interest rates, better quality of new loans and substantial investments made in the collections infrastructure.

Non-performing loans increased during the year owing to the build-up of delinquencies in prior years and Absa's strategy, which views a sale-in-execution as the last possible option.

A full review was performed on all credit models during the year. Attention was paid to improving the quality and quantity of data available for use in these models.

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

Market risk

Traded market risk remained at low levels and was managed within the set risk appetite. Traded market risk and revenue fell as a result 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 to R27,9 million from R31,7 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 during the year:

» Interest rate risk within the banking book was managed to low levels.
» The cashflow hedging reserve was further bolstered as a result of favourable mark-to-market movements.
» Equity investment risk exposure in the banking book was reduced. Valuations stabilised in line with portfolio movements and market conditions.

Operational risk

Ongoing improvement of operational controls as well as the risk management systems and process. Absa's focus on the control environment in recent years was evident as losses declined slightly. Large losses remained well under control, with a clear improvement in 2010. Financial crime remained one of the Group's primary risks and a new financial crime operating model was implemented.

Insurance and underwriting risk

The insurance environment was impacted by slower growth owing to uncertain economic conditions. However, favourable returns were still achieved, with short-term loss ratios reducing from 69,9% to 68,5% and the return on shareholders' assets exceeding the expected benchmark rate. Insurance entities focused on governance processes and modelling required to enhance risk management.

In the short-term insurance environment, underwriting discipline and controls were enhanced and progress was made in developing a capital model for solvency legislative developments.

Focus for 2011

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

Strategic areas of focus are enhancing the Group's risk appetite and stress testing frameworks to allow the Group 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 the continuous evaluation of the Group's financial performance over a three- to five-year horizon; and

» Enhancing and evaluating readiness for the implementation of the proposed Basel amendments and ensuring that the Group is able to respond effectively to these changes.

Further reading

Risk management 190

Material topics – Capital and liquidity

Ensuring that the Group has the correct levels of capital and liquidity to meet its business requirements.

Highlights

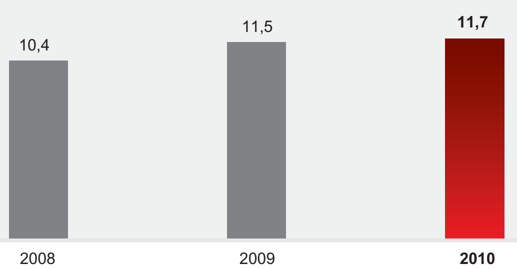
- Strong capital position maintained.
- Board targets incorporated adequate capital buffers above minimum regulatory requirements.
- Retained investment grade credit rating.
- Significant increase in surplus liquid assets held.
- Continued improvement in term of funding.
- Loans-to-deposits ratio improved to 91,9% in 2010 from 95,9% in 2009.

Key performance indicators

	2010	2009	Change %
Core Tier 1 capital adequacy ratio (%)	**11,7**	11,5	
Total capital adequacy ratio (%)	**15,5**	15,6	
Average long-term funding ratio[1] (%)	**25,6**	23,5	
Loans-to-deposits ratio (%)	**91,9**	95,9	
Risk-weighted assets (Rbn)	**423**	386	9

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

Core Tier 1 capital adequacy ratio (%)



Absa's stance

Capital and liquidity management received increased attention in 2010, owing to the global financial crisis and its economic impact. Capital and liquidity are key in ensuring sustainable long-term growth of banks.

Proper planning and management of capital is essential to the Group to ensure adequate capital resources, and an appropriate composition of capital to support its risk appetite, business activities, credit rating and regulatory requirements.

Absa's capital management framework provides the basis for effective capital planning and structuring, capital issuance, Basel II alignment and economic capital utilisation for the end-to-end integration of the Group's strategy, risk management and financial processes.

Liquidity is managed through a framework and policy so to make certain the Group can continue operations as a going concern.

2010 review

During the year sufficient and appropriate information regarding the performance of the principal risks against the relevant risk parameters set by the board was obtained: Key highlights and achievements are detailed below:

Capital management

The Group's capital management strategy is focused on maximising shareholder value by optimising the level and mix of capital resources. During 2010, the Group maintained its strong capital adequacy position and achieved a total capital adequacy ratio of 15,5% (2009: 15,6%).

Attention was placed on risk-weighted assets (RWAs) demand management, free capital generation, and the replacement of maturing capital instruments during the year. In this regard:

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

» emphasis was placed on RWAs relief by tightening risk parameters and methodologies, and taking cognisance of the risk and reward profile associated with assets; and
» the Group generated free capital of R2,0 billion, after dividend payments.

Liquidity management

Globally, banks are focusing significantly on prudent liquidity management practices as highlighted by the recent international financial crisis. Steps continue to be taken to extend the Group's funding term, and the average long-term funding ratio has increased by 2,1% from 2009.

The loans-to-deposits ratio improved by 4,0% from 31 December 2009 to 31 December 2010 because of a continued focus on asset quality and prudent liquidity risk management practices.

The amount of surplus liquid assets held by the Group increased during 2010. As at 31 December 2010, R17 billion in surplus liquid assets were held, an increase of R13 billion on the amount held at 31 December 2009.

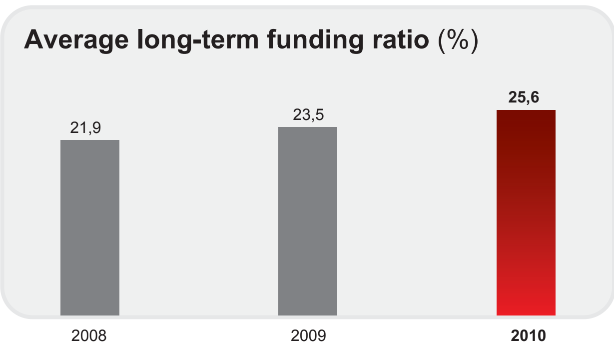
A significant amount of time was devoted to understanding the potential implications of the proposed Basel III liquidity framework for the Group. Absa has already started taking steps to further improve its liquidity position ahead of the timeframes for compliance with the Basel rules by increasing the amount of surplus liquid assets held and extending the term of its wholesale funding book.

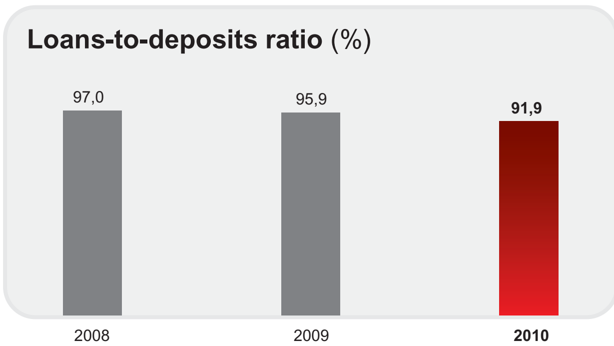
Focus for 2011

Capital and liquidity management remains critical for the sustainable growth of the Group. Absa is ensuring that its capital position is optimal given the changes to regulations. RWAs optimisation remains critical as does the possible impacts of the Basel amendments.

Liquidity management will remain a key focus area, with continued attention being paid to growing and diversifying the funding base, further lengthening the bank's funding profile continuing to build surplus liquid asset holdings and focusing on lowering the weighted-average cost of funding.

Further reading
Capital management 203





Material topics – Governance and compliance

Being an ethical company that maintains high standards of governance.

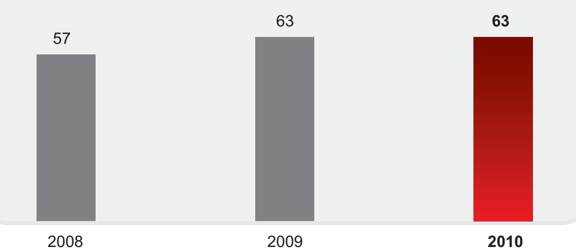
Highlights

- Substantial application of King III.
- High levels of adherence to local and international governance standards.
- Established the Information Technology Steering Committee as a Group Exco subcommitee.
- Complied with all applicable laws, regulations, standards and codes.
- Group-wide projects to address the prescriptions of the Financial Advisory and Intermediary Services Act's Fit and Proper requirements, the Companies Act and the Consumer Protection Act.
- Implementation and enhancement of the control environment managing money laundering and terrorist financing risks.

Key performance indicators

	2010	2009
Compliance with governance standards	**King II**	King II

Percentage of independent board members (%)



Absa's stance

Absa faces complex challenges in ensuring its activities comply with not only local regulations and supervisory requirement and with those of the various jurisdictions in which Absa operates, but also with the relevant international requirements applicable to the Barclays Group.

Effective practices, principles and values, at all levels of the Group, remain the foundation for sound governance. This results in enhanced transparency, improved confidence in management and the protection of stakeholders. In addition, good corporate citizenship implies high ethical standards and behaviour relating to the Group's culture, business operations and strategies.

Strong internal control and compliance contributes significantly to the sustainability of Absa, as does compliance with the relevant laws, rules, codes and standards. Oversight of governance and compliance resides with the Group board and its various board committees.

2010 review

Governance

A key focus for the year has been the review of the King III principles and identifying Absa's level of application and the initiatives required to further strengthen the Group's application of the code.

Ensuring an effective and transparent corporate governance structure in the Group remained a focal point. During the year, two new members, the Group Financial Director and a new independent director, were appointed to the Group board, thereby ensuring an appropriate board and board committee composition. On the retirement of D C Brink, existing board member, G Griffin was appointed as the Group's Chairman.

Effectiveness evaluations of the board, board committees and a number of the Group's functional areas were undertaken. All were found to be satisfactory.

Given the critical role information technology plays in the Group, an Information Technology Steering Committee was established to challenge, review and monitor the Group's technology strategy and performance.

The Group reviews its strategy and medium-term plans annually. This process takes into account risks and opportunities with specific reference to the changing economic conditions and regulatory environment. The focus in 2010 was on monitoring the implementation of the One Absa strategy.

Improved alignment of remuneration, performance and risk took place during the year. A change in the design and delivery of variable compensation resulted in materially higher levels of deferral of variable compensation into share-based plans than was previously the case.

Good corporate citizenship remains an important component of Absa's governance approach. During 2010, the identification of initiatives to enhance the Group's sustainable development principles and practices and the integration of non-financial information with its financial reporting took place.

Compliance

Effective compliance with laws, rules, codes, principles and standards continued across the Group in 2010. The key activities undertaken to support the directors, executive officers, management and employees in discharging the relevant compliance responsibilities included *inter alia* compliance risk identification, assessment, prioritisation, monitoring and reporting. Awareness and training remain a cornerstone of Absa's compliance activities.

Absa undertakes ongoing assessments of new legislation as well as changes and amendments to existing regulations. Reviews are undertaken in respect of each business area as well as in the Group as a whole. During 2010, key reviews, and where necessary projects to ensure compliance, included the new Companies Act (CA), the National Gambling Act (NGA), the Protection of Personal Information (POPI) Bill and the Prevention and Combating of Corrupt Activities Act.

Group Money Laundering continued to receive focus with specific attention begin paid to governance and oversight, customer and payment screening, cash threshold reporting to the Financial Intelligence Centre, and strict control of the dispensation and waivers policy.

Other initiatives in 2010 covered consideration of the discussion paper published by the Financial Services Board setting out the principles of Treating Customer's Fairly; the ongoing dialogue with the Minister of Finance regarding the Competition Commission report; and the standardised assessment of all new products and services for primary and consequential risks (financial, compliance, legal and reputational). Improved ethical standards were achieved by further embedding the Group's code of ethics and anti-corruption policy.

Material topics – Governance and compliance

Further reading

Focus for 2011

Maintaining good governance and compliance is an ongoing process. Emphasis will continue to be placed on:

- Ensuring an effective and transparent corporate governance structure in the Group.
- The implementation of initiatives to further strengthen the Group's application to King lll principles will receive attention.
- Owing to the Group's reliance on information technology, the appropriate governance of information technology will be a specific focus area.
- The implementation of enhancements to the Group's code of ethics to ensure high standards of ethics and integrity.
- The consolidation of the Group's reward framework.
- Implementing group-wide projects to address the requirements of CPA, the CA, the United Kingdom Anti-Bribery and Corruption Act, the POPI Bill (when enacted) and the NGA.
- The continuous review and assessment of new regulatory requirements and amendments to existing regulatory requirements and, if found to have an impact on the Group, the development and implementation of actions controls.
- Ongoing training and awareness on all compliance and governance related issues as well as continued vigilance in respect of money laundering, anti-terrorist financing and anti-bribery and corruption.

Process and systems effectiveness for simple, streamlined customer service delivery.

Absa's stance

Banking is all about people, technology and processes. Technology in the financial services industry is driven by business flexibility, customer focus and risk-based approaches, which have become pivotal to all service delivery functions. Every product, every channel and every customer depends on technology for its success.

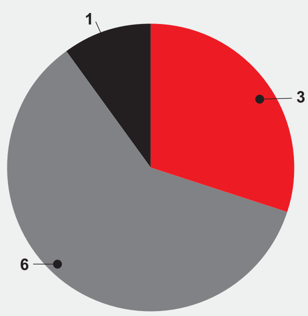
Streamlining and standardisation are two critical focus areas for the Group and Absa aims to drive its cost-to-income ratio towards 50% in the long term, while improving overall operating efficiency.

2010 review

Stability and availability

Stability of the operating environment is crucial to the ongoing viability and competitiveness of Absa. High service levels of systems and close to 100% availability has become the standard expected by customers. During 2010, Absa was able to maintain IT system availability and the stability of core systems (point-of-sale, internet, branch, cards) within the agreed service levels for the year. This translated to a 99,8% availability rate. ATM availability was maintained well above agreed levels throughout 2010.

Severity 1 incidents by type (%)



● Hardware ● Software ● Application changes

Highlights

- Established the Absa Information Technology Steering Committee.
- Delivered several major programmes, including:
  - a new foreign exchange platform; and
  - new short-term and life insurance administration systems.
- Maintained IT system availability and stability of core systems.
- Implemented workflow and imaging in mainstream business processing.
- Re-designed several key customer-facing processes.
- Continued to reduce the number of Severity 1 incidents down to 10 in 2010 from 20 in 2009.
- Absa Africa IT was awarded the *iCMG Architecture Excellence* award for business and IT innovation in the mergers and acquisition category.

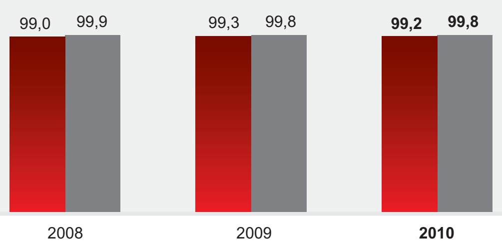
Key performance indicators

	2010	2009
Core network availability (%)	**99,8**	99,8
ATM average availability (%)	**99,2**	99,3
Severity 1[1] incidents (number)	**10**	20

Note

[1]*Severity 1 is defined as when a production server or other critical system(s) are down and no work around is immediately available.*

System availability (%)



● ATM average availability
● Core network availability

Material topics – Process and systems effectiveness

Incidents of system or infrastructure downtime that have a significant impact on customers (and the consequential performance of the business) are classified according to industry accepted classification as Severity 1 incidents. During 2010, these decreased from a total of 88 reported in 2007 to 20 incidents in 2009 and only 10 incidents in 2010. Although the trend is positive, Absa takes these incidents seriously and measures have been implemented to further reduce the likelihood of these incidents occurring.

The implementation of redundancy is a technique to enhance system availability to customers. In 2010, redundancy was used to specifically address single points of failure between Absa third-party clients in the consumer retail and wholesale market segments.

IT disaster recovery plans received further attention in 2010. The remediation of identified gaps ensured that control weaknesses were rectified and that the recovery capability was demonstrated and is working effectively.

Investment in technology and infrastructure

Absa's technology investment plan requires significant funding over the next three to five years in order for the Group to remain competitive, and to capitalise on new and emerging opportunities. Some of the key principles of the strategy include:

» a flexible plan based on business priorities;
» driving architectural efficiency and consistency across the Group;
» recognising short-term priorities, but investing for the future;
» leveraging existing capabilities where these are fit for purpose; and
» the need to drive down the total cost of ownership of technology along with the simplification of the environment.

Several major programmes were delivered in 2010 as part of Absa's infrastructure and application renewal strategy, such as the replatforming of the Group's Africa operations, the global payments utility platform, a new contact centre platform and a new branch delivery platform.

IT governance, risk and security

Enhancing IT governance processes, coupled with a sharp focus on operational risk, have been key focus areas. The Absa Information Technology Steering Committee (ITSC) was established as a subcommittee of Group Exco.

Absa remains sensitive to the threats of security breaches in its technology environment, from both internal and external sources. The implementation of a range of new security measures and procedures to provide customers with greater confidence in engaging with the Group, particularly through Absa's digital channels, took place during the year.

Operations

In order to realise the One Absa strategic imperatives, a number of strategic initiatives were constituted or deployed to transform the front-office and back-office capabilities.

The E2E programme is a key initiative in this regard and aims to re-engineer high-impact front- and back-office customer processes, while harnessing technologies that enhance customer experience and reduce the cost of processing. A number of E2E projects forming part of this programme have already been initiated. Notable highlights include the following:

- The creation of a paperless process in the home loans value chain, making redundant a number of manual FICA-driven procedures and documentation.
- Customers are now able to receive mortgage loan letters electronically. This appeals to technology literate segment of the customer base while reducing paper and postal costs.

Cost containment and operational efficiency

A number of initiatives have been embarked on to streamline processes, improve efficiencies and reduce operating cost. Examples include space optimisation, enhanced cash handling and the enhancement of the payments environment.

Focus for 2011

Continued investment in the Group's systems and processes remains critical in ensuring the future sustainability of the organisation. Through the implementation of the Group's strategic workstreams, the streamlining and standardisation of systems and processes will continue to receive attention. In addition, specific focus will be placed on:

- information security;
- enhanced governance processes;
- disaster recovery; and
- skills retention and attraction.

Further reading

Information technology 120

Material topics – Customer experience

Ensuring that the customer remains at the centre of everything the Group does.

Highlights

- Overall satisfaction with the Group's service delivery remained stable throughout 2010.
- In the 2010 *Orange Index* customer service benchmark study, Absa achieved second position in banking for the second year.
- Improved logging and resolving customer complaints across all channels.
- Launched a number of innovative products, including:
  - Western Union money transfers on cellphone and internet banking platforms; and
  - point-of-sale dynamic currency conversion.
- Embedded Treating Customers Fairly principles.
- The *Ipsos/Markinor Telebus* service quality benchmark research shows that customers' perception of Absa offering value for money for products and services improved during the year.

Key performance indicators

	2010	2009	Change %
Total banking customer base (millions)	**11,8**	11,7	1
» Total number of South African banking customers[1] (millions)	**11,1**[A]	11,0	1
Contractual financial services relationships (millions)	**5,8**	5,6	4
Outlets	**1 007**	1 062	
Self-service terminals	**8 963**	8 945	
Internet banking customers ('000)	**1 094,5**	1 005,2	9
Cellphone banking customers ('000)	**2 513,0**	1 670,4	50
Percentage of complaints resolved at first point of contact (%)	**81**	54	
Average days taken to resolve complaints (days)	**1,27**	3,00	
Number of complaints as a percentage of the total number of South African banking customers[2] (%)	**1,74**[A]	1,19[3]	

Notes

[1]*Total number of customers with active Absa core banking products such as cheque accounts, savings accounts, secured and unsecured loans. Excludes wills, life policies, BBM, NBC, WFS and VMSA.*

[2]*Number of customer complaints in South Africa logged by touch points on the Absa complaint management system as a percentage of the number of South African customers as at 31 December.*

[3]*Restated to align with the methodology applied in 2010.*

Absa's stance

Absa regards customers' needs and aspirations as the key enabler of becoming the leading financial services provider. Absa's strategy is one that places the customer at the centre of everything it does. This is further emphasised by Absa identifying the need to be customer-centric, which is one of the four key pillars of the One Absa strategy.

2010 review

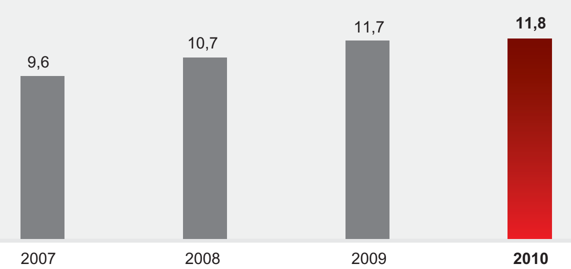
In enhancing the customer value proposition, emphasis was placed on consistent service delivery, the introduction of a number of innovative product offerings, the embedding of the Treating Customers Fairly principles and the improvement of the customer complaint management processes.

Customer satisfaction

Overall customer satisfaction with the Group's service remained steady. This reflects positively on the organisation, given the continued economic uncertainty. In the 2010 *Orange Index Customer Service* benchmark study, Absa achieved second position in banking for the second year running. The *Ipsos/Markinor Telebus* service quality benchmark research shows that customers' perception of Absa offering value for money for products and services improved. Absa improved its position to number two, increasing its score from 47% to 61%.

A customer satisfaction measurement key driver analysis was used to develop solutions to improve the customer experience at key touch points. Absa experienced improved service delivery at call centres, relationship management and other electronic channels where cause analysis was used to enable improvements. Knowledge is a determinant of a positive customer experience and in this regard, Absa has undertaken extensive customer and consumer education

Absa's banking customer base (millions)



activities such as the Kweeka campaign in retail to support customers both in terms of product use and understanding as well as making the most of the various distribution channels for their convenience and to obtain the best value for money. The positive effect of this can be seen in the increased use of channels.

Enhanced and innovative product offerings

Customer experience is an outcome of service and the Group's retail and wholesale product offerings. In 2010, there were a number of product enhancements which included the introduction of Western Union money transfers on cellphone and internet banking; and improved transactional and cash management capabilities in ABB. Innovations included tap 'n go for easy low value payments, dynamic money conversion at point-of-sale, the closed loop Agri card; introduction of the globally recognised PACE FX foreign exchange solution and the first US$ CPI note placed with a local investor.

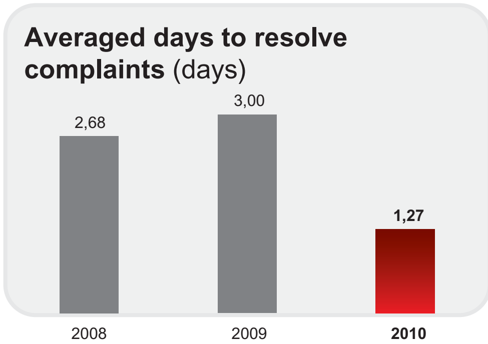
Distribution channels

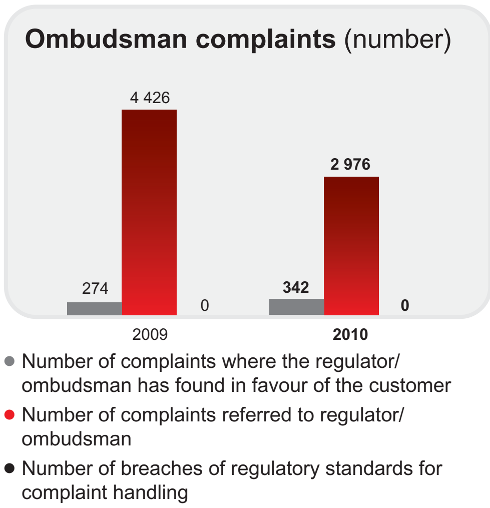
Absa has an extensive distribution footprint and serves customers primarily via outlets, self-service terminals, internet, cellphone and telephone banking. The Group continues to develop and enhance its channels to serve its customers. In enhancing its offering to the entry level banking market, the Group has launched a refocused branch approach, an in-store banking solution, and remote account opening solution.

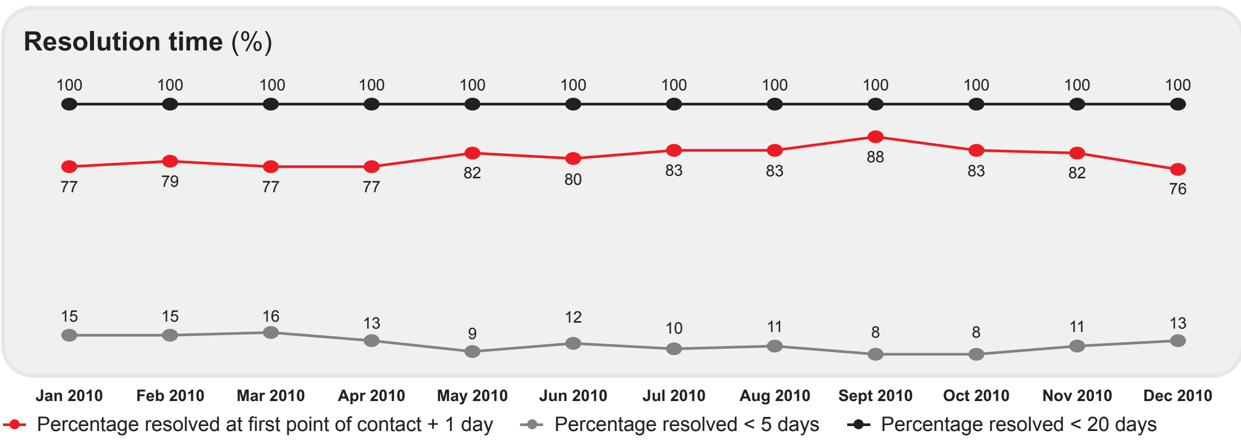
Complaints management

The effective and efficient resolution of customer complaints was a core focus during 2010 and performance indicators show that logging and resolution across all channels improved materially. The average complaint resolution turnaround improved to 1,27 days which is a significant improvement from three days in 2009. Complaints resolved at first point of contact improved by 27% up to 81%.

Complaints to the Ombudsman for Banking Services decreased from 4 426 in 2009 down to 2 976 in 2010. Of the R11,5 million recovered by the ombudsman from banks on behalf of customers during 2010, Absa's portion was only R2,7 million (23%).







Material topics – Customer experience

Customers service initiatives

Currently, Absa applies the 10 Barclays' Treating Customers Fairly (TCF) principles. TCF is about management demonstrating diligence in their efforts to service customers in a fair and acceptable manner. The principles of TCF apply to every aspect of the Group's business, from support to customer-facing functions. It is anticipated that the South African Financial Services Board will adopt the Treating Customer Fairly assessment for the Financial Services industry in 2011.

Focus for 2011

The advent of the CPA will place new demands on Absa to comply with the letter and spirit of the legislation across channels, products and relationships. Aligning the various CPA compliance issues with the TCF principles and outcomes will receive attention during the year.

In further enhancing the customer experience policy, Absa will use customer councils as a platform to launch various actions to improve the culture in an aligned manner. In addition, strategic and operational insights from employees and customers will provide deeper insights into the dynamics of the customer experience across all interactions and relationships.

Further initiatives include:

» Empowering customers by enhancing access to financial services, increasing choice and fostering financial education.
» Maintaining complaints resolution performance.

Further reading

Responsible lending	55
Financial inclusion	58
Business operations	101
Compliance report	175

Material topics – Responsible lending

Promoting fair, transparent, sustainable and responsible access to credit.

Absa's stance

Given the increasing uncertainty of financial markets, it is important that responsible lending practices are followed. As a registered credit provider, the Group strictly adheres the principles of the National Credit Act to promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry as well as to protect customers through specific means. Over the past three years, Absa has followed a prudent lending policy with a specific focus on matching the ability of the customer to afford the loan with the loans provided. It is the Group's philosophy to ensure the correct balance between an appropriate credit appetite and access to funds, while acceptable returns are received through an economic cycle.

It is Absa's policy to assist customers in financial difficulty. The legal process is only initiated as a last resort as no party benefits from the sale of assets in a 'forced sale' environment. All products have restructure policies to assist customers that are unable to meet their instalments in the short to medium term, and rehabilitation remains the preferred outcome in the collections environment.

Appropriately skilled employees call on customers who are showing signs of financial distress but might not be in arrears with their loan repayments. The employee and customer jointly discuss various options for assistance. As a responsible lender, Absa believes that early detection and assistance can prevent long-term problems. There are various rehabilitation plans, which are tailor-made for financially distressed customers. These include:

- repaying arrears over an agreed term;
- restructuring the loan term to make the instalment more affordable;
- payment breathers (when unemployment or a disability has led to the problem); and
- taking into account each customer's personal circumstances when reviewing which plan is best suited to their needs.

Highlights

- Implemented a Debt Solutions Helpline and the Absa Debt Counselling Call Centre to assist customers in financial distress.
- Lowered the Home Loans average LTV ratio on a mark-to-market valuation to 44,3% for December 2010 from 45,9% for December 2009.
- Applied the Equator Principles requirements to project finance transactions.

Key performance indicators

	2010	2009
Home Loans average LTV ratio on a mark-to-market valuation[1] (%)	**44,3**[A]	45,9
Home Loans average LTV ratio on new business booked (%)	**61,1**	59,5
Customers under debt review		
» Number	**59 525**	58 687
» Value (Rbn)	**7,0**	7,5
Total transactions reviewed in accordance with the Equator Principles[2] (number)	**7**[A]	12

Notes

[1] *Loan-to-value ratio of the outstanding home loans stock (ordinary, building and further advances classified either as scored loans and advances or not scored loans and advances), based on a mark-to-market (MTM) valuation (total outstanding amount (excluding accounts in the legal process) as a percentage of the most recent property value (MTM)).*

[2] *Total number of project finance transactions that have been reviewed for environmental and social risks as per the Equator Principles.*

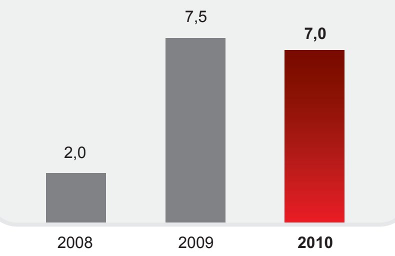
Material topics – Responsible lending

Equator Principles

The Equator Principles are a financial industry benchmark for determining, assessing and managing social and environmental risk in project financing.

<http://www.equator-principles.com>

Customers under debt review – value (Rbn)



Environmental and social risk

Responsible lending is not just about the evaluation of credit proposals based on financial implications. Absa is also committed to balancing sound risk management with economic, social and environmental viability. The Environmental and Social Impact Assessment (ESIA) policy governs Absa's management of environmental and social risk assessment. As part of the lending process, client environmental and social management practices are scrutinised to reduce potential credit and reputational risks.

As an Equator Principles finance institution, Absa continues to implement the appropriate due diligence requirements to project finance deals under the Equator Principles scope.

Absa has adopted the environmental and social risk guidance notes of Barclays. These assist with the understanding and identification of key risks and considerations when developing business relationships with customers operating in environmentally and socially sensitive sectors.

2010 review

The subdued demand for credit continued into 2010, with a result that Absa's loans and advances to customers declined by 1% to R498,6 billion. This was because of the current economic conditions, coupled with prudent credit criteria. A continued focus on matching loans with customers' ability to repay was evident in 2010.

In line with Absa's commitment to explore ways to assist customers in financial difficulty, the Group established specialist teams to engage with customers who have concerns about meeting future financial commitments. Early intervention is beneficial to the customer and Absa.

In addition to this, Absa has implemented a Debt Solutions Helpline to assist Absa customers in financial distress. Depending on a customer's financial situation, the solutions offered on the helpline may involve the restructuring of a payment and the extension of repayment terms. In response to the growing customer demand for debt counselling, Absa has also implemented the Absa Debt Counselling Call Centre aimed at assisting customers, debt counsellors and payment distribution agencies with all debt-counselling queries.

The value of loans in debt counselling declined to R7,0 billion at 31 December 2010 from R7,5 billion as at 31 December 2009, owing to strong collection efforts. The Group's non-performing loan coverage ratio also improved from 2009.

Absa has an average Home Loans LTV on a mark-to-market valuation of 44,3% (2009: 45,9%). New mortgage LTVs were 61,1% indicating the focus on writing quality new business and managing risk while remaining competitive in the local market. Repossessions are only considered as a last resort.

Absa experienced a 2% increase in credit card loans and advances for the year. The lower interest rates have resulted in a 64% improvement in the card division's impairments on loans and advances, which is indicative of customers' ability to repay their loans. Given the slow economic recovery, the Group has focused on increasing exposures to current Absa customers where there is a better understanding of the customers' risk and ability to afford increased levels of debt.

During the year, the Group Environmental Risk Management Department (ERMD) was integrally involved in 23 transactions from an environmental and social risk perspective. Of these, 16 were non-project finance transactions and seven were project finance transactions that were subject to the Equator Principles requirements.

Over and above the work managed directly by ERMD, formal presentations were provided to business, compliance and credit risk employees on the importance of taking into account environmental and social risks in transactions. This awareness programme included Group policies, useful tools and guidance documents to aid decision-making as well as the implications of certain environmental legislation.

Total transactions reviewed in accordance with the Equator Principles[1]

	Project finance transactions			
	Risk category			
Sector	A Higher	B Medium	Total	Non-project finance transactions referred to the ERMD team
Mining and metals	2	—	2	12
Oil and gas	—	—	—	1
Power generation	2	1	3	1
General manufacturing	—	—	—	2
Utilities and waste management	—	1	1	—
Infrastructure	—	1	1	—
Total	**4**	**3**	**7**[A]	**16**

[1] *Total number of project finance transactions that have been reviewed for environmental and social risks as per the Equator Principles.*

Focus for 2011

Ensuring the balance between the granting of credit and prudent lending while maintaining adequate returns will remain a core focus area.

Emphasis will be on continuing to assist customers who show willingness to meet their financial commitments. There will be a focus on reducing loans in debt counselling, proactively managing the legal books and ensuring that the property in possession portfolio and repossession stock are optimally managed and controlled.

Further reading

Customer experience 52

Environmental impact 70

Risk management 190

Environmentally and socially sensitive sectors

- Agriculture and fisheries.
- Chemicals and pharmaceuticals.
- Forestry and logging.
- Manufacturing.
- Infrastructure.
- Mining and metals.
- Oil and gas.
- Power generation.
- Services industry, including healthcare and telecommunications.
- Utilities and waste management.

Material topics – Financial inclusion

Providing innovative, appropriate and sustainable financial services to those historically excluded.

Highlights

- Created an entry-level and inclusive banking unit.
- Launched a refocused branch approach.
- Improved access mechanisms through branchless banking including mobile banking.
- Expansion of micro-enterprise finance, focusing on the self-employed low-income segment.

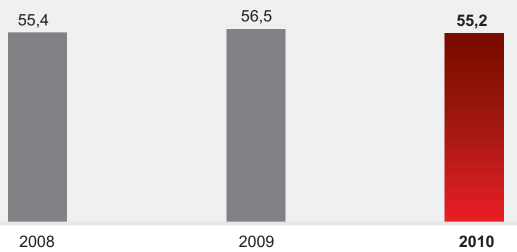
Key performance indicators

	2010	2009
Number of entry-level and inclusive banking customers (millions)	**7,2**	6,9
Percentage of entry-level customers to the South African customer base (%)	**64,9**	62,7
Number of Mzansi accounts	**837 124**	839 706
Number of Sekulula accounts	**955 460**	837 835
Number of new small business loans approved[1]	**11 625**[A]	14 503
Number of micro-enterprise finance (MEF) loans approved	**4 574**	2 984
Market share for individual savings accounts (Source BA900) (%)	**55,2**	56,5
Affordable housing – volume of home loans extended (Rbn)	**1,6**	1,0

Note

[1]*The number of small business loans approved (overdrafts, term loans, mortgages, vehicle and asset finance (including dealers sales), and commercial loans (excluding CAF)) paid out to SME businesses (defined as businesses with a turnover of less than R10 million who are registered via Cipro and have a level of banking exposure (excluding micro-enterprise finance).*

Market share for individual savings accounts (%)



Source BA900

Absa's stance

Absa aims to bring a comprehensive, but simple, efficient and affordable banking experience to low-income individuals, micro-enterprises as well as those who have had limited or no access to formal financial services.

Financial inclusion remains a huge challenge facing many South Africans. It is estimated that roughly 40% of the South African adult population is unbanked or informally banked. This level of financial exclusion poses a risk to economic development and therefore Absa's own existence and sustainability. In furthering inclusive banking, Absa, through a number of its business units:

- provides products and services that are specifically tailored to this market;
- has innovative delivery channels that facilitate more convenient access to financial services;
- continues to invest in consumer education, thereby improving financial literacy.

Through this approach, the Group has made significant strides to date in terms of simple payments and transmission accounts, emergency and lifestyle loans, savings mechanisms and insurance products. The Group has assisted low-income communities through social grant payments to an average of 2,1 million beneficiaries each month and through the provision of micro-enterprise loans.

2010 review

Entry level and inclusive banking

A key component of the One Absa strategy is to find innovative and cost effective ways to enhance Absa's existing mass market propositions to deliver a truly inclusive offering. In enhancing Absa's offering in this regard, the Group created an entry-level and inclusive banking unit in 2010 that serves customers with an income of less than R10 000 per month. The unit's key objectives include:

- providing affordable and relevant banking solutions;
- enhancing access to financial services in terms of channel accessibility and reach, product simplicity and consumer education;

» enhancing processes and technologies; and
» leveraging AllPay and Micro Enterprise Finance to broaden services and provide new channels.

Absa has launched three proof of concept projects. The first is a refocused branch approach, which is designed to incorporate a help area dedicated to assist customers with finding and using the most convenient channels for them to transact on as well as educating them on the simple product offering. In general, the new outlets are designed to be customer friendly, less intimidating and offer a more relaxed approach to banking with a product set that is simple and aimed at customers' needs.

Absa believes that this approach is in keeping with its inclusive banking objectives, assisting customers to face the harsher economic climate. As a responsible corporate citizen, with the aim of contributing to the country's broader economic development, Absa would like to ensure that customers are educated on the Group's products and services, which will enable them to make more informed decisions when it comes to their banking needs.

The second is a branchless banking approach, which includes instore banking (deposits, withdrawals, balance inquiries, air time purchases). The merchant provides these services using a point-of-sale terminal with the instore banking application loaded.

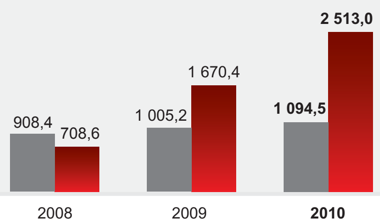
The third is a remote account opening service for savings and transmission accounts, where Absa employees use cellphone based technology.

These new services are building blocks in creating a comprehensive offering to low-income customers, including leveraging existing offerings, for example, CashSend.

Absa launched its award winning CashSend service (where clients can send cash to any person in South Africa with access to a cellphone, which allows the recipient to withdraw the cash at an ATM without a card) in 2009. This service has grown exponentially during 2010 with over R30 million being sent per month, via 75 000 transactions with an average value per send of R450.

Continuing to extend Absa's reach and make it easier for customers to transact, Absa launched a prepaid card solution for government and corporate institutions. This solution allows the organisation to reload and disburse funds to beneficiaries by themselves on a co-branded prepaid card

Internet and cellphone banking customers ('000)



Material topics – Financial inclusion

Further reading

Community investment	66
Customer experience	52
Transformation	63
Retail Banking	104

Affordable housing

Absa's Affordable Housing division assists in providing access to housing, through an end-to-end housing solution for individuals or households earning less than R15 498 per month. Borrower education is provided to customers, which educates them on all aspects of home ownership. Absa has an affordable housing portfolio spread across six provinces. To date, the Group has managed the construction and delivered over 8 000 housing units in partnership with all levels of government. Some of Absa Affordable Housing's flagship projects include the Olievenhoutbosch, Mohlakeng and Chief Mogale projects in Gauteng, the Klarinet project in Mpumalanga, the Thornhill project in Eastern Cape and the Lerato Park project in Northern Cape.

AllPay has contributed significantly towards the national campaign to bank the unbanked and boost social development through social grants disbursement and wage payments. AllPay currently serves 1,2 million cash beneficiaries and over 950 000 Sekulula cardholders, at 1 134 service points. The approach used by AllPay ensures convenience of access, speedy service and security for beneficiaries.

Micro-enterprise finance

Micro-enterprise finance assists people in the informal self-employed market to sustain themselves and manage their livelihood. The focus is on existing enterprise owners and operators with annual business turnover that range from R15 000 to R500 000. The objective is to contribute to the sustainable economic development of communities. Service centres are therefore located close to where customers live and work and follow a relationship banking model. The current product focus is the Absa Siza loan (available in selected provinces), with a focus on working capital, varying in size from R1 000 to R15 000 over a 12-month period. Currently Absa has 5 421 active MEF customers.

Absa has also focused on small business support and has set up a unit specialising in SME funding, business support and mentorship. This is to assist entrepreneurs and support job creation in the country.

Focus for 2011

Financial inclusion, as a key component of the One Absa strategy, paves the way for Absa to ensure sustainable growth. In 2011, emphasis will be placed on:

- enhancing access to financial services through the further rollout of customised branches, including enhanced product offerings;
- focusing on embedding and integrating the expansion of the branchless banking approach;
- continuing to partner with the government with regards to affordable housing, coupled with investment in development projects;
- further enhancing social grant payments capability and reach through AllPay and expanding services for micro- and small enterprises through the Micro Enterprise Finance unit; and
- consumer awareness and education remains paramount to achieving sustainable growth objectives.

Material topics – Employee engagement

Ensuring a motivated and engaged workforce.

Absa's stance

Integral to the One Absa strategy, the Group has identified that, to meet its goal of being truly customer-centred in everything that it does, it must be resourced with talented, energised and passionate people. Absa aims to achieve its ambition of becoming a more people-centred organisation, by focusing on fostering healthy and mutually beneficial relationships with all its employees.

2010 review

Absa undertakes an employee opinion survey (EOS) on an annual basis to track progress on employee engagement, performance support and leadership. In 2010, 91% of employees responded to the survey. Absa's results have shown significant improvements on seven of the 13 trend categories.

During leadership engagement sessions in 2009, employees shared the challenges that were top-of-mind for them. A large amount of effort was invested in addressing those challenges through a number of initiatives:

- **Transformation:** The Group has made good progress in the achievement of employment equity targets during 2010, with all categories showing improvement. Absa believes strongly in the participation and engagement of employees at all levels and there are several transformation forums.
- **Reward:** A new out-of-cycle and promotions policy was introduced to address concerns raised about promotions without a salary increase. The existing reward and recognition programmes are being reviewed to deliver a more integrated framework for 2011.
- **Learning and development:** For 2010, Absa spent R372 million on learning activities, of which R284 million was spent on historically disadvantaged groups. This equates to 3,0% of leviable payroll spend.
- **Learnerships:** In total, 1 850 learners were provided an opportunity to gain skills by working at Absa, of which 115 are currently employed full-time by the Group. Absa also

Highlights

- Improved participation in the 2010 employee opinion survey.
- Reduced employee turnover rate.
- Met the CoGP target for training spend on historically disadvantaged individuals.
- 1 850 learners participated in Absa's learnership programme during 2010.
- More than R20 million invested in bursaries for employees to further their education.

Key performance indicators

	2010	2009
Total permanent and non-permanent employees (number)	43 239	42 796
» Total South African permanent and non-permanent employees[1] (number)	39 782[A]	39 531
» Total permanent employees (number)	36 770	36 150
» Percentage of employees covered by collective bargaining agreements[2] (%)	56,0	58,0
» Percentage of employees that are disabled (%)	1,04	0,92
» Percentage of female employees[3] (%)	65,2	65,5
» Percentage of African, Coloured and Indian employees[3] (%)	64,2	61,7
Employee opinion survey (EOS) participation (%)	91	82
» EOS commitment score (%)	75	70
» EOS perception of business unit leadership (%)	61	61
Permanent employee turnover rate for South Africa[4] (%)	10,1[A]	12,3
Internal promotions and transfers (%)	36	28
Absenteeism rate (%)	1,8	1,8
Grievances as a percentage of the total employee base (%)	0,6	0,9
Total South African training spend[5] (Rm)	372[A]	282
Disabling frequency injury rate (%)	0,48	0,49

Notes

[1]*Number of employees includes permanent and temporary employees legally employed and paid by Absa payroll including 'regular' contracts; interns; graduates; specialists and brokers (excluding pension brokers). It covers operational and non-operational full-time, part-time, two thirds and commission paid employees. It also includes contingency workforce, which is all agency, contractors and self-employed employees paid via a third party for services rendered. The number excludes BBM, NBC and WFS.*

[2]*Excludes managerial positions.*

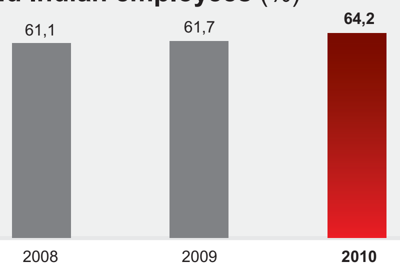
[3]*Excludes non-permanent employees WFS, NBC and BBM.*

[4]*Number of terminations as a percentage of the average permanent headcount in South Africa (excluding WFS).*

[5]*Training spend is all verifiable and reportable spend on learning and skills programmes including accredited and non-accredited training; bursaries; learnership allowance; related travel; an employee matric equivalency programme and interventions focused on employees with disabilities.*

Material topics – Employee engagement

Percentage of African, Coloured and Indian employees (%)



partnered with the Banking Sector Education and Training Authority (BankSeta) to offer learnerships to previously disadvantaged school leavers and unemployed graduates.

» **Talent management:** A new talent management system was introduced to identify and develop top talent within the organisation for more effective succession planning. An increase in internal promotions and transfers compared to external appointments was evident from 2009 (28%), with 36% of appointments during 2010 from the ranks of existing Absa talent.

» **Recruitment:** Innovative channels for recruiting external candidates were introduced in 2010 to supplement the use of recruitment agencies.

Absa continues to foster strong relationships with relevant role players such as the employee union, SASBO, to ensure that employees' interests are respected and protected. Extensive consultation with SASBO takes place regularly to facilitate constructive engagement on employee related matters.

Absa has a comprehensive wellness programme called 'Live Well Work Well' to encourage employees to choose healthier, more balanced lifestyles. In 2010, the overall wellness engagement rate notably increased. A knowledge, attitude and perception survey was conducted in 2010 to obtain a better understanding of employees' knowledge, attitudes and perceptions on issues such as HIV counselling and testing, chronic diseases and other wellness matters. The findings will be used to inform the implementation of a comprehensive Absa HIV counselling and testing (HCT) and chronic disease management campaign during 2011.

Focus for 2011

Significant effort was placed on establishing a truly sustainable employee engagement strategy in 2010. The focus for 2011 will be to embed the activities undertaken in 2010 and launch a number of significant initiatives. Continuing progress will be made in:

» further delivering on targets as set by the Department of Labour, Employee Assistance Programme (EAP) and Department of Trade and Industry CoGP requirements, particularly at middle and senior management levels;

» introducing a new approach to talent management, providing skills development opportunities, stretch assignments and cross-cluster rotation. Formal mentoring, coaching and leadership development programmes will receive attention as well; and

» implementing a revised wellness programme, as informed by employees' opinions gathered in the 2010 employee survey.

Further reading

Human resources report 146

Material topics – Transformation with a focus on broad-based black economic empowerment (BBBEE)

Ensuring that the Group's shareholders, employees, suppliers and customers represent the demographics of South Africa.

Absa's stance

Absa has always recognised that the growth of the South African economy, and thus the Group's success, largely depends on the extent to which historically disadvantaged South Africans participate meaningfully in the economy. This is considered to be both a business and a social imperative, and for this reason, Absa continues to aim to be an organisation with a shareholder, employee, supplier and customer base that is representative of the demographics of South Africa.

As a signatory to the Financial Sector Charter and an early adopter of the Department of Trade and Industry's CoGP on BBBEE, Absa seeks to not only meet but, where possible, to exceed the requirements of the CoGP.

There is an entrenched understanding that empowerment through transformation is an ongoing journey and is a component of Absa's sustainability journey. Absa's growth is partly linked to its ability to identify and address the requirements of the emerging market, while growing shareholder value.

Highlights

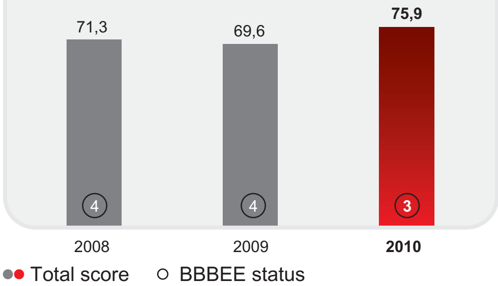
- BBBEE status improved from a Level 4 to a Level 3 contributor.
- Absa Group spent 74,7% (R9 907 million) of total procurement with BBBEE accredited suppliers and increased procurement from exempt micro-enterprises and qualifying small enterprises by 54%.
- 3,0% (R284 million) of Absa's leviable salary bill was invested in qualifying skills development, including:
  - the introduction of the Absa disability coaching programme; and
  - 1 719 unemployed matriculant and graduates undertook leaderships.
- 7,1% (R570 million) of Absa's net profit after tax invested in enterprise development.
- Invested R83 million in qualifying socio-economic development initiatives.

Key performance indicators

	Weighting points	2010	2009	2008
BBBEE CoGP score per element				
Equity ownership	20 + 3	**8,2**	8,8	14,0
Management and control	10 + 1	**6,0**	5,6	7,6
Employment equity	15 + 3	**10,7**	9,2	8,5
Skills development	15	**12,5**	10,6	8,2
Procurement	20	**18,5**	15,4	13,7
Enterprise development	15	**15,0**	15,0	14,3
Socio-economic development	5	**5,0**	5,0	5,0
Total	100 + 7	**75,9**	69,6	71,3
BBBEE recognition level		**110%**	100%	100%
BBBEE status		**Level 3**	Level 4	Level 4
Black ownership (%)		**10,6%**	10,4%	16,7%
Black female ownership (%)		**2,3%**	2,4%	3,9%

Material topics – Transformation with a focus on broad-based black economic empowerment (BBBEE)

BBBEE Codes of Good Practice score and status



2010 review

During 2010, focus was placed on enhancing Absa's BBBEE recognition level from a Level 4 contributor, recorded for 2009, to being a Level 3 contributor. In addition to monthly monitoring of the numerical score, emphasis was placed on the spirit of BBBEE and the business rationale so to increase the quality and depth of interventions. This demonstrates Absa's commitment to move beyond mere compliance and into the realm of true sustainability, for the business and for society.

It is recognised that for some elements, maximum points and impact are quickly achievable and can be maintained, but, for others, sustainable results can only be achieved from incremental improvements. The following bears highlighting:

» **Equity ownership:** BEE equity ownership levels have been maintained for 2010. In June 2009, Batho Bonke Capital (Proprietary) Limited (Absa's BBBEE partner) sold 49,9% of its BBBEE shareholding for purposes of part financing its Absa shares, which resulted in the Group's ownership score reducing from 14,0 (out of 20 points) in 2008 to the current 8,2 points.

» **Management and control:** The Absa Group board has remained relatively stable since 2009 and experienced limited change during the year. D W P Hodnett was appointed following the resignation of J H Schindehütte, and C Beggs was appointed to replace D C Arnold who will be retiring from the Absa Group board at the AGM on 21 April 2011. Transformation at this level remains a priority for the Absa Group board. The appointment of black people at an executive level has improved during the year, with the appointments of F C S Marupen, B Malabie and P Kingston and the promotion of D R Motsepe.

» **Employment equity** remains a pivotal focus area for the Group. Targets set for each area of the business are monitored by senior management monthly. A Group Transformation Steering Committee, chaired by the Group Chief Executive, has been established to ensure consultation in monitoring these targets. While progress is being made, Absa has some way to go to meet targets in respect of women, in particular black women and people with disabilities.

» **Skills development** is viewed as critically interlinked with employment equity as no effective employment equity policy can work without the requisite investment in staff training. In 2010, Absa strove to maintain its industry leadership. Specific emphasis was placed on the training of employees, especially those with disabilities. The Absa disability coaching programme was implemented to improve skills development for people with disabilities and to focus on enabling the business environment to support effective learning for employees with disabilities.

- **Procurement** is approached in Absa by balancing economic imperatives with transformation. Absa's procurement strategy is primarily to deliver savings through strategic sourcing and secondly to apply BBBEE requirements. This approach has resulted in both cost and transformation benefits. Absa scored 18,5 points out of a potential 20, with 74,7% (R9 907 million) of spend being with BBBEE accredited suppliers, including:
  - 16,0% (CoGP target of 10%) with qualifying exempt micro-enterprises and small enterprises (an increase from R998 million in 2009 to R1 520 million in 2010);
  - 7,6% (CoGP target of 9%) with 50% black-owned enterprises (an increase from R407 million in 2009 to R719 million in 2010); and
  - 3,0% (CoGP target of 6%) with 30% black women-owned enterprises (an increase from R188 million in 2009 to R284 million in 2010).
- **Enterprise development** continues to exceed the target of 3% of net profit after tax. In 2010, efforts were made to the foundation for increasing the reach to category A beneficiaries (with an annual turnover of under R35 million and who are 50% black or black women-owned) and on non-recoverable spend incurred in the operation of 12 Enterprise Development Centres across South Africa.
- **Socio-economic development** continues to be maintained at 100% achievement through a combination of corporate social investment and consumer education (financial literacy) interventions.

Focus for 2011

In enhancing transformation in the Absa Group, the following will receive attention during 2011:

- Implementing a low-risk sourcing model, investigating the implementation of a portal for smaller businesses and Absa's self-assessment of its own corporate supplier diversity level using the South African Supplier Diversity Council (SASDC) toolkit.
- Improving employment equity and skills development with a focus on women and persons with disabilities.
- Improving procurement scores with attention on depth of impact and reach to deliver sustained positive change in the socio-economic profile of South Africa.
- In terms of enterprise development and socio-economic development, efforts remain concentrated on maintaining scores and increasing the impact and reach of these activities. Consumer education will direct additional attention to organised groups such as stokvels and co-operatives.

Material topics – Community investment

Adding value to the communities in which the Group operates.

Highlights

- Invested R83 million in qualifying socio-economic development initiatives on a national, provincial and local level.
- Significant increase in employees involved in community projects.
- Independent research confirmed that the Bubomi financial literacy programme significantly improved financial capabilities of participants.
- Won two Mail & Guardian Investing in the Future awards in the partnership and sports development categories, runner-up in the enterprise development category and special commendation in the employee community involvement category.
- During 2010, over 23 949 learners in grades 3, 4, 5, 6 and 7 were reached by Absa employees through the Teach Children to Save campaign despite the public sector strike.

Key performance indicators

	2010	2009
Total socio-economic development (SED) spend in South Africa[1] (Rm)	**83**[A]	102
Total employees supported across all SED programmes	**7 012**	5 255
Number of work hours to support volunteering	**27 472**	9 719
Number of personal hours to support volunteering	**4 405**	1 051
Financial literacy initiatives – number of consumers reached	**356 156**	386 803

Note

[1]*Socio-economic spend is the rand value of:*

- *CSI including donations, CSI related sponsorships and direct costs associated with the implementation of CSI; and*
- *Consumer education spend focussing on financial literacy initiatives including supplier payments, financial literacy/consumer related sponsorships and direct costs associated with the implementation of consumer education.*

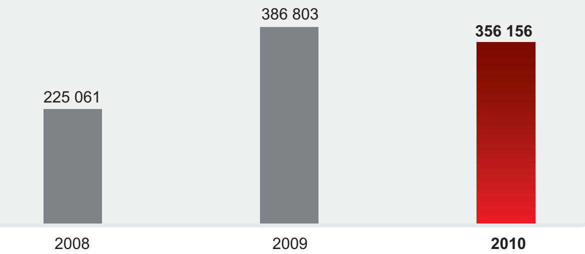
Absa's stance

Community investment forms part of Absa's sustainability strategy and is implemented through two distinct programmes, corporate social investment (CSI) and consumer education. Absa's development initiatives are projects aimed at providing viable and sustainable solutions in response to local and national priorities. These involve deliberate partnerships with key partners who are experts in a particular field offering holistic and practical models to address the priorities.

The key drivers are to provide social and economic benefits to communities and individual beneficiaries through three core investment themes:

- **Banking on brighter futures** focuses on helping disadvantaged people in communities achieve financial independence and security by supporting financial inclusion activities, encouraging entrepreneurship and employment as well as developing financial capability. Areas of support under this theme include training, access to jobs, income-generation, accredited skills development, life skills training and financial literacy.
- **Looking after local communities** sees the Group supporting causes that matter in local markets. This is one of the best ways that Absa can meet specific needs and engage local communities. Areas of support include health and welfare, the vulnerable and groups at risk, food security, disability, literacy, home-based care, and support for early childhood development centres.

Number of consumers reached through financial literacy initiatives



- **Charity begins at work** engages and supports Absa employees involved in the causes they care about most. Absa offers a range of options covering volunteering, fundraising and payroll giving. In addition to dedicating time, skills and money to community initiatives of their choice, employees participate in Group-wide campaigns such as Make a Difference Day and Teach Children to Save (TCTS).

Through these themes, Absa is able to achieve a balance between large-scale partnerships, local initiatives and projects driven by the passion and energy of employees.

Consumer education was initiated as a stand-alone pillar within the ambit of the Financial Sector Charter. However, since 2008, Absa has recognised consumer education as a core component of SED under the BBBEE CoGP. Consumer education is included with corporate social investment spend when reporting on the Group's spend on SED.

2010 review

Despite the subdued economic conditions, community investment remained a priority and Absa not only achieved full points on the CoGP but significantly exceeded the rand target.

Corporate social investment (CSI)

Absa continued its twofold approach to CSI delivery – a blend of nationally led initiatives underpinned by a provincial focus making it possible for provincial CSI consultants to enable CSI initiatives that are responsive to community needs and are relevant to business. This approach distinguishes Absa from many of its peers. Through engagement with development stakeholders, Absa actively creates platforms and linkages aimed at increasing reach and impact.

Highlights for 2010 include the following:

- The South African Early Childhood Development Awards are a partnership including the Departments of Social Development and Basic Education, and are aimed at raising awareness of the importance of early childhood development. The 2010 nominations increased nearly threefold from those received in 2009.
- In response to the growing need to address food security and the impact it has on learning, Absa partnered with Woolworths and Engen to expand the Food and Trees for Africa Eduplant programme. Focus is on the training of teachers and learners in permaculture, a sustainable system of farming and gardening; and establishing food gardens in schools. In 2010, 8 000 educators, government officials and non-governmental organisation (NGO) representatives were reached through 72 workshops held across South Africa.
- The One Absa strategy includes the objective to connect employees with communities through volunteerism. Despite a challenging year, employees continued to actively participate in personal and Absa-led initiatives.
- An employee survey was conducted to gain insight into what should be done to enhance Absa's employee volunteering programme and effectively communicate CSI value to the business. The survey results were used to inform the CSI communication strategy and enhance the employee volunteering process to make it simpler. The refinements are to be implemented fully in 2011.
- The Investing in the Future awards showcase excellence in CSI practice. For the 2010 awards, Absa entered five CSI nominations with the following results:
  - Won the partnership award: South African Early Childhood Development Awards.
  - Won the sports development award: Absa Spaces for Sports, Gansbaai Communal Sports Centre.
  - Was a runner up for enterprise development award: Big Fish School of Digital Filmmaking.

Material topics – Community investment

Absa sponsorships

Absa's community investment is primarily evidenced in CSI and consumer education. In addition to this, the Group believes that arts and culture as well as sport are important building blocks for a healthy society. While first and foremost an activity to reinforce brand values and business objectives, through carefully selected sponsorships, Absa is also able to contribute to society.

Soccer is one of the cornerstones of Absa's sponsorship portfolio which includes the Absa Cup, the Absa Premiership and Bafana Bafana. Sponsorship initiatives with strong developmental objectives include the Absa Women's league with the South Africa Football Association, and the non-profit Dreamfields Project.

Absa has been associated with rugby at various levels for 25 years and the current rugby sponsorships include the Absa Currie Cup, the Springboks from 2011; Emirates IRB Sevens among other sponsorships such as the Moses Mabida Stadium in Durban. In terms of development, Absa launched Boksmart with the South African Rugby Union; and provides support to the Sharks Academy; the Cheetahs Academy and the Eastern Province Rugby Union.

Participative sport sponsorships include the Absa Cape Epic, South Africa's largest mountain bike race, the Absa Premiers Invitational a charity golf event; and the motor racing sponsorship, the Absa Off Road challenge.

The Group's arts and culture portfolio ranges from festivals such as the Klein Karoo Nasionale Kunstefees South Africa (KKNK), Aardklop Nasionale Kunsfees and the Mangaung African Cultural Festival (Macufe); to television and stage productions including Noot vir Noot and selected Packed Housed Productions theatre shows. Absa proudly claims the largest corporate art collection in the country, featuring over 20 000 artworks (all by local artists); and hosts the Absa L'Atelier art competition in partnership with the South African National Association for the Visual Arts (SANAVA), the French Institute, French Embassy and the French Alliance. Absa also sponsors the Design Indaba Expo, which is a celebration of South Africa's ingrained creativity.

› Received a special commendation for future best employee community involvement programme undertaken by Archibald Holthauzen.

Consumer education

Absa continued to follow a primarily outsourced approach to the implementation of consumer education initiatives in 2010. The Group's responsibility is to facilitate governance, quality assurance, monitoring and reporting of all outsourced initiatives.

Bubomi is consumer education's flagship programme. Translated from Xhosa, Bubomi means 'That's Life'. Absa owns the intellectual property rights for all Bubomi offerings and has registered the Bubomi it's Life trademark. The programme consists of two parts: a financial education module and a National Credit Act (NCA) module. The programme is designed according to the principles of storytelling and is facilitated in a classroom setting which can vary from two hours (NCA module) to four hours (financial education module).

In 2010, Absa reached its multi-year target of training over a million South Africans in classroom-style training, educating them on the basics of savings, budgeting and working with one's money wisely.

The release of the results of research on the impact of the Bubomi financial literacy programme took place in April 2010. This research, conducted by Unisa's Bureau of Market Research confirmed that the Bubomi programme indisputably contributed to the urgent need for improved money management skills in South Africa and that there was a statistical difference in knowledge between those who had attended the Bubomi training and those who had not.

Other ways in which Absa carries out its responsibilities to create enhanced financial awareness includes:

» implementation of off-the-shelf financial literacy interventions;
» articles on the importance of saving and working with ones money more wisely in the bi-monthly Consumer Fair newspaper published by the National Consumer Forum;
» partnering with the Banking Association South Africa in the TCTS; and
» sponsorship of the National Economics Olympiad in partnership with the South African Foundation for Economic and Financial Education, aimed at learners in grades 7 to 10.

Focus for 2011

CSI and consumer education remain critical in ensuring enhanced sustainable development. The Group will continue to invest in the communities in which it operates.

Corporate social investment (CSI)

In 2011, attention will be paid to:

» upscaling the successful skills development programme in partnership with the Big Fish School of Digital Filmmaking by doubling the investment and reach;

» expanding the Eduplant programme to increase reach and impact;

» further developing a relevant and beneficial non-profit financial services value proposition; increasing employee participation through the establishment of community champions in regions and business clusters;

» and ongoing enhancement of processes and communications in line with the One Absa ethos.

In addition, emphasis will be placed on the further development of relevant stakeholder engagement platforms aimed at increasing impact and skills sharing and the implementation of an independent impact assessment of selected programmes.

Consumer education

Increased focus will be placed on embedding an integrated approach between the consumer education team, Entry Level and inclusive Banking unit, Absa Payments and Absa Legal thus strengthening the quality and reach of programmes. Discussions are in progress with a number of government departments and civil society organisations with the aim of reaching 1 000 000 consumers in 2011. This will be achieved through face-to-face interventions, print and broadcast media campaigns.

Material topics – Environmental impact

Minimising Absa's impact on the environment.

Highlights

- Increased energy efficiency by improving and replacing infrastructure.
- Implemented a project to improve the measurement of electricity use.
- Completed the gas energy centre in the new Absa Towers West building providing security of electricity supply and reducing carbon (CO_2) emissions.
- CO_2 emissions dropped by 7% year-on-year as a result of the lower carbon factor of gas emissions.
- Exposed and educated credit processing managers on the principles embodied in responsible environmental finance.

Key performance indicators

	2010	2009	Change %
Carbon footprint[1] ('000 tonnes CO_2)	**415**	[3]	—
Electricity consumption[2] (GWh)	**469**	461	2
Paper consumption[3] (tonnes)	**2 453**	2 401[4]	2
Paper recycled[4] (tonnes)	**780**	881	(11)
Business travel[5] (millions km)	**140**	[3]	

Notes:

[1]*Carbon footprint comprises of 95% electricity with the balance being business travel.*

[2]*Data has been collected through the installation of meters. Consumption has been estimated where meters are not installed. 2010 date is based on a small sample of actual material data. Additional meters will be installed in 2011 to significantly enhance reporting in this regard.*

[3]*Not available.*

[4]*Restated.*

[5]*Includes company and functional vehicles, employee kilometre claims and car rental (but excludes flights).*

Absa's stance

Although Absa has a widespread infrastructure to deliver financial services to all communities throughout South Africa, Tanzania and Mozambique, its direct resource requirements, which are predominantly electricity and water, are relatively low, given the nature of the business.

However the Group is cognisant of the environmental impact it can have by considering the environmental implications of its corporate lending proposals, as well as by enhancing employee awareness of good environmental practices.

Absa's environmental vision is to strengthen the position of the Group as a credible corporate citizen through reliable reporting and monitoring, robust risk management policies and procedures, a Group-wide implementation capability, and a responsible stakeholder engagement focus.

The impact on the environment is specifically addressed as part of the Absa corporate sustainability risk. The risk forms part of the compliance processes, which provide a framework for implementation in the business through additional policies and operational procedures. Absa's environmental impact is regularly reported to relevant business unit management, Group Exco and the board.

2010 review

The focus for 2010 was on the accurate measurement of information required for carbon dioxide emissions, reporting the energy efficiency of Absa's properties, improving lending processes, staff education and awareness, as well as supporting the environmental agenda with industry bodies.

Carbon footprint

Absa measures its carbon footprint by taking the following Scope 1 and 2 activities into account:

- GWh: Electricity consumed (Eskom and gas).
- Fuel: Motor vehicles used for business purposes (includes car hire).
- Fuel: Diesel for back up generators.
- Fuel: Flights for business purposes.

Emissions from electricity consumption contributed more than 95% of Absa's carbon footprint.

Compiling information required to report carbon (CO_2) emissions has been an immense exercise within Absa and significant investment has been made in this regard. This initiative has assisted the Group in understanding the environmental impacts of its operations and in driving electricity efficiency.

To obtain reliable data in this regard, Absa has launched a project to measure its overall electricity use and to provide an accurate energy usage baseline. This project commenced in 2010 and will be completed during 2011.

Carbon Disclosure Project (CDP)

Absa participates in the Carbon Disclosure Project, which is a global call to the world's largest companies to measure and report their carbon emissions, while integrating the long-term value and cost of climate change into their assessment of the financial health and future prospects of their business. As a first time participant, Absa was 1 of 74 South African companies that voluntarily participated in 2010. Absa's relative position in this project (reported as at mid-2010) indicated that, although the Group has commenced its carbon disclosure journey, there is still some way to go in this regard.

Energy efficiency

Absa has invested in improving and replacing infrastructure to become more energy efficient. This included a Group-wide replacement of light bulbs with more efficient versions, ongoing installation of timers and sensors to switch off lights after hours and where there is no activity, and the rollout of the first phase of the smart metering systems that track and manage electricity use in the Group's largest branches and offices.

A gas energy centre was installed in Absa Towers West, providing security of electricity supply and reducing the Group's carbon emissions.

Carbon offsetting

While Absa's focus is primarily on minimising direct impact on the environment, through Barclays, Absa also participates in carbon offsetting through the purchase of carbon credits. The carbon credits are, as a minimum, certified to the Voluntary Carbon Standard, which shows the projects genuinely help to reduce CO_2 emissions and are both auditable and traceable.

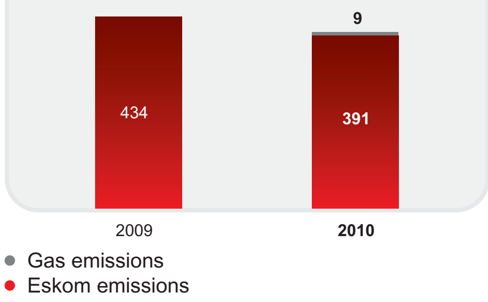
Water usage

Absa is not a major consumer of water, it is primarily used for personal consumption and ablution facilities. Owing to the low usage of water in the Group's operations and the significant investment in water meters required for accurate measurement, this metric will only be addressed as a future project.

Paper use and recycling

Absa makes extensive use of paper and the Group is actively implementing initiatives to reduce its use. This includes encouraging internet banking customers to elect not to receive paper statements,

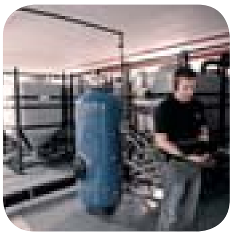
Carbon emissions from electricity
('000 tonnes CO_2)



Further reading

Responsible lending 55

Material topics – Environmental impact



double-sided printing in the Group's office environment, and the electronic dissemination of internal management reports. Employees are encouraged to file electronic documents whenever possible.

Where practically possible, paper shredding and recycling bins are made available. Altogether 780 tonnes of paper was recycled in 2010, marginally down from 2009. This will continue to be a focus going forward.

Absa Towers West

To improve the environmental profile of Absa's offices, the Group's new head office building, Absa Towers West, was designed to incorporate green building elements and principles to optimise sustainability and performance while retaining aesthetic appeal. The design of the building aims to reduce environmental impact in terms of energy, water consumption, material sources and emissions.

The energy centre, which is an important aspect of the building, will enable Absa's corporate campus to meet the country's power consumption regulations, reduce its energy use and create a reliable primary energy supply for all Absa buildings within the Johannesburg central business district. The energy centre uses a gas engine solution. Absa estimates that it will save up to half of its current electricity running costs compared to similar sized buildings. Gas-powered generation is a cleaner form of power with about a third of the emissions of the coal-fired option. This is expected to save the equivalent of 19 000 tonnes of carbon dioxide a year and Absa is in the process of applying for carbon credits for this initiative.

A grey water system has been incorporated in Absa Towers West which is the largest system of its kind in Africa. The system has the capacity to recycle 43 000 litres of water per day. Water will be recycled from the gymnasium and from a rainwater collection system, filtered and used for non-potable purposes, with an expected significant saving on the building's water needs.

The heating, ventilation and cooling system will incorporate an economy cycle that uses outside air to provide free cooling when outside conditions are favourable. This will reduce the energy consumption associated with mechanical cooling of the air. The system also allows for overnight flushing of the building to cool down the building envelope and rejuvenate the entire building with fresh, cool air daily.

Various other sustainable initiatives in the building and fitting-out processes include the minimisation of polyvinyl chloride (PVC) construction materials, the use of local products where possible, the use of sustainable timber, and low volatile organic compound paints and carpets to improve the indoor air quality.

Focus in 2011

2011 will see an incremental focus on reducing the Group's environmental impact as well as the accurate monitoring and measuring of the Group's impact on the environment. 2011 will be a critical year in obtaining key baseline information.

Board and leadership

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Board and leadership

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The Group Chairman and the Group Chief Executive present their reports to stakeholders.

Chairman's statement

Garth Griffin
Group Chairman

Introduction and overview

This is my first statement to you as Absa Group's Chairman. I look forward to serving the Group and all its stakeholders in this capacity.

Absa demonstrated resilience in a challenging operating environment of slow economic recovery and muted credit demand during 2010. Despite modest revenue growth, the Group increased its headline earnings by 6% to R8 billion, as impairments improved from unusually high levels. It was also gratifying that Absa kept its return on equity above its cost of equity, while maintaining capital comfortably above board targets and regulatory requirements.

As satisfying as these financial results were, so too was the progress made to enhance the Group's capacity and capabilities in many important areas to enable future growth. Examples include the robust Absa Capital business, implementing a common platform for our African operations and developing a world-class foreign exchange capability for our clients. We have made good progress on several other initiatives underpinning our

Chairman's statement

One Absa strategy. These efforts are examples of balancing the Group's short-term results with its longer-term prospects. Thus, Absa has navigated the recession commendably and is well positioned to take full advantage of gradually improving conditions.

The annual report, including the Group Chief Executive and the Group Financial Director's reviews, the annual financial statements and the business operational review provides a comprehensive overview of Absa's activities in 2010. Without repeating any of the detail, I highlight below a few key areas.

Commitment to sustainability

The recent global financial crisis underscored the importance of sustainability, particularly in the banking sector where some respected groups failed and significant long-term damage was done to global financial and economic systems. Absa's board considers sustainability an important obligation, with long-term viability weighing more heavily than short-term financial gain. Thus, we remain committed to growing our business in a sustainable and responsible manner and, in line with the King III recommendations, recognise the need to embed sustainability into our business operations and report on our progress as we proceed.

Management has identified 12 material topics that we believe to be critical to us and our stakeholders because, taken together and over time, they determine the Group's long-term relevance and sustainability. The topics are covered, each in some detail, in the section titled "sustainability review" in this report. At its most basic level, however, sustainability depends on a company's ability to behave ethically in its interactions with all its stakeholders. This is only possible if a company embraces a set of values that demands of its people respect for others – both internal and external – and an attitude of accountability. These attributes are core elements of the Absa values and the board fully intends to ensure that the Group remains above reproach on this score.

As just one of several highlights last year, investing in the communities in which we operate remained a focus for Absa, despite the difficult operating environment. The Group exceeded the BBBEE Codes of Good Practice targets in socio-economic development for the third successive year. Of note, Absa achieved its target of providing financial literacy training to a million consumers, improving their understanding of basic financial concepts. Other highlights included opening our environmentally friendly Absa Towers West building, within the existing Johannesburg CBD complex, targeting a four-star Green Star

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rating; procuring R1,5 billion of goods and services from exempt and qualifying small enterprises; and micro-enterprise finance supporting 5 421 (2009: 2 984) informal, self-employed individuals in their income-generating activities that sustain their families and communities.

From these comments, I trust you will appreciate that, beginning with the board, Absa is committed to ensuring the sustainability of its operations. This calls for an appropriate corporate footprint that is sensitive to its environment and constituencies and has a positive impact and legacy. Put simply, we seek to be a respected corporate citizen that makes a valued contribution to developing the markets and communities we serve.

Regulatory developments

The banking industry is, for good reason, subject to stringent regulatory oversight and much has changed following the 2008 banking crisis centred in the United States and Europe. Fortunately, the local banking industry weathered the storm relatively well, due in part to more demanding regulatory requirements. Following the international crisis, substantial changes have been or are expected to be made to regulatory requirements that will affect the level and nature of capital banks are required to hold. Changes will also enable banks to better withstand unexpected liquidity demands.

Ultimately, these changes will impact both pricing and the nature of products that banks offer to their various markets. Higher capital levels will need to be maintained and serviced, while some product lines will become less attractive. Access to higher levels of liquid assets will also come at a cost and it will be difficult to meet the proposed Basel liquidity requirements within the current construct of the South African financial services sector. While we remain supportive of the need for improved regulatory requirements, care needs to be taken that changes are tailored to local conditions.

Regulatory change, however, is not limited to prudential or solvency issues; the Group is faced with regular and significant legislative and regulatory changes in other areas, covering matters such as anti-money laundering activities, the implications of the new Companies Act and the new Consumer Protection Act in South Africa. Complying with all legislative and regulatory requirements is a core requirement for the Group.

Remuneration

Remuneration in the banking sector is an important and widely debated issue. Indiscriminate remuneration policies that incentivised short-term gains at the expense of longer-term sustainability have been identified as a contributor to the excesses preceding the financial crisis. We cover the Group's remuneration policies in some detail in the remuneration report, but I will comment on some key features.

Banking covers a wide spectrum of activities, from the more routine to highly complex and fast moving transactions. All, to a greater or lesser extent, rely on specialist skills to ultimately provide customers with appropriate solutions and to manage the supporting processes. Banking has therefore come to depend on developing and retaining deep pools of necessary expertise. Increasingly, these come at a cost. Incentives designed to reward behaviour that is aligned with the interests of other stakeholders are an important component of our reward structure.

Within Absa, therefore, we try to maintain an appropriate balance between short- and longer-term incentives on the one hand, and cash and share-based payments on the other. This is targeted at employees whose skills make a

Chairman's statement

material and measurable difference to the Group's performance over time. The size and mix of these incentives will depend on the area of activity and the performance levels of the individual and the business, after taking risk into account.

While poorly designed incentives may encourage inappropriate risk-taking at the expense of other parties, both internal and external to the business, we are of the view that such activity should be constrained in the first instance by the inherent risk controls established by the business. Put differently, the core business risk management controls should detect and prevent inappropriate risk taking, leaving the incentive structure to reward appropriate performance.

Hence, there are two foundational elements to an effective incentive framework, designed to attract and retain the talent necessary to drive a large banking group. Firstly, an effective performance management process and, secondly, a comprehensive risk management process. Add to this an agreement on what determines the quantum of the available incentive pool, an appropriate mix of short- and long-term awards and a proper governance process, and we have the ingredients of an effective incentive programme.

These, essentially, are the elements we have in place at Absa, and we continually seek to improve the overall system, taking note of international developments in this regard. The Basel committee has made recommendations on certain remuneration disclosures. We will monitor these and local regulatory developments closely, with a view to adopting them as required.

At the heart of our approach is the recognition that Absa is accountable to a range of stakeholders and that incentives should reflect the effort required and the value that is being added within this context. Sometimes this results in individual incentives that appear high, but we remain comfortable that such incentives have been subject to due process within an effective system.

Relationship with Barclays

Absa benefits meaningfully from a strong, committed majority shareholder. Our constructive relationship with Barclays continues to deepen, as evidenced by closer collaboration across the rest of Africa and our much improved foreign exchange offering, for instance. We also benefit significantly by being able to benchmark our activities against those of a major international banking group, while our people's skills and insight grow as a result of challenge from and

Further reading

Remuneration report 145

exposure to their Barclays counterparts. The Group will continue to draw on Barclays expertise and insight in developing its own skills and capacity wherever we operate. On behalf of the board, I would like to thank our colleagues at Barclays for the support they have provided. I look forward to working with them to further enhance Absa's enterprise value.

Board changes

Dave Brink retired from the board as from the end of September. His contribution at board level to Absa since 1992 was immense. During this period he served as Chairman from 1993 to 1997 and later as Deputy Chairman under both Danie Cronje and Gill Marcus. From July 2009 until his retirement, he once again served as Chairman of the board, and we all benefited from his experience and insights.

It was therefore a great honour and privilege to succeed Dave and I look forward to working with my board colleagues as well as Maria Ramos and her executive team.

Des Arnold will be retiring at the annual general meeting. Des joined the board in 2003 and has made a significant contribution, particularly as Chairman of the Group Audit and Compliance Committee. Colin Beggs was appointed to the board in June 2010, and, subject to ratification at the annual general meeting, will succeed Des as Chairman of the Group Audit and Compliance Committee. Monhla Hlahla is retiring by rotation and has decided not to make herself available for re-election. On behalf of the board, I thank Des and Monhla for their contribution to the Group and wish them well.

Acknowledgements

Under Maria Ramos' able leadership, Absa benefits from a skilled and committed management team whose dedication is reflected in both the financial results and the ongoing capacity and capability development underpinning the Group's One Absa strategy. Maria and her team lead the way in every respect.

I would like to thank our staff for their enormous dedication and hard work in a difficult environment. It is through their efforts that we have made the progress we have.

Thank you also to my colleagues on the board for your support and guidance. The demands on and responsibilities of a non-executive bank director are significant, and I am grateful for the dedication of my colleagues in ensuring effective governance processes for the Group. On average, non-executive directors were each expected at more than 24 meetings in 2010, including training meetings and interactions with the regulator.

We again thank our banking regulator for his wise supervision and constructive method of engagement. Much of the credit for the quality of the local banking sector has to do with the nature and style of this interaction.

Importantly, I thank our customers, suppliers and shareholders for their continued support. Without this our business could not thrive.

Conclusion

In spite of a relatively subdued economic environment, the Group delivered satisfactory results over the past year, while making good progress in preparing for the future. We continued to invest, both internally and into the communities we serve, and to play an important role in improving the quality of life for many by way of community outreach and product innovation. We see these as solid foundations for the sustainability of the Group and will continue to build capacity and capability to support our franchise in the markets we currently serve.

At the same time, Africa offers an exciting future for financial services, particularly banking. I am optimistic that Absa, in conjunction with Barclays, is well positioned to take advantage of these opportunities.

Garth Griffin

Group Chairman

9 March 2011

Directorate

Introduction

The Absa Group board has an appropriate balance of executive, non-executive and independent directors. The board comprises a majority of independent directors (non-executive directors who are independent as defined in the King II report). The 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 Group 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 Group Chairman on 30 September 2010.

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

Directors of the Absa Group as at 31 December 2010

Independent non-executive directors	D C Arnold, C Beggs, B P Connellan[4], S A Fakie, M W Hlahla, M J Husain, G Griffin[4] (Group 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 (Chairman), C Beggs, S A Fakie and T S Munday.
Group Risk and Capital Management Committee (GRCMC)	D C Arnold, C Beggs, G Griffin[4], M W Hlahla, 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, 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, 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.*

Directorate

Biographical information

As at 31 December 2010

D C (Des) Arnold (70)

Qualifications

» CA(SA)
» FCMA
» AMP

Year appointed to the Absa Group board: 2003

Independence

Independent director

Absa Group board committee memberships

» GACC (Chairman)
» GRCMC
» DAC
» BFC

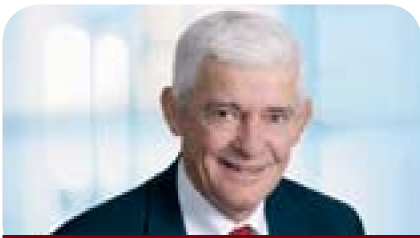
Other directorships

» 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 Group board: 2010

Independence

Independent director

Absa Group board committee memberships

» GACC
» GRCMC

Other directorships

» 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 Group board: 1994

Independence

Independent director

Absa Group board committee memberships

» GRHRC
» CoRC
» BFC

Other directorships

» 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 Group board: 2006

Independence
Non-executive director

Absa board committee memberships
» GACC (permanent attendee)
» BFC

Other directorships and memberships
» 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 Group board: 2009

Independence
Non-executive director

Absa board committee memberships
» GRHRC
» BFC

Other directorships and memberships
» 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 Group board: 2008

Independence
Independent director

Absa board committee memberships
» GACC

Other directorships and memberships
» 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.

Directorate

G (Garth) Griffin (61)

Chairman (Appointed: 1 October 2010)

Qualifications
- BSc
- FIA
- FASSA

Year appointed to the Absa Group board: 2001

Independence
Independent director

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

Other directorships and memberships
- 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 Group board: 2005

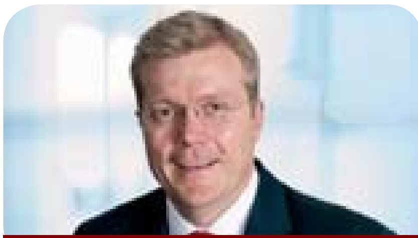
Independence
Independent director

Absa Group board committee memberships
- GRCMC

Other directorships
- 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)

Group Financial Director (Appointed: 1 March 2010)

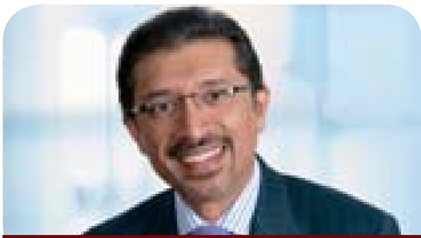
Qualifications
- BCom
- CA(SA)
- MBA

Year appointed to the Absa Group board: 2010

Independence
Executive director

Absa Group board committee memberships
- CoRC

Expertise and experience
David completed his articles with KPMG where he became a partner in the financial services team. He then joined 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 Group Financial Director on 1 March 2010.



M J (Mohamed) Husain (50)

Qualifications
» BProc

Year appointed to the Absa Group board: 2008

Independence
Independent director

Absa Group board committee memberships
» GRCMC
» DAC

Other directorships and memberships
» 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 Group board: 2009

Independence
Non-executive director

Absa Group board committee memberships
» GACC (permanent attendee)
» GRHRC

Other directorships
» 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 Group board: 2007

Independence
Non-executive director

Absa Group board committee memberships
» GRCMC
» DAC

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.

Directorate

T M (Thoko) Mokgosi-Mwantembe (49)

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

Year appointed to the Absa Group board: 2008

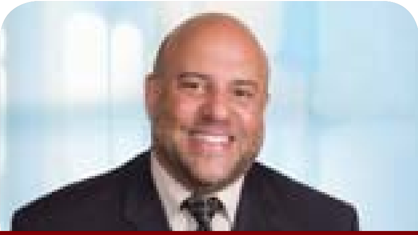
Independence
Independent director

Absa Group board committee memberships
» GRHRC

Other directorships
» 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 Group board: 2007

Independence
Independent director

Absa Group board committee memberships
» GRCMC

Other directorships and memberships
» 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 Group board: 2007

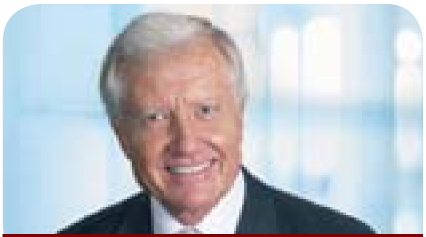
Independence
Independent director

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

Other directorships
» 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 Group board: 2009

Independence
Independent director

Absa Group board committee memberships
- DAC
- GRHRC (Chairman)

Other directorships and memberships
- 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)

Group Chief Executive

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

Year appointed to the Absa Group board: 2009

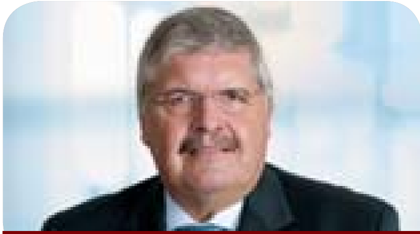
Independence
Executive director

Absa Group board committee memberships
- CoRC

Other memberships
- 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 Group Chief Executive in March 2009, and is a member of the Barclays PLC Executive Committee.

Directorate



L L (Louis) von Zeuner (49)

Deputy Group Chief Executive

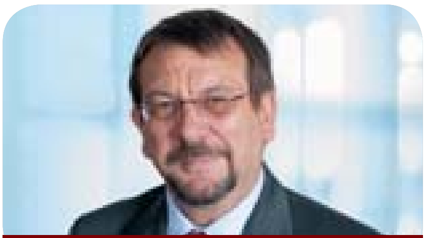
Qualifications
- BEcon

Year appointed to the Absa Group board: 2004

Independence
Executive director

Absa Group board committee memberships
- CoRC

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 Group board: 2008

Independence
Independent director

Absa Group board committee memberships
- GRCMC
- CoRC

Other directorships and memberships
- 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.

Group Chief Executive's review

Maria Ramos
Group Chief Executive

Highlights

» Produced solid results in an uneven economy to maintain our return on equity above the cost of equity.

» Established a corporate bank.

» Continued to streamline the Group's business-as-usual operations.

» Further strengthened the balance sheet.

» Improved employee engagement.

Video

To view a video of the Group Chief Executive please visit: **absair.co.za**

Group Chief Executive's review

Performance review

As expected, 2010 was another challenging year. The economic recovery has been slow and uneven, both globally and domestically. In particular, retail and corporate credit demand and transaction volumes remained muted, which dampened revenue growth. Nonetheless, we reported solid results, increasing diluted headline earnings per share by 4% to 1 115,7 cents, while continuing to invest in our strategic growth initiatives. Lower interest rates and our enhanced collections capability reduced retail impairments materially. Moreover, our margin hedging strategy protected the Group's net interest income as rates fell to 36-year lows. Importantly, Absa's 15,1% return on equity remained above its cost of equity and the Group's net asset value per share increased 11% to 7 838 cents.

Operational review

Last year I set out our One Absa strategy. This is significantly changing the way we do business and how we collaborate internally. It aims to achieve sustainable growth in targeted markets, standardise and streamline the Group, create a customer- and people-centred organisation, optimise our balance sheet and strengthen our risk management. I am pleased to report that the first year of executing the strategy is on track and we believe that it will contribute meaningfully to earnings going forward.

Although we have had many successes in implementing this strategy, I will outline three particular initiatives.

» We established our corporate bank alongside Absa Capital to benefit from its coverage model and product expertise. The objective of positioning the corporate bank in this way is to serve our customers better, providing the products and services they need, while reducing costs. Although the corporate bank was only migrated in the fourth quarter, the new model's benefits are already evident. We have won over a number of high profile customers and have grown transactional banking revenues strongly.

» We are streamlining the Group to enhance our business-as-usual operations. Our technology and operational plans to 2015 blend short-term requirements with longer-term actions to provide a flexible base for growth. We deployed the Barclays foreign exchange platform, which improved our offering considerably and has reduced our cost-to-serve. Other major operational projects ranged from re-engineering key retail processes to introducing new web based systems in our life and short-term insurance operations. Our substantial investment in technology infrastructure is designed to keep Absa's systems up to date, competitive and resilient.

» We further strengthened our balance sheet. We improved the Absa Group's Core Tier 1 ratio to 11,7%, well above regulatory requirements and above our new board target range. We also increased our surplus liquid assets and lengthened our funding profile. These two actions cost approximately R300 million before taxation. Moreover, we improved our loans-to-deposits ratio and our non-performing loan coverage during the year. These actions create a platform for sustainable growth and prepare the Group for increased regulatory requirements in respect of capital and liquidity over time.

The Basel Committee of Banking Supervisors issued final guidelines for capital and liquidity management in December 2010. Although these will have far-reaching implications for the financial services sector, we believe that Absa is well placed for the capital changes that Basel III will bring. Our internal capital generation should comfortably absorb the expected reduction in our Core Tier 1 ratio up to 2013. In anticipation of the changing liquidity requirements, we increased our surplus liquid assets to R17 billion during 2010. This buffer will be extended further in 2011.

Further reading

One Absa strategy	05
Business operations	101
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In February 2011, the National Treasury released a policy document entitled "A safer financial sector to serve South Africa better". Its purpose is to confirm South Africa's commitment to the G-20's global financial reform agenda, and to outline policy priority objectives, as well as ten proposals on strengthening the regulatory framework. Recognising the different skill sets required for prudential and market conduct regulation, South Africa will move towards a 'twin peaks' model where the South African Reserve Bank is the macro-prudential supervisor and the Financial Services Board will establish a retail banking market regulator.

Absa will continue to constructively engage with the banking regulator and appropriate government institutions on the matters contained in this document and on the Basel III capital and liquidity requirements.

Barclays

Our relationship with our majority shareholder, Barclays, celebrated its fifth year in 2010. The Absa-Barclays deal was the largest foreign direct investment into South Africa at that time. We were the first local bank to partner with a major global bank.

From the beginning, our association with Barclays represented a commitment by both groups to create long-term value for all our stakeholders. At its heart, the transaction was designed to offer our customers a broader range of products and services, with an enhanced focus on delivery and access to a wide network of platforms and global support, particularly across Africa. The successes are numerous, so I will highlight just a few.

Our relationship with Barclays has helped us to build a significant investment banking presence in the form of Absa Capital. With the interest and involvement of Barclays Capital's global teams, we have transformed the business from a corporate lender to a markets based business. The many awards Absa Capital has received are testimony to this transformation.

Absa's Card division is now the second largest issuer of credit cards as measured by outstanding balances in South Africa. Its headline earnings increased by 66% to over R1,3 billion and its return on economic capital exceeded 44%. Collaboration with Barclaycard on customer value management, operations and innovation has contributed to Card's growth over the years.

Being part of a global group has kept us at the forefront of changes and best practice in other important areas of our business and allows us to test what we are doing against best practice. We have invested substantially in upgrading our risk and control environments.

The synergies have been evident both up- and downstream.

Absa Consultants and Actuaries won the tender to provide all the back-office administration services for Barclays Pension Administration. Absa's Workplace Banking is the leading 'at work' proposition in the Barclays Group in many respects, particularly relating to customer service. We are exporting our expertise in onsite delivery to develop workplace banking for Barclays in many countries.

Barclays and Absa established a Global eBusiness Council to share best practice and leverage digital capabilities across the organisations. Among other achievements, this has resulted in heightened expertise in online fraud management, enabling the two entities to quickly identify and mitigate potential risks.

Africa is important to us and to Barclays. Aligning more closely with Barclays Africa to serve almost 15 million combined customers in 12 countries across the continent offers exciting growth prospects. In combination, Absa and Barclays have an outstanding set of businesses across Africa and a unique opportunity as One Bank to be the financial services provider of choice. Absa Capital already conducts investment banking activities across sub-Saharan Africa and Absa Financial Services started offering bancassurance products to Barclays Bank Botswana's customers, having recently obtained a license to do so.

Sustainability

The welfare of employees, customers and society in general, as well as the growing pressure on natural resources, is increasingly being tied to the financial performance and sound governance of the business. We believe that the largest contribution Absa can make to society and the environment is by operating a commercially successful business in a responsible way.

Our One Absa strategy promotes growing in a responsible and enduring manner. It aims to enhance business-as-usual, increase growth in targeted areas and further strengthen the core fundamentals underlying our operations. The search for more efficient processes and optimal technology is not only motivated by reducing time and cost-to-serve, but also by improving the customer experience. Strong balance sheet and risk management practices are all about long-term relevance, creating a platform for growth and reducing areas of risk that could otherwise threaten our

Group Chief Executive's review

reputation and ability to do business. Recognising that our actions impact the environment and the communities where we operate, affects and shapes our customer and employee value propositions.

Financial inclusion, responsible lending, employee engagement, transformation, community investment and our environmental impact are among the material topics that affect Absa's sustainability. Each topic is detailed in our sustainability review, including its scope, key performance indicators, our actions during the year and outlook. We recognise that managing these and other material topics effectively is crucial to Absa's long-term sustainability.

In terms of transformation, the Group moved up to a level 3 BBBEE contributor. We improved in the areas of procurement, employment equity and skills development, while maintaining performance in enterprise and socio-economic development.

Over and above our financial commitment to community investment, there is a strong spirit of volunteerism at Absa. In the year under review, 2 224 employees spent a total of 31 877 hours (27 472 work and 4 405 personal hours) in support of community initiatives, such as the Make a Difference Home Build project. More than 1 000 of our employees were involved in building 150 houses (of the development's planned 725 houses) in Mogale City. Through the payroll giving and matched fundraising programmes, 4 644 employees mobilised over R8 million for the benefit of non-profit organisations and schools.

Increasing access to financial services is a key imperative in the South African and African context, which will enhance Absa's long-term prospects. We have 7,2 million entry-level customers, thanks to our large distribution network and strong electronic offering. Building on our first-to-market CashSend offering, Absa has added innovations such as contactless payment cards (known as tap 'n go) for easy low-value payments, our in-store point-of-sale banking solutions and a prepaid card solution for disbursing funds on cards by governments and corporate institutions. All of these extend our reach and make it easier for customers to transact.

Absa also has a significant focus on small and medium business. We have over 450 000 small business customers and over 60 000 medium business customers, with loan books of R5 billion and R35 billion respectively. In addition to a variety of small and micro-enterprise funding solutions, Absa Small Business has 12 enterprise development centres across the nine provinces that are strategically located to provide easy access.

Outlook

We start 2011 with a strong balance sheet and enjoy South Africa's leading distribution footprint. We have diversified our earnings noticeably since 2006, while remaining the leading retail bank. Absa's unique, high return on equity bancassurance model is another positive differentiator and our investment bank is a strong franchise.

We are committed to improving our return on risk-weighted assets again in 2011. To this end, cost management is top of mind. We aim to restrict our cost growth to single digits this year. We will continue to strengthen our balance sheet by increasing our surplus liquid assets and maintaining high capital levels as we await clarity on Basel III.

Although our operating environment is likely to remain challenging, we believe that we have the right strategy to grow the business and generate attractive returns for stakeholders. The initial benefits from our One Absa strategy will become increasingly evident this year, particularly in our non-interest revenue growth. Aligning with Barclays Africa is a key focus area in the year ahead.

Acknowledgements

I extend my appreciation to Dave Brink, who was on our board since 1992 until he retired and in that period, twice served as Chairman. I have benefited tremendously from his support and wise counsel. I also welcome Garth Griffin's appointment as Absa Group's new Chairman and look forward to working with him in this capacity.

John Varley announced his decision to step down as Chief Executive of Barclays and Bob Diamond took up this role on 1 January 2011. This changeover displayed continuity of strategy and leadership and I look forward to fulfilling our aspirations in Africa under Bob's leadership. I thank John for his valuable support and guidance.

I also thank our extremely dedicated and hard-working employees and Absa's Exco for their leadership. Above all, a big thank you to our customers and shareholders for the loyalty and the confidence they have shown in us during 2010.

Maria Ramos

Maria Ramos

Group Chief Executive

9 March 2011

Group Executive Committee

Introduction

The Group Executive Committee (Group Exco), chaired by the Group Chief Executive, comprises the Group's executive directors and other members of 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.

Group Exco in 2010

Group Exco appointments in 2010:

» G R Opperman was appointed as Chief Executive: Retail Bank on 22 January 2010.

» D R Motsepe was appointed as Chief Executive: Unsecured Lending on 22 January 2010.

» B Malabie joined Absa as Chief Executive: Absa Business Bank on 1 March 2010.

» F C S Marupen joined Absa as the Chief Human Resources Executive on 12 April 2010.

» J Lubbe joined Absa as its Chief Risk Officer on 1 September 2010.

Group Exco resignations in 2010:

» J H Schindehütte resigned from the Group on 28 February 2010.

» V J Klein retired from the Group on 31 December 2010.

Executive committees

In addition to Group Exco, a Group Operating Committee and a Management Committee are in place under the chairmanship of the Deputy Group Chief Executive and Group Chief Executive respectively.

Highlights

» D W P Hodnett appointed as the Group Financial Director.

» The appointment to Group Exco, in 2010, of J Lubbe, B Malabie, F C S Marupen, D R Motsepe and G R Opperman resulted in a full-strength management team.

Group Exco composition

	2010 %
Percentage of African, Coloured and Indians	46,2
Percentage of women	23,1
Percentage of African, Coloured and Indian women	15,4

Further reading

Group Exco's meeting procedures 140

Group Executive Committee

Membership as at 31 December 2010

Committee	Membership	
Group Exco	D W P Hodnett, V J Klein[1], W T Lategan, J Lubbe, B Malabie, F C S Marupen, D R Motsepe, V Naidoo, H Ntshingila, G R Opperman, M Ramos (Chairperson), S van Coller, L L von Zeuner	
Management Committee	D W P Hodnett, J Lubbe, F C S Marupen, V Naidoo, H Ntshingila, M Ramos (Chairperson), L L von Zeuner	
Group Operating Committee	**Exco members** » W T Lategan (Chief Executive: Absa Financial Services) » B Malabie (Chief Executive: Absa Business Bank) » F C S Marupen (Chief Human Resources Executive) » D R Motsepe (Chief Executive: Unsecured Lending) » V Naidoo (Group Chief Operating Officer) » H Ntshingila (Chief Marketing and Communications Officer) » G R Opperman (Chief Executive: Retail Bank) » S van Coller (Chief Executive Officer: Absa Capital) » L L von Zeuner (Deputy Group Chief Executive) (Chairman)	**Non-Exco members** » L de Villiers (Chief Information Officer: Absa Group) » J Gachora (Chief Executive: Absa Africa) » C Grönum (Group Treasurer) » I Kriegler (Chief Information Officer: Absa Capital) » N Nqweni (Chief Executive: Absa Wealth) » S Sithebe (Chief Operating Officer: Group Risk) » E Wasserman (Head: Business Performance Management)

Note

[1]*V J Klein retired from the Absa Group on 31 December 2010.*

Biographical information[1]

As at 31 December 2010

D W P (David) Hodnett (41)

Qualifications
- BCom
- CA(SA)
- MBA

Tenure at Absa
Three years (appointed 2008)

Year appointed as an Exco member: 2008

Area of responsibility
David is the Group Financial Director.

Expertise and experience
David completed his articles with KPMG where he became a partner in the financial services team. He then joined 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 Group Financial Director on 1 March 2010.

W T (Willie) Lategan (42)

Qualifications
- BCom (Hons)
- FFA

Tenure at Absa
15 years (appointed 1995)

Year appointed as an Exco member: 2007

Area of responsibility
Willie is Chief Executive: Absa Financial Services.

Expertise and experience
Willie joined Absa Consultants and Actuaries as an actuary in 1995. He served as General Manager: Operations, as Managing Director: Absa Life and Managing Executive: Absa Financial Services Corporate division.

Willie participates in the Association for Savings and Investments SA and the Actuarial Society of South Africa. He also serves as a trustee of Bankmed.

J (Jan) Lubbe (39)

Qualifications
- CA(SA)
- MBA
- MCom

Appointed: September 2010

Area of responsibility
Jan is Absa's Chief Risk Officer.

Expertise and experience
Jan initially worked at KPMG both in South Africa and in London, where he held the position of a senior manager. In 2000, Jan moved to Goldman Sachs where he was appointed as an executive director. In 2003, Jan joined FirstRand and was later appointed as FirstRand's Chief Risk Officer. Jan joined Absa in 2010 as the Group's Chief Risk Officer.

Note

[1] *V J Klein retired from the Group on 31 December 2010.*

Group Executive Committee

B (Bobby) Malabie (50)

Qualifications
- BCom (Accounting)
- MBA
- MDP (Harvard)

Appointed: March 2010

Area of responsibility
Bobby is the Chief Executive: Absa Business Bank.

Expertise and experience
Bobby has held senior roles within Charter Life, Nedbank Group and South African Breweries. He then joined Liberty Group, where he held the position of Chief Executive Officer: Marketing and Distribution. Bobby moved from Liberty Group to Absa in 2010.

F C S (Fergus) Marupen (45)

Qualifications
- BA (Hons) Psychology
- BEd
- HDip HRM
- MBA

Appointed: April 2010

Area of responsibility
Fergus is the Chief Human Resources Executive.

Expertise and experience
Fergus was General Manager: Human Resources for Kumba Iron Ore. He then joined BHP Billiton, where he held the position of Vice President: Human Resources for the energy and coal division. Fergus moved from BHP Billiton to Absa in 2010.

D R (Daphne) Motsepe (53)

Qualifications
- Bachelor of Accounting Science
- MBA

Tenure at Absa
Five years (appointed 2005)

Year appointed as an Exco member: 2010

Area of responsibility
Daphne is the Chief Executive: Unsecured Lending.

Expertise and experience
Daphne was the Managing Director of PostBank and has held leadership positions at the South African Post Office, Women's Development Banking, Engen Petroleum Limited and National Sorghum Breweries. Daphne has held a number of non-executive directorship positions including Investec Bank and the Land Bank. Daphne joined Absa in 2005 as Managing Executive: Small Business and Flexi Banking. She was appointed as Chief Executive: Unsecured Lending in January 2010.

V (Alfie) Naidoo (42)

Qualifications
- BSc

Tenure at Absa
Nine years (appointed 2001)

Year appointed as an Exco member: 2005

Area of responsibility
Alfie is the Group Chief Operating Officer.

Expertise and experience
Alfie joined Absa in September 2001 as Managing Executive: Electronic Channels. He has since worked in a variety of leadership roles in Retail Banking. He was appointed as Group Chief Operating Officer in July 2009.

H (Happy) Ntshingila (50)

Qualifications
- BA (Communications)

Tenure at Absa
Five years (appointed 2006)

Year appointed as an Exco member: 2008

Area of responsibility
Happy is responsible for Group Marketing and Communications.

Expertise and experience
Happy initially worked at Unilever, after which he held marketing and communications positions at IBM and Tiger Oats before joining Ogilvy and Mather as an account manager. In 1991, he co-founded HerdBuoys Advertising, the first black-owned advertising agency in the country. Happy joined Absa as Group Executive: Group Marketing in 2006. He sits on various Absa boards, is a trustee of the Absa Foundation and holds directorships of a number of companies in his personal capacity.

G R (Gavin) Opperman (45)

Qualifications
- LIB (SA) (Institute of Bankers)
- Diploma in Theology
- GSB (UCT Business School)
- CAIB (SA)
- Advanced Marketing Diploma (Institute of Bankers)

Tenure at Absa
16 years (appointed 1994)

Year appointed as an Exco member: 2010

Area of responsibility
Gavin is the Chief Executive: Retail Bank.

Expertise and experience
Gavin has 25 years of credit, operations and front office experience across retail, commercial, corporate and investment banking, both locally and abroad. He joined Absa in 1994 and held positions of Managing Director: Absa Bank Asia Limited, Managing Executive: Home Loans and Group Executive: Secured Lending.

Group Executive Committee

M (Maria) Ramos (51)

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

Tenure at Absa
Two years (appointed 2009)

Year appointed as an Exco member: 2009

Area of responsibility
Maria is the Group Chief Executive.

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 Group Chief Executive in 2009, and is a member of the Barclays PLC Executive Committee.

S (Stephen) van Coller (44)

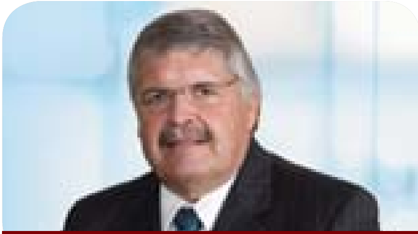
Qualifications
- BCom (Hons)
- HDip Acc
- CA(SA)
- CMA(UK)

Tenure at Absa
Four years (appointed 2006)

Year appointed as an Exco member: 2009

Area of responsibility
Stephen is the Chief Executive Officer: Absa Capital, with local responsibility for Absa Wealth.

Expertise and experience
Stephen initially worked at Ernst & Young Inc. In 1991, he moved to the United Kingdom, where he was appointed as a senior auditor at Knox Cropper and then Finance Manager of the Richmond Fellowship Housing Association. Stephen later returned to South Africa and worked at Deutsche Bank. His last role was Head: Coverage and Corporate Advisory. After joining Absa in 2006, Stephen held the positions of Deputy Chief Executive and Head: Investment Banking at Absa Capital, which included Global Finance and Risk Solutions, Mergers and Acquisitions, and Corporate Coverage.



L L (Louis) von Zeuner (49)

Qualifications
- BEcon

Tenure at Absa
30 years (appointed 1981)

Year appointed as an Exco member: 2004

Area of responsibility
Louis is the Deputy Group Chief Executive of the Group.

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.

Business operations

Contents

Business operations

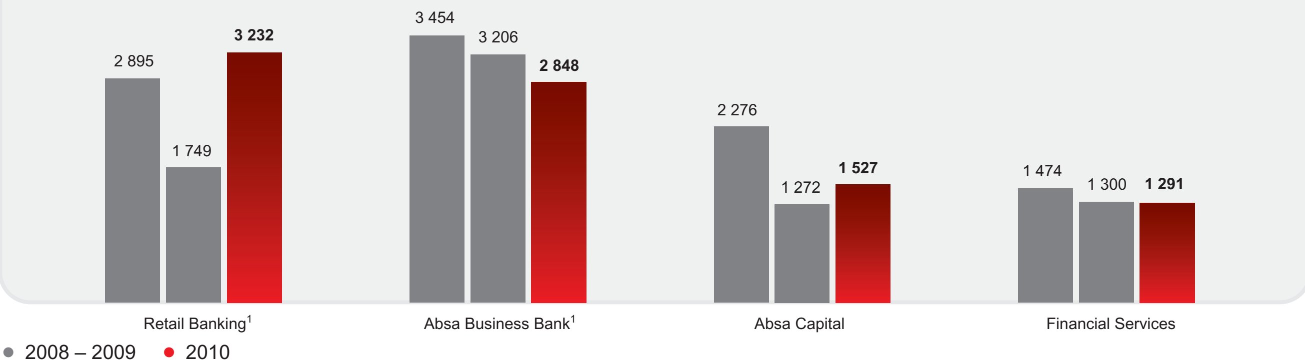
Business review

In a tough operating environment, the Group's business operations delivered a solid performance. Retail Banking grew headline earnings by 85%, largely because of 36% lower impairment losses on loans and advances. Absa Capital's headline earnings increased by 20% owing to an improved performance in Private Equity. Absa Business Bank's headline earnings declined by 11%, due to lower values in the commercial property finance equity portfolio and a slight decline in assets. Financial Services' headline earnings remained stable.

Highlights

- Innovative products were introduced including Western Union via different channels, PayPass, point-of-sale dynamic currency conversion, closed-loop Agri card and the first US$ CPI note placed with a local investor.
- Progress made on implementing the One Absa workstreams, including the new corporate and investment banking model, enhancing the Group's foreign exchange capability, strengthening the balance sheet, streamlining the Group and continuing to grow deposits.
- Retail impairment losses on loans and advances declined significantly, reducing the Group's impairment losses ratio to 1,20% of average loans and advances.
- The Group's effective hedging programme increased the net interest margin on average interest-bearing assets to 4,01%.
- Financial Services grew its life and short-term gross premiums by 25% and 12% respectively year-on-year.
- Absa Life's embedded value of new business increased by 58% to R465 million.
- Assets under management and administration rose by 9% to R168 billion.
- Absa was voted the Number 1 Banking Brand (business-to-consumer category) in 2010 by the *Sunday Times* Top Brands survey.
- Absa Capital received the Best Overall Bank award from *Risk South Africa* with firsts in eight categories.

Headline earnings (Rm)



Note
[1]*Comparatives have been reclassified.*

Financial reporting structure

Absa Group Limited

Retail Banking

- Home Loans (including Repossessed Properties)[1]
- Vehicle and Asset Finance (VAF)
- Card[2]
- Woolworths Financial Services (Proprietary) Limited[3]
- Personal Loans
- Retail Bank (including Absa Private Bank)
- African operations[4]
  - Barclays Bank Mozambique S.A. (BBM)[5]
  - National Bank of Commerce Limited (NBC) (Tanzania)

Commercial Banking

- Absa Business Bank (ABB)[6]
  - Large Business
  - Medium Business
  - Small Business[7]
  - Public sector
  - Commercial Asset Finance (CAF)
  - Commercial Property Finance (CPF)[8]
  - Absa Development Company Holdings (Proprietary) Limited
- African operations[4]
  - Barclays Bank Mozambique S.A. (BBM)[5]
  - National Bank of Commerce Limited (NBC) (Tanzania)
- International operations
  - Absa Bank London[9]

Investment Banking

- Absa Capital[10, 11, 12]
  - Investment Banking
  - Markets
  - Private Equity and Infrastructure Investments
  - Single stock futures and other
  - Absa Wealth
- African operations[4]
  - Barclays Bank Mozambique S.A. (BBM)[5]
  - National Bank of Commerce Limited (NBC) (Tanzania)
- International operations
  - Absa Bank London[9]

Financial Services

Insurance

- Absa Life Limited
- Absa Insurance Company Limited
- Absa *idirect* Limited

Investments

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

Fiduciary

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

Other

- Absa Insurance and Financial Advisers (Proprietary) Limited
- Absa Financial Services Limited

Other Group activities

- Corporate centre
- Capital and funding centre
- International operations
  - Absa Bank London[9]
  - Absa Manx Insurance Company Limited

Notes

1 *The Group previously had a 50% share in the ordinary shares of Sanlam Home Loans (SHL), the holding company of three securitisation vehicles. The investment in SHL was previously equity-accounted as the Group and Sanlam Life Insurance Limited had joint control over SHL. On 1 August 2010, the Group acquired the remaining 50% ordinary shares of SHL, which resulted in the Group controlling and consolidating SHL.*

2 *On 30 June 2010, the Virgin Money South Africa (Proprietary) Limited (VMSA) joint-venture arrangement was terminated. The Group then acquired the underlying business which is reported as part of the Card division.*

3 *The Group established a special-purpose entity (Cell Captive) in Woolworths Financial Services, during the year under review, that provides credit life insurance to Woolworths Financial Services customers.*

4 *The Group's African operations have been allocated to the various segments where those businesses are managed in terms of IFRS 8.*

5 *The Group subscribed to additional shares in Barclays Bank Mozambique (BBM) in terms of a rights issue on 7 July 2010. The additional shares acquired increased the effective interest held from 80,0% to 95,9% as none of the non-controlling shareholders exercised their rights in terms of the rights issue. Non-controlling shareholders have an option until June 2011 to buy the shares from the Group.*

6 *Absa Corporate and Business Bank (ACBB) changed its name to Absa Business Bank (ABB) during the year under review. The corporate business is still managed by ABB.*

7 *Absa Small Business was moved from Retail Banking to ABB during the year under review.*

8 *The Absa Property Equity Fund (the fund) was previously consolidated under SIC-12, as the Group held between 75% and 93% of the units and were thereby exposed to the majority of the risks and rewards within the fund. During the year under review, the Group disposed of all its units.*

9 *Absa Bank London's results have been allocated to Commercial Banking, Investment Banking and Other Group activities in terms of IFRS 8.*

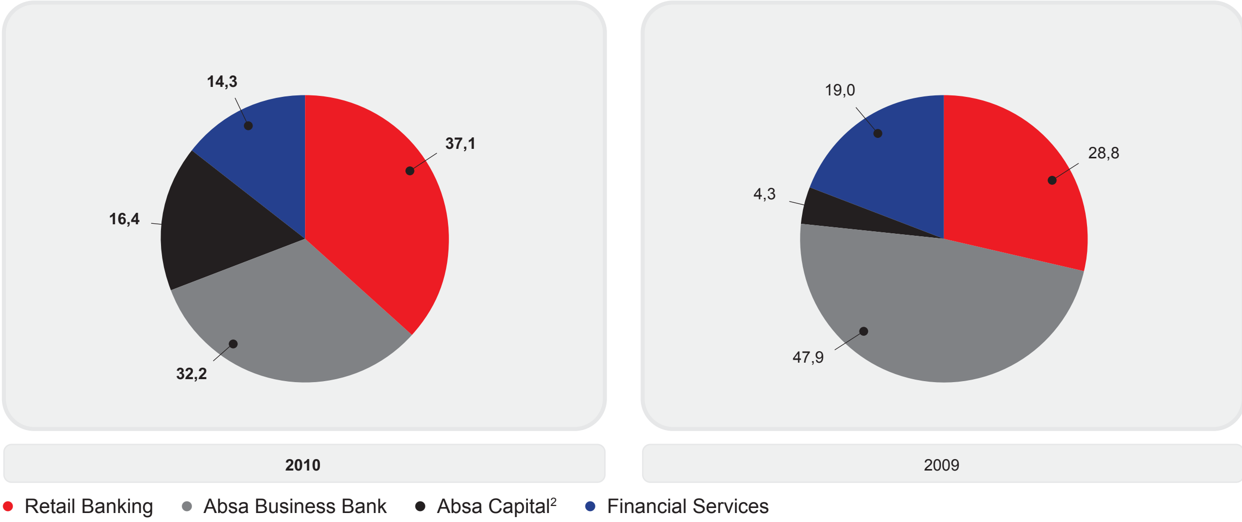
10 *Absa Capital Representative Office Nigeria (Proprietary) Limited was incorporated as a wholly owned subsidiary during the year under review to facilitate the business of Absa Capital in Nigeria.*

11 *The Group established Commissioner Street (Proprietary) Limited (Commissioner Street) during the year under review. Commissioner Street is consolidated as part of the Group due to the requirements of SIC-12 and the Group's interest in Commissioner Street.*

12 *Absa Capital Securities (Proprietary) Limited was established as a wholly owned subsidiary during the year under review and provides stockbroking services.*

Profit contribution by business area

Attributable earnings[1] (%)



	2010 Rm	2009[3] Rm	Change %
Banking operations			
Retail Banking	**3 353**	1 945	72
Home Loans	**196**	(1 299)	>100
Vehicle and Asset Finance	**280**	265	6
Card	**1 346**	811	66
Personal Loans[4]	**515**	20	>100
Retail Bank[4]	**1 016**	2 148	(53)
Absa Business Bank	**2 903**	3 235	(10)
Absa Capital	**1 480**	288	>100
Underlying performance	**1 518**	1 275	19
Single stock futures impairment	**(38)**	(987)	96
Corporate centre	**(396)**	544	>(100)
Capital and funding centre	**(192)**	(35)	>(100)
Non-controlling interest – preference shares	**(320)**	(421)	24
Total banking	**6 828**	5 556	23
Financial Services	**1 290**	1 284	0
Profit attributable to ordinary equity holders of the Group	**8 118**	6 840	19
Headline earnings adjustments	**(77)**	781	>(100)
Headline earnings	**8 041**	7 621	6

Notes
[1]*Calculated after the allocation of corporate, capital and funding centres.*
[2]*If calculated based on headline earnings, Absa Capital's contribution would be* ***17,1%*** *(31 December 2009: 16,9%).*
[3]*Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank.*
[4]*Personal Loans were previously disclosed as part of Retail Bank.*

Retail Banking

Highlights

- Headline earnings increased by 85% to R3 232 million.
- The quality of the advances portfolio improved further resulting in a 1,49% impairment losses ratio.
- Deposits grew by 4% and transaction volumes increased by 2%.
- Absa became the first bank in the world to offer Western Union's money transfers on both mobile and internet banking platforms.
- Cellphone customer base grew by 51% to over 2,4 million.
- Introduced PayPass for easy low-value payments on bank issued chip cards.
- The first bank in South Africa to offer dynamic currency conversion at point of sale.
- Offered the ATM Loan via Absa ATMs.
- Launched flagship concept outlets for simpler, more affordable entry level banking.
- Expanded Islamic Banking offerings.

Key performance indicators

	2010	2009[1]	Change %
Profit			
Total income (Rm)	**23 291**	22 976	1
Profit attributable to ordinary equity holders of the Group (Rm)	**3 353**	1 945	72
Headline earnings (Rm)	**3 232**	1 749	85
» Home Loans	**125**	(1 299)	>100
» Vehicle and Asset Finance	**280**	265	6
» Card	**1 344**	811	66
» Personal Loans	**515**	20	>100
» Retail Bank	**968**	1 952	(50)
Loans and advances to customers (Rm)	**325 790**	322 034	1
Deposits due to customers (Rm)	**115 046**	110 433	4
Return on economic capital (%)	**17,9**	9,6	
Return on average assets (%)	**0,68**	0,40	
Impairment losses ratio (%)	**1,49**	2,30	
Cost-to-income ratio (%)	**57,1**	53,2	
People			
Banking customer base[2] (millions)	**11,3**	11,1	2
Outlets[3]	**1 007**	1 062	
Self-service terminals[3]	**8 963**	8 945	
Internet banking users[4] ('000)	**936**	852	10
Cellphone banking users[4] ('000)	**2 430**	1 611	51
Number of debit cards[4] ('000)	**10 211**	9 935	3
Number of credit card accounts[4] ('000)	**1 851**	1 906	(3)
Number of home loan accounts[4] ('000)	**695**	703	(1)
Number of permanent employees[4] ('000)	**19 752**	20 135	(2)
Employee turnover rate[4, 5] (%)	**9,5**	13,9	
Percentage of African, Coloured and Indian employees[4, 5] (%)	**68,6**	66,2	

Notes

[1]*Comparatives have ben reclassified.*
[2]*Includes African operations.*
[3]*Includes the Group's business and wealth outlets.*
[4]*South African operations.*
[5]*Based on permanent employee complement.*
Absa's environmental data is not reported at a segment level at present.

Business scope

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.

Key business areas

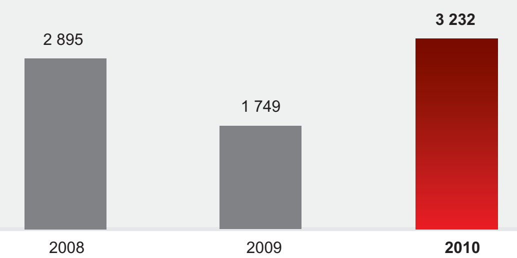
- **Home Loans** ➔ offers residential property-related ownership solutions.
- **Vehicle and Asset Finance (VAF)** ➔ offers customised vehicle and asset finance products and services.
- **Card** ➔ provides both credit and debit cards and merchant acquiring across South Africa. Woolworths Financial Services is part of the business area offering instore and credit cards.
- **Personal Loans** ➔ offers unsecured instalment loans (including micro- and revolving loans).
- **Retail Bank** ➔ offers financial solutions to individuals in South Africa and in Absa's African operations, ranging from those entering the market with basic banking needs, to affluent individuals who require more sophisticated banking solutions.

2010 review

Financial performance

Headline earnings increased by 85% to R3 232 million (2009: R1 749 million), largely because of lower impairment losses on loans and advances. Attributable earnings grew by 72% to R3 353 million (2009: R1 945 million). Retail Banking's impairment losses ratio fell to 1,49% from 2,30% owing to an improvement in early stage delinquencies and a successful collections strategy. Revenue grew by 1%,

Headline earnings (Rm)



reflecting limited transactional volume and loan growth, plus funding margin pressure. Operating expenses grew by 9%, resulting in a higher cost-to-income ratio of 57,1% (2009: 53,2%). Headline earnings from Card, Home Loans and Personal Loans improved significantly, while Retail Bank's headline earnings declined by 50%, owing to higher impairment losses on loans and advances. Retail Banking's return on regulatory capital improved to 20,7%.

Business overview

Retail Banking's customer base increased slightly to 11,3 million at 31 December 2010 from 11,1 million at 31 December 2009. Customers benefit from an extensive footprint with 8 963 self-service terminals and 1 007 outlets located across South Africa, Tanzania and Mozambique.

Retail Banking ran awareness campaigns such as Kweeka to encourage customers to use channels such as ATMs, cash acceptors, internet and cellphone banking, and card payments. These offer convenience, choice and security, and facilitate a wide range of payments and cash transfers.

Strategy implementation

Objective	Delivery
Entry-level customers	
» Decrease cost of delivery.	» Instore banking is currently being piloted in several rural locations, delivering cost-effective access to basic financial services through a network of retail agents.
» Competitive offering to retain customers.	» A new concept entry-level outlet and customer value proposition was launched in pilot phase in 2010, which is to be rolled out in 2011.
» Packaged offering of transactional products, insurance, saving and lending.	» Provision of a package of products and services built around customers' four key financial needs.
Affluent and core middle market customers	
» Extract value by cross-selling and innovative new product offerings.	» Innovative solutions launched. » Improvement of current offerings. » Enhanced cross-selling efforts.
» Differentiate through service.	» Enhanced the customer experience processes.
» Optimise the delivery footprint.	» Improved management of the distribution footprint.
» Leverage off insurance opportunities outside South Africa.	» Africa insurance expansion gaining momentum.

Retail Banking

Awards and accolades

- The *Sunday Times* Top Brands survey voted Absa the Number 1 Banking Brand (business-to-consumer category) in 2010.
- *Global Finance* rated Absa the Best Internet Bank in South Africa.
- *Islamic Finance News* rated Absa the Best Islamic Bank in South Africa three years in a row.
- *Global Finance Magazine* rated Absa the Best Islamic Bank in Africa and the Middle East two years in a row.
- The *Sunday Times* Generation Next survey voted Absa the Coolest Banking Brand in South Africa for five years in a row.

Home Loans

Headline earnings improved by over R1,4 billion to R125 million for the year ended 31 December 2010 (2009: R1 299 million loss), largely because credit impairments were 44% lower.

Given the moderate economic recovery, house prices rose 7% year-on-year in nominal terms in the middle segment. Mortgage advances grew a subdued 1%, despite the acquisition of the Sanlam Home Loan business and Alexander Forbes' pension-backed book. Excluding these, the book remained at the prior year's level. Slightly higher advances and an improved interest margin saw net interest income increase by 12%. Growth in operating expenses was reasonably well contained at 8% for the year.

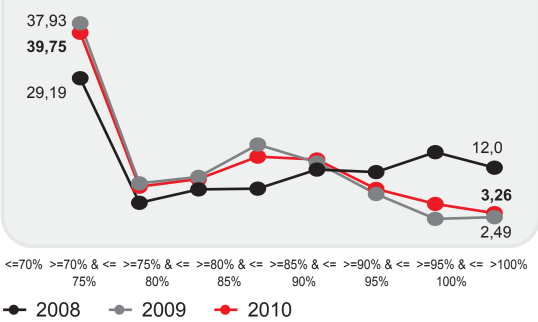
Vehicle and Asset Finance (VAF)

Motor vehicle sales increased by 25% during 2010, according to the National Association of Automobile Manufacturers of South Africa. The industry also benefited from the 2010 FIFA World Cup™ which increased economic activity in the tourism, car rental and transportation industries. VAF's headline earnings increased by 6% to R280 million. Although the book grew only 1%, new business increased by 49% in 2010 as growth improved in the fourth quarter. The combination of lower average loans and advances, and stable interest margins reduced net interest income by 7%. Impairment losses on loans and advances increased marginally year-on-year, but improved noticeably in the second half of 2010.

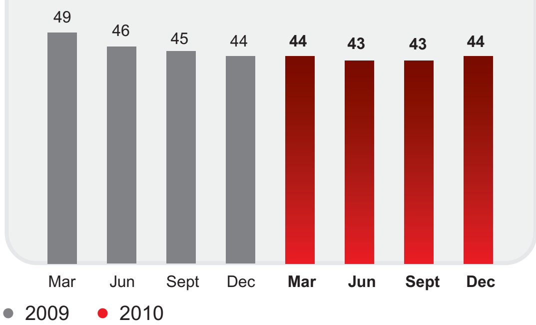
Card

Headline earnings increased by 66% to R1 344 million largely owing to the inclusion of VMSA's book, solid transaction volume growth and significantly lower impairment losses on loans and advances. Account balances increased by 10%, as new business levels increased in the fourth quarter. Operating expenses were well contained, rising 5% year-on-year.

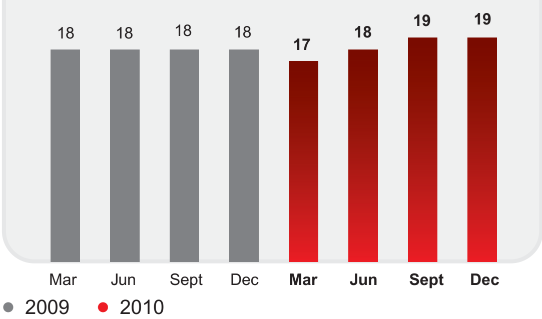
Home loans – new business loan-to-value percentage spread (%)



VAF – quarterly loans and advances book (Rbn)



Card – quarterly loans and advances book (Rbn)



Personal Loans

Headline earnings increased exponentially to R515 million. This was primarily owing to a significant reduction in impairment losses on loans and advances and an 11% growth in revenue. Operating expenses were well contained and declined by 5%. Loans and advances grew by 22% in 2010, largely owing to an increase in customer demand and higher average loan values.

Retail Bank

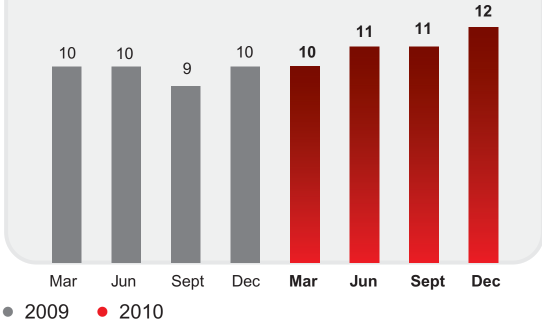
Headline earnings fell by 50% to R968 million owing to 92% higher impairment losses on loans and advances, and 2% lower revenue. The decline in revenue was owing to limited book growth, a decline in income from investment activities, the absence of fee increases and subdued deposit margins. The growth in impairment losses on loans and advances stems from aligning the African operations' impairment policies with the Group's and a high charge in the high value segment. Retail Bank implemented numerous initiatives during the year to enhance customer service, productivity and efficiency. NBC and BBM's systems were also replaced.

Strategic focus

Further entrenching Retail Banking's leadership position is a key element of the One Absa strategy. Based on customer segmentation, Retail Banking will deliver value propositions, which include the appropriate channel mix. Retail Banking will make banking easier for customers, including broader inclusivity in the entry-level market, while deepening relationships and improving the overall customer experience, including incentivising customers for the number of products used. An optimal distribution footprint as well as a change to the sales and service model is critical in attaining these goals. The objective is to continue creating value for customers and the Group, while managing costs, focusing on operational risk and fraud, in an appropriate manner.

Retail Banking aims to strenghten its operations by continuing to apply a prudent risk management approach and policy, further enhancing the collections capability strategy, standardising and simplifying key customer interactions, enabling its staff and closing the gap between advances and deposits. Retaining and growing its customer base remains a high priority in 2011.

Personal loans – quarterly loans and advances book (Rbn)



Absa Business Bank

Highlights

- Solid growth in transactional fee income.
- Strong deposit growth in targeted areas.
- Successfully integrated the Group's Small Business operations.
- Identified customers to service via the new corporate and investment banking model.
- Continued to invest in growth initiatives.

Key performance indicators

	2010	2009[1]	Change %
Profit			
Total income (Rm)	**11 626**	11 498	1
Profit before tax (Rm)	**4 079**	4 669	(13)
» Corporate	**425**	345	23
» Large Business	**1 293**	1 808	(28)
» Medium Business	**1 046**	982	7
» Small Business	**1 367**	1 311	4
» Africa	**(5)**	82	>(100)
» Real estate investment portfolio[2]	**(47)**	141	>(100)
Profit attributable to ordinary equity holders of the Group (Rm)	**2 903**	3 235	(10)
Headline earnings (Rm)	**2 848**	3 206	(11)
Loans and advances to customers (Rm)	**123 618**	125 181	(1)
Deposits due to customers (Rm)	**136 619**	127 161	7
Return on economic capital (%)	**23,9**	24,3	
Return on average assets (%)	**1,82**	2,01	
Impairment losses ratio (%)	**0,90**	0,91	
Cost-to-income ratio (%)	**55,0**	48,9	
People			
Banking customer base[3] (millions)	**0,5**	0,6	(4)
Number of small business accounts in deprived areas[4]	**225 779**	224 701	0
Number of new small business loans[6]	**11 625**[A]	14 503	(20)
Number of micro-enterprise finance loans approved[4]	**4 574**	2 984	53
Number of permanent employees[4]	**3 938**	4 033	(2)
Employee turnover rate[4, 5] (%)	**12,1**	17,2	
Percentage of African, Coloured and Indian employees[4, 5] (%)	**50,1**	46,7	
Percentage of senior management that are African, Coloured and Indian[4, 5] (%)	**36,4**	29,2	
Percentage of senior management that are female[4, 5] (%)	**16,9**	13,0	

Notes

[1]*Comparatives have been reclassified for the move of Small Business from Retail Banking to ABB.*

[2]*Includes realised and unrealised profits on CPF equities, unlisted CPF equities and Devco.*

[3]*Includes the Group's commercial clients in the rest of Africa. The Group's South African operations experienced a 2% decline in clients for the year.*

[4]*South African operations.*

[5]*Based on permanent employee complement.*

[6]*The number of small business loans approved (overdrafts, term loans, mortgages, vehicle and asset finance (including dealers sales), and commercial loans (excluding CAF)) paid out to SME businesses (defined as businesses with a turnover of less than R10 million who are registered via Cipro and have a level of banking exposure (excluding micro-enterprise finance).*

Absa's environmental data is not reported at a segment level at present.

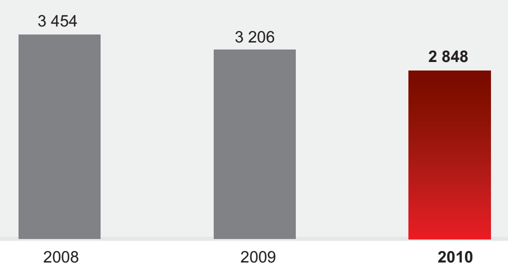
Business unit scope

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 development 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.

Key business areas

- **Corporate** ➔ predominantly includes groups with an annual turnover exceeding R750 million.
- **Large Business** ➔ largely consists of groups with an annual turnover of R100 million to R750 million.
- **Medium Business** ➔ predominantly serves groups with an annual turnover of between R10 million and R100 million.
- **Small Business** ➔ serves customers with an annual turnover of below R10 million.

Headline earnings (Rm)



2010 review

Financial performance

Headline earnings declined by 11% to R2 848 million (2009: R3 206 million), as loans and advances declined by 1% and commercial property finance equity portfolio values fell. ABB experienced a 3% decrease in impairment losses on loans and advances. Net interest income rose by 2%, reflecting solid deposit growth, which partially offset lower loans and advances to customers and pressure on deposit margins from lower interest rates. Fee and commission income increased by 7%, driven by ABB's enhanced transactional capabilities. Operating expenses grew by 14% to R6 397 million (2009: R5 624 million), as the business continued to invest in growth initiatives. ABB's return on regulatory capital remained a credible 22,8%.

Strategy implementation

Objective	Delivery
» Enhance transactional banking capabilities, specifically cash and electronic banking.	» Cash proposition improved and cash handling risks significantly mitigated. » Electronic banking functional improvements implemented.
» Leverage a comprehensive banking proposition to establish sustainable primary banking relationships with clients.	» Primary banked relationships established.
» Continue to focus on growing deposits.	» Deposits grew 7% year-on-year.
» Collaborate across the Group to ensure product innovation.	» International banking back-office and advisers' team expanded. » New corporate coverage model implemented.
» Leverage capabilities in agri, public sector and other key industries to ensure market leadership.	» Agri banking procurement card in place. » See through credit concept in place. » Structured trade and commodity finance capabilities bolstered.
» Successful integration of Small Business into ABB.	» Integration successfully completed and synergies leveraged.
» Drive commercial opportunities in sub-Saharan Africa, specifically agri and trade related.	» Progress made in enhancing the corporate Africa banking capability.
» Overhaul frontline capabilities and end-to-end processes.	» First segmentation analysis completed. » Sales process constraints identified. » Sales effectiveness process in progress.
» Focus on risk-based debt pricing of new advances.	» Risk-based pricing approach fully embedded.

Absa Business Bank

Business overview

During the year, ABB focused on:

» enhancing transactional capabilities, specifically cash, trade and electronic banking services and increasing transactional market share;

» using a comprehensive banking proposition to build sustainable primary customer relationships;

» further strengthening and leveraging strong agricultural, retail and public sector capabilities to ensure differentiation, market leadership and competitiveness;

» growing deposits in targeted areas;

» collaborating with Absa Capital to maximise international banking and trade finance opportunities and improve customer service to corporates;

» successfully integrating the Group's small business operations; and

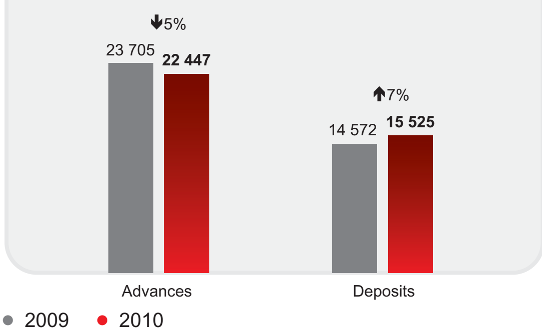
» pricing new advances for risk.

Awards and accolades

» Absa Vehicle Management Solutions (AVMS) received two Gold Arrow awards at the *Professional Management Review (PMR) Africa* awards, achieving first place in the excellence category for fleet management and fleet card services.

» Nominated as finalists in the Cape Media Achiever awards for the finance sector award for the Sales and Relationship Management Leadership programme, which is now a FAIS recognised qualification with the Financial Services Board.

Corporate advances and deposits
(Rm and change %)

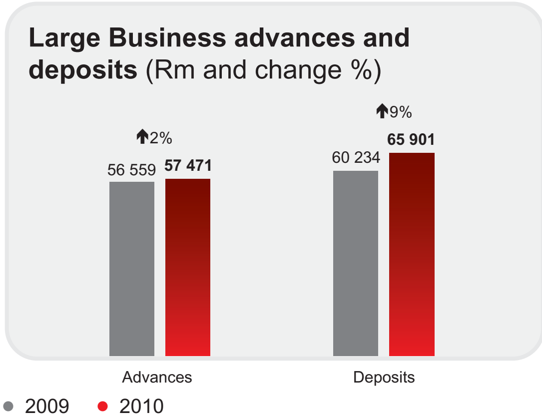


Corporate

The collaboration with Absa Capital, through the introduction of the new corporate coverage model, has enabled Corporate to offer a holistic investment and transactional banking solution. Higher electronic banking and cash volumes underpinned robust revenue growth. A number of new clients were on-boarded on the back of a focused multinational Corporate strategy. Profit before tax grew by 23% to R425 million (2009: R345 million).

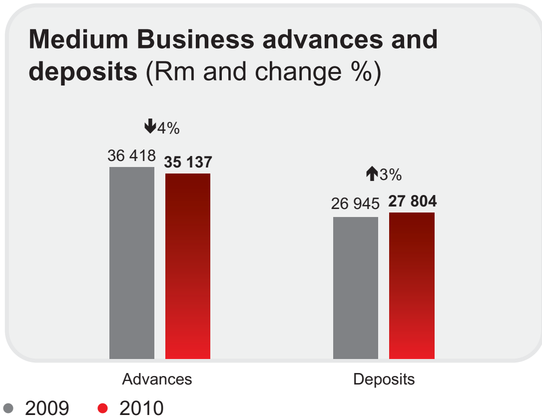
Large Business

Large Business concentrated on increasing cross-selling its secondary market, electronic and international banking products as well as specialised financial and working capital solutions. Tight cost control was a priority since balance sheet growth remained subdued. High impairment levels indicate that large businesses remain under pressure after the recession. Large Business's profit before tax fell by 28% to R1 293 million (2009: R1 808 million). The business gained primary banking relationships, which offer further opportunities, particularly in transactional banking.



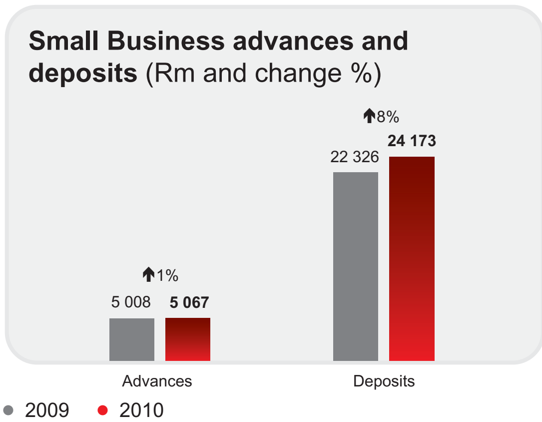
Medium Business

Medium Business's revenue grew in all regions, with the result that profit before tax rose by 7% to R1 046 million (2009: R982 million). Cross-selling to its existing customers, attracting new secondary markets customers and focusing on specialised finance and transactional banking remained priorities in 2010. Impairment losses on loans and advances improved noticeably and operating expenses remained well managed.



Small Business

Small Business's profit before tax grew by 4% to R1 367 million (2009: R1 311 million), despite keeping fees flat for the past 18 months. The increase largely reflects healthy growth in net interest income, tight cost control and lower impairment levels.



Strategic focus

ABB aims to unlock further value from the existing client base through cross-selling and upselling. Enhancing core products like transactional banking will be a priority in order to deepen and expand primary banking relationships with clients. Improving client insight and segmentation will be important to become a true client orientated bank. The division will also comprehensively overhaul its end-to-end customer process and sales operating model to improve client engagement. Improving on risk management practices in particular the recovery and business support areas, remains a key priority for 2011.

Absa Capital

Highlights

- Received Best Overall Investment Bank in South Africa from *Risk Magazine* and came first in 12 out of the 18 categories for the *Spire* awards categories for which it was eligible.
- Resilient performance from the Markets business in tough conditions.
- Launched PACE FX, a foreign exchange electronic execution platform for corporate and institutional clients.
- Together with NBC transacted a ZAR/TZS leveraged forward for a large Tanzanian corporate.
- Built out cash equities and prime services franchises.
- Enhanced the treasury product offering and introduced three new products in Tanzania.
- Migrated the corporate coverage team and large corporate clients from ABB.
- In close affiliation with Barclays Capital, remained the top arranger of corporate bonds by South African issuers in 2010.

Key performance indicators

	2010	2009	Change %
Profit			
Total income (Rm)	**5 226**	4 446	18
Total income less impairment losses on loans and advances[1] (Rm)	**5 118**	4 128	24
» Investment Banking	**1 594**	2 039	(22)
» Markets	**3 180**	3 416	(7)
» Private Equity and Infrastructure Investments	**22**	(1 012)	>100
» Single stock futures and other	**28**	(578)	>100
» Absa Wealth	**294**	263	12
Profit attributable to ordinary equity holders of the Group (Rm)	**1 480**	288	>100
Headline earnings (Rm)	**1 527**	1 272	20
Loans and advances to customers (Rm)	**50 044**	58 301	(14)
Deposits due to customers (Rm)	**127 462**	118 371	8
Return on economic capital (%)	**16,5**	14,9	
Return on average assets (%)	**0,41**	0,30	
Cost-to-income ratio (%)	**54,3**	51,9	
People			
Number of permanent employees	**1 478**	1 426	4
Employee turnover rate[2, 3] (%)	**12,2**	13,7	
Percentage of African, Coloured and Indian employees[2, 3] (%)	**51,5**	48,1	
Percentage of senior management that are African, Coloured and Indian[2, 3] (%)	**22,7**	19,5	
Percentage of senior management that are female[2, 3] (%)	**14,1**	11,4	

Notes

[1]National interest has been allocated to the business units for the first time in 2010. Comparatives have been reclassified accordingly.

[2]South African operations.

[3]Based on permanent employee complement.

Absa's environmental data is not reported at a segment level at present.

Business unit scope

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).

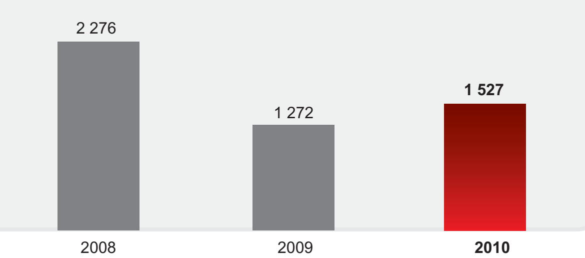
The model centres on delivering specialist investment banking financing, risk management and advisory solutions across asset classes to corporations, financial institutions and government clients. These capabilities are delivered through a client-centric approach that emphasises the distribution of risk.

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.

Key business areas

- **Investment Banking ➔** structures innovative solutions to meet clients' strategic acquisition, financing and risk management requirements across industry sectors in South Africa and the sub-Saharan region. It also offers product expertise encompassing loans, bonds and structured products (such as project finance, structured equity finance, leveraged finance and debt capital markets).
- **Markets ➔** offers trading, hedging and pricing expertise across various asset classes to a global client base.
- **Private Equity and Infrastructure Investments ➔** Private Equity acts as a principal by investing in equity exposures to companies and other entities. Infrastructure Investments acts as a principal in equity exposures to entities focused on infrastructure development in sub-Saharan Africa.

Headline earnings (Rm)



- **Absa Wealth** ➔ provides a full range of onshore and offshore wealth management services to individuals and families in the high and ultra-high net-worth market.

2010 review

Financial performance

Headline earnings increased by 20% to R1 527 million (2009: R1 272 million) and attributable earnings increased to R1 480 million (2009: R288 million). The large growth in attributable earnings is due to single stock futures impairments from the prior year. Private Equity revenue rose significantly from the prior year as a result of an improved performance in the investment portfolio and reduced funding costs. Markets revenue held up relatively well, considering reduced client flows. With client activity levels below 2009, Investment Banking's revenue declined by 22%. Absa Wealth's net revenue grew by 12% owing to improved banking and credit margins. Absa Capital continued to expand into Africa and attributable income from the rest of Africa grew by 14% to R219 million. Further investment in systems, infrastructure and talent contributed to the 23% rise in operating expenses and a 54,3% cost-to-income ratio. Absa Capital's return on regulatory capital was 16,0% for 2010.

Strategy implementation

Objective	Delivery
» Increasing the number of franchises.	» Successful migration of corporate coverage team and large corporate clients from ABB. » Launched PACE FX, a foreign exchange electronic execution platform, for corporate and institutional clients.
» Deepening the product offering.	» Enhanced the treasury product offering and introduced three new products in Tanzania. » Successful integration of Absa Wealth.
» Step-change growth initiatives through new business lines.	» Successful rollout of Cash Equities, Equity Capital Markets and Prime Services franchises.
» Attracting, developing and retaining top talent.	» Ongoing investment in talent lifecycle.
» Increased collaboration with other business units within Absa Group and Barclays Capital.	» In close affiliation with Barclays, Absa Capital remained the top arranger of corporate bonds by South African issuers in 2010. » Together with NBC, transacted a ZAR/TZS leveraged forward for a large Tanzanian corporate.

Absa Capital

Business overview

Awards and accolades

Absa Capital received the following awards during 2010:

- *Euromoney* project finance Deal of the Year award for two deals completed in 2009, namely the African Oil Deal of the Year for Kosmos Energy and the Telecoms Deal of the Year in respect of the MTN Uganda transaction.
- *Financial Mail* analyst rankings placed Absa Capital first for Dealing Fixed Interest Securities.
- *EMEA Finance* award for two deals completed in 2009, namely Best Project Finance Deal in EMEA for Ghana's jubilee oil field transaction and Best Sovereign Bond Deal in EMEA for South Africa's US$1,5 billion Eurobond.
- *Risk South Africa* award for the Best Overall Bank with firsts in eight categories (Equity Products, Currency, Interest Rate Options, Currency Options, Currency Forwards, Exotic Equity Options, SA OTC Single Stock Options, and Exchange Traded Funds).
- *Spire* awards with firsts in 12 categories including Best Bond House, Best Research House, Best Fixed Income House, Best Sales and Structuring and Cash Bonds, Best Inflation Team, Best OTC Interest Rate Derivatives, Best Interest Rate Research Team and Best Broking Team.

Investment Banking

Net revenue declined by 22% to R1 594 million, mainly owing to the corporate sector's continued low demand for credit. Income from fee business fell by 43% to R169 million, reflecting muted corporate activity and low levels of fundraising activity in South African capital markets. Income from margin business declined by 18% to R1 425 million, partly as a result of a decrease in interbank lending and tighter spreads.

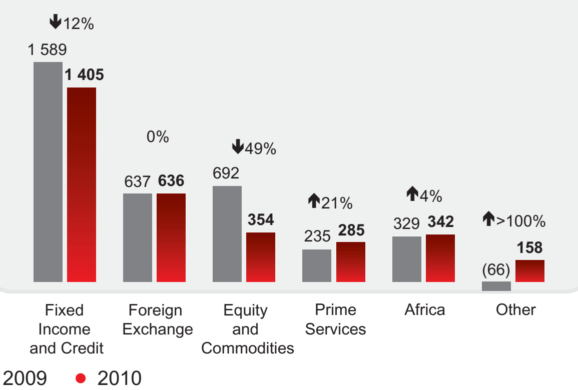
Markets

The Markets business delivered a resilient performance, against the backdrop of generally reduced client activity across most asset classes, lower market volatility and tighter trading spreads. Net revenue decreased by 7% to R3 180 million (2009: R3 416 million). The sub-Saharan Africa franchise continued to develop, growing trading and client revenues, and business areas such as credit trading and prime services increased their revenues from a low 2009 base.

Investment Banking – salient features

	2010 Rm	2009 Rm	Change %
Revenue			
» Fee business	**169**	298	(43)
» Margin business	**1 425**	1 741	(18)

Markets – revenue mix (Rm and change %)



Private Equity and Infrastructure Investments

Private Equity and Infrastructure Investments recorded net revenue of R22 million for the year under review, a substantial improvement on 2009's R1 012 million revenue loss.

Though the total portfolio reduced from R6,7 billion to R6,1 billion, it remains well diversified by industry.

Absa Wealth

Absa Wealth increased net revenue by 12%. This increase was driven by growth in non-interest income and improved banking and credit margins. Non-interest income growth of 21% reflected increased sales of structured lending and investment solutions. Absa Wealth experienced high impairment losses on loans and advances due to difficult conditions in the commercial property finance sector. Continued investments were made to attract and retain talent in product capability and infrastructure to support future growth.

Strategic focus

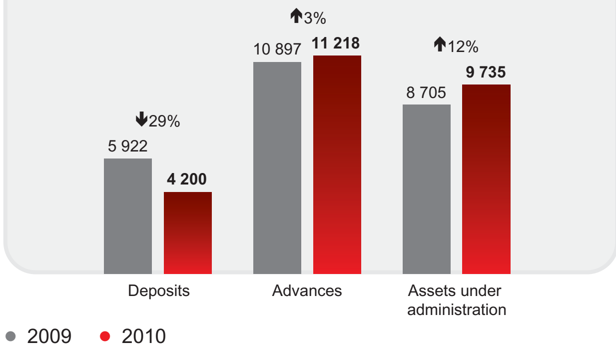
Absa Capital is well-positioned for growth, driven by franchise penetration and incremental deepening of the product offering. The efforts, in 2010, to focus on key business lines such as cash equities, equity capital markets, prime services and mergers and acquisitions, will provide the platform for growth in 2011. Furthermore, Absa Capital will continue to build the corporate offering and solutions as well as growing the foreign exchange client franchise. Capital optimisation and maintaining a strong control environment remain core guiding principles underpinning all initiatives.

The Africa region is an important component of the Barclays Emerging Markets franchise. Absa Capital has positioned itself to take advantage of the growth opportunities throughout the continent. Growth is not possible without people and thus attracting, developing and retaining top talent will remain a key focus.

Private Equity and Infrastructure Investments – salient features

	2010	2009	Change %
Total portfolio size (Rbn)	6,1	6,7	(9)
Net revenue (Rm)	22	(1 012)	>100
» Revaluations	48	(623)	>100
» Realisations, dividends, interest and fees	165	39	>100
» Funding	(191)	(428)	55

Absa Wealth – client balances
(Rm and change %)



Financial Services

Highlights

- Life's gross premium income increased by 25%.
- Short-term premium income grew by 12%.
- Assets under management rose by 12% to R163 billion.
- The insurance underwriting margin improved to 5,2% from 3,8% in 2009.
- The embedded value of new business in life insurance increased by 58% to R465 million.
- Fiduciary services' number of members under administration grew by 42%.
- Attributable earnings after tax maintained at prior year levels in a challenging environment.
- An RoE of 34,8% and a 39,8% return on embedded value was achieved.
- Absa Life's embedded value earnings increased by 71% to R931 million from R543 million.
- *idirect* is gaining traction.
- Obtained a licence to operate in Botswana.

Key performance indicators

	2010	2009	Change %
Profit			
Net insurance premium income (Rm)	**4 468**	3 845	16
Profit attributable to ordinary equity holders (Rm)	**1 290**	1 284	0
» Life	**662**	587	13
» Insurance	**278**	265	5
» Investments	**300**	303	(1)
» Other	**50**	129	(61)
Headline earnings (Rm)	**1 291**	1 300	(1)
Return on average equity (%)	**34,8**	37,9	
Embedded value of new business (Rm)	**465**	294	58
Underwriting margin (%)	**5,2**	3,8	
Assets under management (Rbn)	**163**	145	12
People			
Contractual financial services relationships[1] (millions)	**5,8**	5,6	4
Number of permanent employees[1]	**2 885**	2 569	12
Employee turnover rate[2] (%)	**10,3**	13,6	
Percentage of African, Coloured and Indian employees[2] (%)	**61,8**	56,9	
Percentage of senior management that are African, Coloured and Indian employees[2] (%)	**18,8**	14,9	
Percentage of senior management that are female[2] (%)	**17,5**	12,1	

Notes
[1]*South African operations.*
[2]*Based on permanent employee complement.*
Absa's environmental data is not reported at a segment level at present.

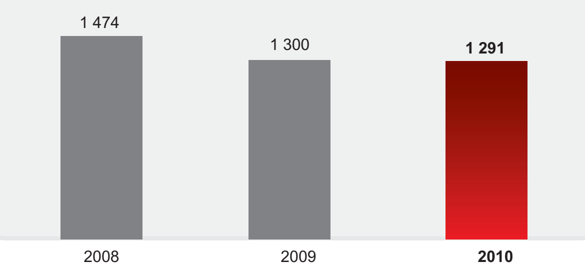
Business unit scope

The Financial Services segment provides insurance, fiduciary and non-banking-related investment products and services. These are offered through a well-established and unique financial services operating model, which combines the strengths of a traditional bancassurance model with a pure distributor model. This integrated model enables Absa to provide efficient financial services to all market segments in sub-Saharan Africa.

Key business areas

- **Life Insurance (Life)** ➔ offers life insurance covering death, disability and retrenchment as well as funeral and investment products.
- **Short-term Insurance (Insurance)** ➔ provides short-term insurance solutions to the retail and commercial market segments. Customised short-term solutions are also offered to corporate customers. *idirect*, a direct-to-customer short-term solution is also available to the retail market.
- **Investments** ➔ consists of six businesses which work collaboratively to offer individual and institutional clients access to high-quality investment products and services including asset management, private client asset management, multimanagement, unit trusts, stockbroking, participation bonds and linked investments.
- **Fiduciary** ➔ offers retirement fund administration, consulting and actuarial services. It administers deceased estates and provides trustee services for personal, family, charitable and employee benefit trusts.
- **Distribution** ➔ one of the largest financial, investment and risk advisory companies in South Africa. It provides the full spectrum of financial advisory services and acts as an intermediary between Absa customers and various other product providers.

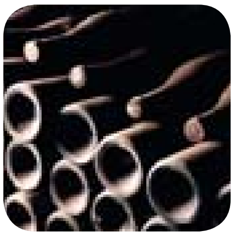
Headline earnings (Rm)



2010 review

Financial performance

Headline earnings declined marginally to R1 291 million (31 December 2009: R1 300 million) in a tough operating environment. Financial Services' attributable earnings remained relatively unchanged at R1 290 million (31 December 2009: R1 284 million). Nonetheless, it achieved a 34,8% RoE (31 December 2009: 37,9%). Life and Insurance delivered strong gross premium growth of 25% and 12% respectively. Absa Life's embedded value of new business grew by 58% year-on-year to R465 million and its return on embedded value (RoEV) was 39,8%. Assets under management increased by 12% to R163 billion. Short-term insurance claims remained high relative to historical trends, at 68,5%, although they were slightly below 2009's 69,9%. Investments in distribution channels and technology, as well as increased business volumes and new mandates secured, increased operating expenses by 16% year-on-year.



Strategy implementation

Objective	Delivery
» Accelerating organic growth through the provision of a compelling value proposition.	» 12% growth in AUM. » Value of new business in Life up 58%. » Revenue from employee benefit business up 13%.
» Improving cross-selling to the Absa customer base.	» Life insurance premiums up 25%. » Short-term insurance premiums up 12%.
» Retaining existing assets and customers.	» Reduction in policy lapse rates in both insurance businesses. » Growth in money market and equity funds.
» Expanding the African financial services operations.	» Greenfields operation in Botswana established.
» Enhancing distribution channels.	» Digital distribution channels enhanced.
» Improving efficiencies.	» Workflow implemented. » New operating systems for insurance businesses to go live early 2011.

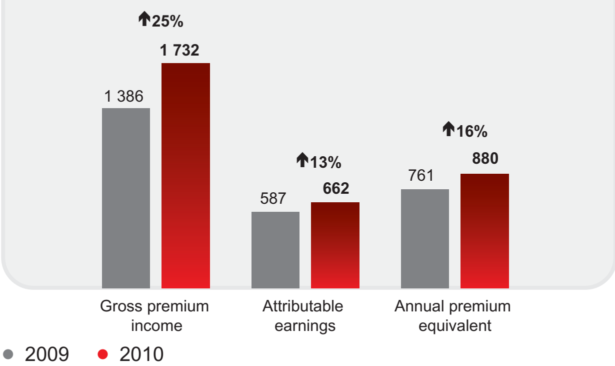
Financial Services

Business overview

Awards and accolades

- Received the *Raging Bull* awards for the five-year performance of the Absa Select Equity Fund and the Absa Balanced Fund.
- The *Sunday Times* Top Brands survey voted Absa Insurance Company the number two short-term insurance company in 2010.

Life – salient features (Rm and change %)



Life

Improved penetration of the Absa customer base, stabilising retention on most product lines, together with a higher market share of adviser business, generated strong growth in gross premium income, which increased by 25% to R1 732 million. The embedded value of new business increased by 58% to R465 million and embedded value earnings of R931 million represented a 39,8% return on embedded value. Attributable earnings rose 13% to R662 million.

Insurance – salient features

	2010	2009	Change %
Net asset value (Rm)	**1 424**	1 396	2
Attributable earnings (Rm)	**278**	265	5
Gross premiums (Rm)	**3 420**	3 042	12
Underwriting surplus (Rm)	**445**	348	28
Underwriting margin (%)	**5,2**	3,8	
Solvency margin (%)	**55,3**	55,5	
Loss ratio (%)	**68,5**	69,9	

Insurance

Absa Insurance and Absa *idirect* gross premium increased by 12% to R3 420 million. A marked increase in weather-related claims, particularly in the last quarter of the year, negatively impacted the Personal Lines and Agri portfolios' underwriting performance. The overall underwriting result of R445 million for the year under review was 28% higher than in 2009. The combined ratio of 94,8% improved from the 96,2% achieved in 2009. Attributable earnings increased by 5% to R278 million.

Investments

AUM grew by 12% to R163 billion at 31 December 2010, aided by net inflows of R11 billion for the year. The money market fund increased nearly R11 billion, while outflows from the dividend income fund due to industry and regulatory changes offset solid growth in other funds. Margins declined slightly, from 50,6 basis points (bps) in 2009 to 46,0 bps in 2010, owing to a higher proportion of institutional funds under management.

Fiduciary services

Total revenue increased by 8%, but earnings fell 23% to R93 million. The employee benefits business acquired several new employee benefits administration mandates, some of which required investment in resources, but are expected to be profitable in future.

Distribution

The economic environment remained challenging and impacted this business's ability to attract and retain talent on a purely commission-based remuneration model. This was further complicated by competitors employing unsustainable methods to attract new business. Absa Insurance and Financial Advisors successfully implemented an academy to develop new adviser talent.

Strategic focus

The Financial Services segment is well placed to benefit even more from its relationship with Retail Banking, Absa Business Bank, Absa Wealth and Barclays and from adopting the One Absa strategy. The business focus will be on maintaining its premium and AUM growth momentum by further leveraging synergies presented by Group relationships and improving insight into its customer base to better penetrate and service each unique customer segment, including the wealth segment. Building better and more convenient distribution channels and retaining sales staff will remain a priority.

To accelerate the execution of its strategy and extend its geographic footprint into sub-Saharan Africa, Financial Services will look at all opportunities to expand into Africa while investing in technology and capacity so that it remains competitive and customer-orientated.

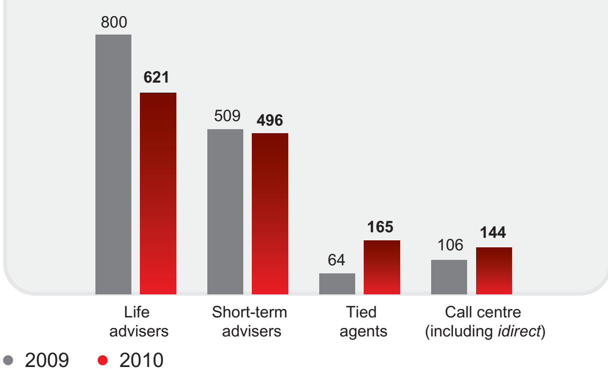
Investments – salient features

	2010	2009	Change %
Attributable income (Rm)	**300**	303	(1)
Gross margin (bps)	**46,0**	50,6	
Net flows (Rbn)	**11,3**	24,9	(55)
» Net money market flows (Rbn)	**10,9**	1,8	>100
» Net non-money market flows (Rbn)	**0,4**	23,1	(98)
AUM (Rbn)	**163**	145	12

Fiduciary services – salient features

	2010	2009	Change %
Attributable earnings (Rm)	**93**	121	(23)
Assets under management – Absa Trust (Rm)	**6 482**	5 803	12
Value of estates distributed (Rm)	**599**	735	(19)
Members under administration (number of members)	**606 551**	427 473	42

Distribution force (number)



Information technology

Highlights

- Enhanced IT governance structures through the establishment of the Absa Information Technology Steering Committee.
- Delivered a significant number of projects with tangible benefits accruing.
- Improved efficiencies owing to system enhancements, automated confirmation matching and straight-through processing automation.
- Absa Africa IT was awarded the *iCMG Architecture Excellence Award* for business and IT innovation in the mergers and acquisition category.

Introduction

Technology, in the financial services industry, is pivotal for the effective and efficient delivery of services. Every product, channel and customer depends on the effective use of technology.

IT governance

Absa has a number of governance bodies to ensure that its technology endeavours comply with all relevant regulatory and related-party requirements. In particular, there are two committees entrusted with ensuring that the Group implements and monitors IT governance, namely the Information Technology Steering Committee (ITSC) and the Risk and Control Committee (R&CC).

Absa's IT charter and policies

Absa's IT charter is articulated through the Group's technology risk control framework, which is aligned to the Control Objectives for Information and related Technology (CoBit) international best practice framework and approved by the GRCMC in alignment with Absa's principal risk policy.

The framework addresses the inability of technology to deliver secure IT services that provide critical business services. It refers to the risk associated with running and changing IT infrastructure in support of business operations and ongoing strategy. It also includes the following:

- The non-availability of IT systems: the risk associated with the unavailability of IT systems that support business processes.
- Inadequate design and testing of new and changed IT solutions: the risk that the implementation of a new IT system or change to an existing IT system fails, impacting business operations.
- Inadequate system security: the risk of unauthorised access to IT systems, resulting from inadequate IT systems security controls being in place.

The control requirements mandated by the framework are applicable to all layers of technology, including applications, operating systems, databases and supporting infrastructure, unless otherwise explicitly stated. The technology risk policy framework sets out the governance, controls, standards, guidance and procedures for IT within the Group.

Effectiveness of Absa's IT controls

The Absa operational risk framework clearly articulates the required implementation of the operational risk management structures required. The execution of the operational risk framework for technology is articulated in the technology risk control framework. Through this framework, Absa effectively executes its risk and control assessments, including regular quarterly attestations and reviews. Effective technology risk management is achieved through the proactive tracking and monitoring of audit observations, regular management self-assessments and periodic risk management reporting to key stakeholders.

IT structure

Group Technology provides information technology services to all the Group's operations and is structured in a way that optimises the use of resources while bringing focus to the various sectors and business clusters. Through the defined technology structures, which include focused teams headed up by specialist sector chief information officers, IT governance implementation is a focused effort that is effectively executed throughout the organisation. The Group Technology operating model and governance process also encourages cross-divisional collaboration and strategic decision-making.

Absa's IT strategy

Information technology is a vital enabler of the One Absa strategy with the four strategic pillars used to shape Absa's five-year IT strategy, the aim of which is to ensure simple, streamlined customer delivery, while also ensuring good governance and risk management.

Absa's key IT strategic principles have been defined in support of the One Absa strategy and are as follows:

- Examining existing (and planned) areas of duplication, and driving architectural efficiency and consistency across the Group.
- Leveraging existing capabilities and planned investments where these are fit for purpose.
- Making effective use of benchmarking and best practice.
- Simplifying Absa's current technology environment and driving down total cost of ownership.
- Recognising short-term business resilience remediation while supporting future business capabilities.

In order to achieve the Group's IT strategy, a five-year roadmap has been developed. Altogether seven key initiatives have been identified as being critical to the enablement of the Group's IT strategy.

- **Integrated finance and risk:** An integrated and single view of the customer will ensure that Absa is able to transform its customer capabilities to support business growth, innovation and expansion.
- **Workflow and document management:** The standardisation of Absa's document management system onto an enterprise system, implementation of workflow to reduce manual tasks and remove paper, and the automation of business processes in key functions leading to reduced costs, reduced complexity, efficient process and an enhanced customer experience.
- **Pricing and billing:** A central billing and pricing engine, along with a central product catalogue.
- **Forex centre of excellence:** A Group-wide foreign exchange capability to standardise the current processes and technologies being employed, while addressing the organisational changes necessary to enable an increase in foreign exchange related sales.

Information technology

- **Integrated channel management:** Integrated and cross-channel management, including an agreed end-state architecture, to ensure cost-effective, flexible channels capability.
- **Enterprise information management:** A new management information infrastructure with appropriate sector business marts that have analytic and reporting capabilities, defined processes, master data management and a defined toolset.
- **Data centre remediation:** Business capabilities to improve resilience, automate operations, increase agility and reduce costs thereby providing a more secure enterprise environment and to position the data centre to operate as a cloud-enabled infrastructure service.

2010 review

Close to 300 IT projects were delivered during 2010. Project implementation was achieved through eight major software releases during the course of the year. Some of the initiatives undertaken were as follows:

- Provided straight-through processing for customers in Absa Financial Services.
- Enhanced efficiency through the replacement of the policy and claims management system, the implementation of a new front-end system in the branch environment and the implementation of new infrastructure and core systems in NBC and BBM.
- Enhanced the Group's IT disaster recovery, ensuring that the recovery capability was demonstrated and working effectively.
- Implemented changes to existing business processes and procedures to achieve compliance with various acts and regulatory requirements, in the most cost-effective way while ensuring that the impact on Absa's customers was minimised.
- Continued to adopt and adapt Barclays Capital's world-class, scalable and flexible applications and platforms where applicable.
- Optimised costs through Absa Capital's data centre virtualisation, proactive technology risk management and by benefiting from Barclays Capital's economies of scale.
- Enhanced the client experience through PACE FX (an award-winning foreign exchange e-commerce platform).
- Integration of the regional location model across Absa Capital and Absa Wealth Technology.

Focus for 2011

Absa's IT focus for 2011 will be to:

- continue to secure and protect systems and information against unauthorised access and fraud attempts that escalate daily;
- upgrade the Group's two data centres;
- strengthen governance processes in line with King III requirements;
- ensure that all key production systems have comprehensive disaster recovery and business continuity capabilities;
- develop a medium-term plan for Absa Capital's sub-Saharan infrastructure model, based on a strong, federal architecture community;
- manage skills retention through specific retention strategies and career pathing; and
- reduce e-waste and energy consumption.

Governance, remuneration, risk and controls

Contents

Governance, remuneration, risk and controls

Pages 125 – 320

Governance, remuneration, human resources, controls, compliance and risk management remain a cornerstone of the Group's operations.

Report from the Chairman of the Directors' Affairs Committee

Garth Griffin
Chairman: Directors' Affairs Committee

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 III 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.

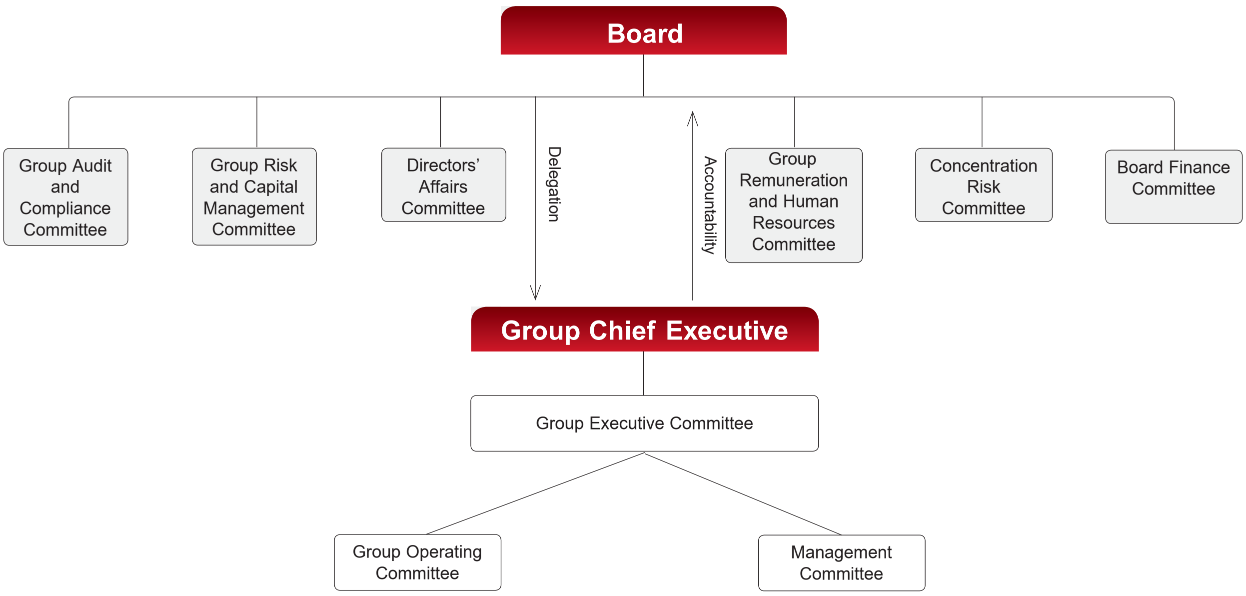
Full and transparent disclosure is critical to the board and the enhanced standards of disclosure in terms of integrated reporting will be developed as direction is confirmed by the Integrated Reporting Committee (of SAICA). The extent of independent assurance of the Group's sustainability reporting 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[1]

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

[1]*French*
[2]*British*
[3]*Mozambican*

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

Further reading
Directorate 81

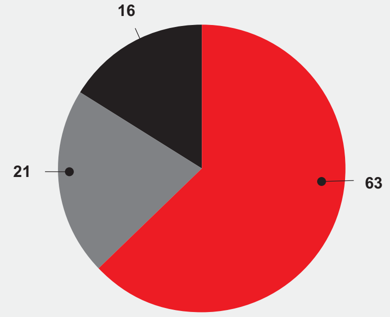
Absa Group board

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

Executive directors' remuneration 162

Subsidiary boards 140

2010 meeting attendance 139

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 70^{th} 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.

Further reading

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Re-election of retiring directors	339
Biographic details of directors	82

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.

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.

Further reading

Absa's reward philosophy, policy and practices 151

Non-executive directors' remuneration 158

Directors' interest in Absa shares 340

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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Qualification of GACC members	82
Report from the Chairman of the GACC	175

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.

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 139

Report from the Chairman of the GRCMC 190

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.

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

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Report from the Chairman of the DAC 125

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

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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 139

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.*

Further reading

Biographical details of Group Exco members 95

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.

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.

Ethics review

Highlights

- Effectiveness and embedding of the Group's code of ethics attested annually.
- Application of consequence management as required by the code of ethics.

Absa's 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 we do.

Reporting unethical behaviour

Absa respects the right of individuals to retain their anonymity when reporting irregularities, if they wish to do so.

Employees have the responsibility to report observed or suspected unethical behaviour promptly via any of the following avenues:

- The employment equity dedicated e-mail address: employmentequity@absa.co.za
- The HR Contact Centre at 0860 369 369
- Tip-offs Anonymous by:
  - phoning: FreeCall 0800 205 055
  - faxing: FreeFax 0800 007 788
  - sending an e-mail to: absa@tip-offs.com
  - Action Line at telephone number 0800 41 41 41
  - The Absa Ethics Officer 011 350 4313

Introduction

Ethics is the backbone of any organisation and is critical to its continued business success.

Absa is committed to upholding exacting levels of governance and compliance, and the Group's dedication to these ethical standards underpins all actions, both corporate and personal.

Absa remains steadfast to upholding the highest possible ethical standards. All activities should be conducted with honesty and integrity, with all people being treated fairly and with dignity.

Absa's code of ethics

To achieve these essential objectives, Absa has implemented and embedded a code of ethics founded on the Absa values.

The code of ethics assists in promoting higher standards of practice. It has become accepted as a way to promote a corporate identity as well as define conflicts of interest. It also clearly defines expectations for behaviour and decision-making.

The code is presented in such a way that it is easy to understand, yet has sufficient detail to enable employees to translate Absa's culture and values into practical behaviours.

All employees conducting business on Absa's behalf, regardless of their role or location, are expected to consistently demonstrate Absa's values in the workplace and beyond in their behaviour. Employees are provided with detailed guidelines assisting them in making ethical decisions and providing them with the tools and know-how to correctly resolve possible ethical dilemmas.

It is also important to note that the code is not imposed unilaterally on employees; it is a product of an extensive process of consultation with the representative trade union SASBO.

The details of the code and its requirements are regularly communicated to all employees. The effectiveness of the code is undertaken by means of a yearly attestation process in which all employees participate.

The Group has an ethics officer who provides proper oversight of all matters pertaining to ethics and provides employees and stakeholders with advice and guidance in this regard.

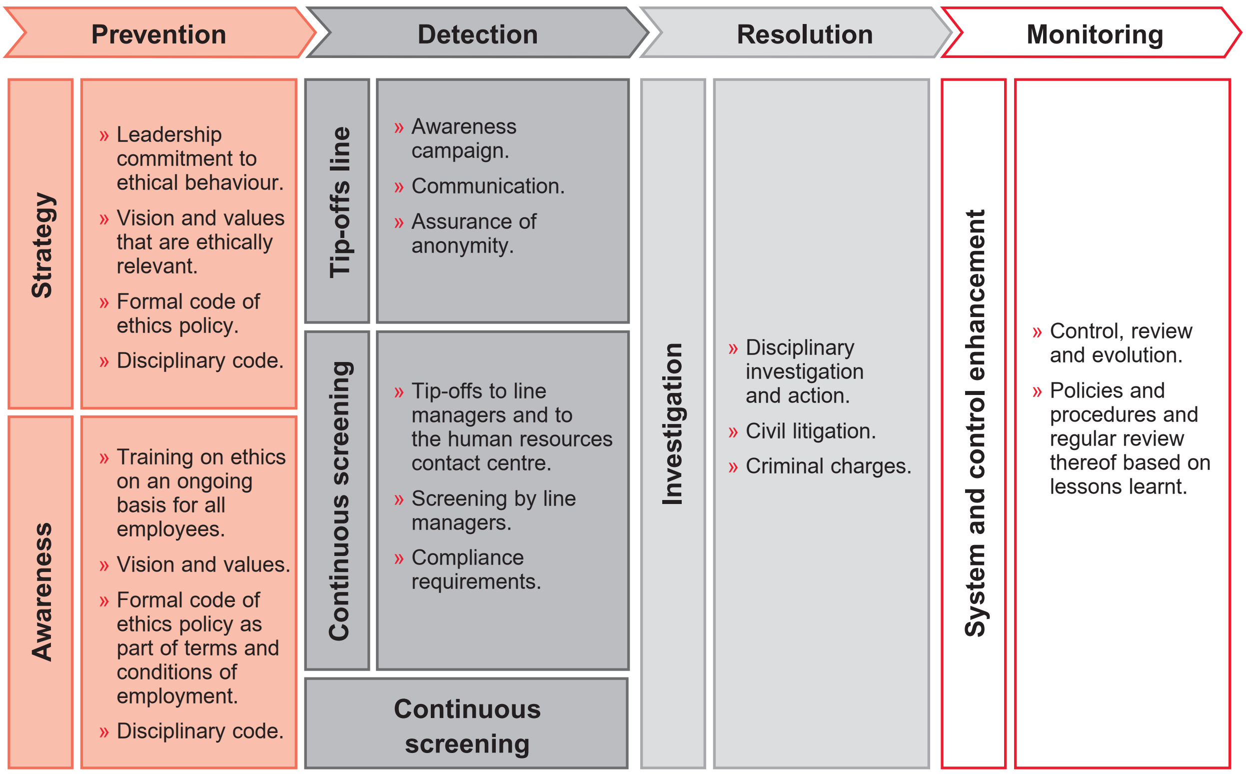
Compliance with the Code

Compliance with the code is linked to the Absa disciplinary code and procedure. Any breach of the code must, in terms of the disciplinary code and procedure, be logged on Absa's employee relations system. The system guides management as to the appropriate procedures to follow and consequence management to apply in the event of a breach. The system also ensures that consequence management is applied without exception and to the full extent required by the code.

Ethics risk management

Due to the importance of upholding and ensuring the highest possible ethical standards and behaviour amongst all employees, an intensive ethics risk framework has been developed. The framework is geared towards preventing breaches of the code and the early detection and resolution of any such breaches.

Ethics risk management framework



Ethics review

2010 review

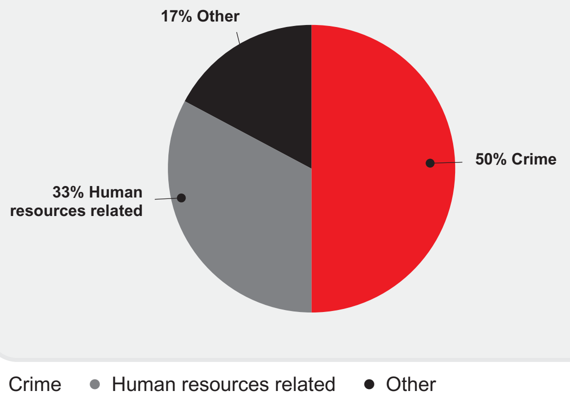
Absa provides safe, effective and, if so desired, anonymous mechanisms for employees to seek guidance or raise concerns. Concerns that may be raised are taken seriously and all potential breaches are fully investigated. The identity of employees who raise a concern is kept confidential and there is no discrimination against any stakeholder as a result of raising an issue in good faith.

During 2010, 178 tip-offs were received, 61 of which potentially related to ethical breaches. In respect of 52 of these tip-offs, investigations were conducted and the matters were resolved, either by disciplinary action against the employee or employees involved or by concluding on the basis of the facts gathered in the investigation that the tip-off was unsubstantiated. The remaining nine tip-offs are still being actively investigated.

Focus for 2011

Emphasis in 2011 will be placed on further refinements to the code in accordance with King III and international best practice, as well as further embedding, training and socialisation across the Group.

Percentage breakdown of total tip-offs



Further reading

Web

Absa's Code of Ethics

Report from the Chairman of the Group Remuneration and Human Resources Committee

Brand Pretorius
Chairman: Group Remuneration and Human Resources Committee

Highlights

- Integrated Group human resources strategy approved by the board to support Absa's aim of becoming a more people-centred organisation.
- High levels of adherence to local and international governance standards regarding compensation.
- Successful implementation of a total incentive philosophy which ensures a balance between short- and long-term compensation.
- Good progress in the achievement of employment equity targets during 2010.
- A number of senior executives appointed to strengthen the Group's executive team.
- Increased employee participation in the annual employee opinion survey.
- New talent management system introduced to identify and develop top talent within the organisation and to allow for more effective succession planning.
- An enhanced performance development approach introduced to ensure that employee performance is consistently and fairly reviewed.
- Significant increase in skills development spend on historically disadvantaged groups.

Report from the Chairman of the Group Remuneration and Human Resources Committee

Introduction

The Group Remuneration and Human Resources Committee (GRHRC) has a broad remit in respect of the human resources environment within the Group. Accordingly, this year's report includes both the general human resources report and the report dealing specifically with remuneration and related matters.

Overview of the GRHRC's remit and responsibilities

The GRHRC's remit as set out in formal terms of reference approved by the board. The remit includes the governance of compensation within the Group, transformation issues, human resources issues and matters relating to the BBBEE Codes of Good Practice and its associated reporting and disclosures. The GRHRC comprises only non-executive directors, the majority of whom are independent.

The GRHRC's specific responsibilities include:

- approving the Group's remuneration philosophy, principles and policy;
- approving the remuneration of the Group Chief Executive and Group Exco members. The GRHRC also oversees the remuneration of employees directly reporting to Group Exco members and employees regarded as filling roles of strategic importance to the Group. Remuneration includes all elements: guaranteed fixed remuneration, total incentive compensation and any other form of benefits or perquisites;
- reviewing the operation of the Group's various incentive plans, including the approval of new incentive plans, setting performance conditions for long-term incentive plans and the approval of individual awards to executive directors and other Group Exco members;
- mandating Group Exco to negotiate conditions of service with the relevant trade union;
- succession planning for executive directors and senior executives (including the Group Chief Executive), and other strategic positions and roles. This responsibility, as far as it relates to executive directors, is shared with the DAC;
- evaluating the performance of the Group Chief Executive and reviewing the evaluation of the performance of Group Exco members;
- monitoring human resources related transformation initiatives within the Group; and
- overseeing the review and implementation of the Group's human resources policies, including conditions of service and benefit fund management.

2010 review

One of the core pillars of the One Absa strategy is to enable a customer- and people-centred organisation, which aims to achieve enhanced customer service through talented and motivated people. The GRHRC oversees the Group's people agenda, and is therefore focused on the execution of this particular aspect, while keeping the other three strategic pillars in the frame.

The committee exercised effective governance in 2010, meeting five times during the course of the year. Membership of the committee was stable during the year, the only change being the retirement of the Group Chairman, who was also a member of the committee. He was replaced by the incoming Group Chairman in October 2010.

The Group Chief Executive, Deputy Group Chief Executive, Group Financial Director and the Chief Human Resources Executive attend the GRHRC meetings. Meetings are also attended by the Group Head: Reward and Benefits, and the Company Secretary. The GRHRC may request other members of the Group's executive management to attend meetings when relevant. During 2010, the only other senior executive to attend committee meetings was the Chief Executive Officer of Absa Capital.

No executive director or senior executive is present when his/her own performance or remuneration, or any matter related to him/her, is discussed.

The committee retains independent advisers to support its work. In addition, the work of the committee is informed by the input of the Group Financial Director (who was also the Group Chief Risk Officer until September 2010). These measures ensure the committee considers the necessary range of factors (including financial and non-financial performance, risk and competitiveness) in reaching its conclusions. These arrangements will continue into 2011, with a greater focus on further alignment of the remuneration and risk environments.

The GRHRC reviews both the structure and quantum of compensation. The committee specifically focused on issues such as fixed compensation and increases to this, the total value of variable compensation pools, and the relative splits of short- and long-term incentives.

While attending to its regular business, the committee focused on the following areas during 2010:

» Remaining abreast of the evolution of the corporate governance and regulatory environment in South Africa and internationally, and ensuring the Group's adherence to these requirements, as applicable.
» Ensuring the ongoing implementation of a competitive and balanced compensation framework enabling the Group to deliver sustainable and competitive returns, by having the best people in their particular fields deployed within the organisation.
» Improving the alignment of remuneration, performance and risk. This saw changes in the design and delivery of variable compensation, and resulted in materially higher levels of deferral of variable compensation into share-based plans than was previously the case.
» Filling key vacancies within Group Exco and focusing on key operational and functional vacancies at the level below Group Exco. Group Exco is now fully resourced. A number of outside appointments were made, including a new Chief Risk Officer, Chief Executive: Absa Business Bank and Chief Human Resources Executive. Appointments from inside the Group included the Group Financial Director, Chief Executive: Retail Bank and Chief Executive: Unsecured Lending. New chief executives for Absa Wealth and Absa Africa were also appointed. A Group Integration executive was appointed early in 2011. The latter three roles are represented on the Group Operating Committee, rather than Group Exco.
» Retention of key leaders and specialists through the introduction of a highly focused and well-governed retention programme aligned to the delivery of the One Absa strategy over the period from 2010 to 2012.
» Continuing to place focus on succession and talent management, and transformation in the Group.

Remuneration and related matters

The topic of remuneration, and particularly remuneration within the financial services industry, has come under considerable scrutiny over the past two years. There has been a global increase in the amount of regulation focused on the compensation of executives and other highly paid individuals. It is clear that there is still considerable development to be expected in this regard, as international regulatory bodies (such as the European Union and the International Financial Stability Board, in respect of the G20 nations) and other regulatory bodies (such as the United Kingdom's Financial Services Authority and the United States' Federal Reserve) attempt to achieve a balance between appropriate governance and risk mitigation on the one hand, and maintaining competitiveness in a global context on the other. South Africa has also seen the publication of King III, which has broad applicability beyond financial services. Although King III is not fully effective until the 2011 reporting cycle, the Absa Group is committed to making meaningful progress towards the application of the principles set out in King III.

The goal of the committee is to build a competitive Group focused on, and capable of, delivering future stakeholder value through the aspects of human resources and remuneration policy development, while serving the needs of other stakeholders. The current economy, both globally and locally, and the increasing (yet sometimes ambiguous) regulatory developments have made this a challenging proposition. However, the committee has ensured a high degree of focus on engagement with the various issues and has ensured that it has executed the mandate given to it by the board on behalf of stakeholders.

Report from the Chairman of the Group Remuneration and Human Resources Committee

Further reading

	2010	2009	Change %
Profit before taxation (Rm)	**11 851**	9 842	20
Attributable earnings (Rm)	**8 118**	6 840	19
Headline earnings (Rm)	**8 041**	7 621	6
Return on equity (%)	**15,1**	15,5	
Cost of equity (%)	**14,0**	14,0	
Economic profit (Rm)	**562**	750	(25)

The Group's financial performance in 2010

The performance of the Group is described in detail in the Group Financial Director's review, in the financial analysis and in the financial statements. The key highlights alongside are relevant in the context of considering the Group's remuneration report, and in particular the remuneration of executive directors and other senior executives.

The 2010 remuneration report

The 2010 remuneration report is set out on the following pages for shareholder consideration. As in previous years, this report contains details of the Group's compensation policies and plans, and the disclosure of specific individual arrangements. For this year's report, the Group has, in addition to the relevant statutes, been guided by King III, the International Financial Stability Board's Principles for Sound Compensation Practice and the UK's Financial Services Authority's Remuneration Code.

The report covers the following:

- Remuneration governance.
- The Absa reward philosophy and policy (and changes to these), including:
  - fixed compensation;
  - total incentive compensation, covering short- and long-term incentives; and
  - the special retention plan.
- Compensation of executive directors and senior executives.
- Special arrangements in respect of executive directors and senior executives.
- Remuneration of non-executive directors.
- Tables of disclosures showing individual compensation of non-executive and executive directors, and aggregate compensation (under related-party payments) of other senior executives.

The contents of the disclosed tables are audited, where necessary, by one of the Group's auditors, PricewaterhouseCoopers Inc.

2010 human resources report

As indicated previously, the GRHRC is charged with the oversight of the Group's people agenda. The Group's human resources report is contained in this report after the remuneration report.

The board approved the revised Group human resources strategy in March 2010. The three primary people imperatives were identified as:

» transformation: moving from employment equity to a culture of inclusivity;
» talent management: improving the talent pipeline and succession ratios; and
» learning and development: shifting the focus from compliance-driven learning to skills-driven learning.

The Group's people agenda is critical to achieving the objectives of the One Absa strategy and significant progress has been made in 2010. The human resources report details this illustrating the successes achieved in this regard.

The report covers the following:

» Human resources governance.
» Transformation.
» Talent management.
» Skills development.
» Performance development.
» Employee engagement.
» Employee relations and human rights.

Focus for 2011

The key focus areas for the committee in 2011 are as follows:

» Consolidating the Group's reward framework, including rationalising share-based plans.
» Ongoing integration of risk and reward in dealing with compensation related issues.
» Continuing focus on evolving governance rules and regulations, both globally and locally.
» Increasing focus on:
  › transformation;
  › talent management and succession planning; and
  › learning and development.
» Continuing emphasis on initiatives to build Absa as a people-centred organisation, as epitomised in the One Absa strategy.

Conclusion

Absa is committed to the objective of being a preferred employer, attracting skilled and talented people. The initiatives set out in the remuneration and human resources reports bear testimony to this commitment and set a strong and sustainable foundation for furthering the Group's success in this regard.

The GRHRC is satisfied that it has discharged its responsibilities according to its terms of reference and in the best interest of all Absa's stakeholders.

Brand Pretorius

Chairman: Group Remuneration and Human Resources Committee

9 March 2011

Remuneration report

Remuneration governance and the role and remit of the GRHRC

Remuneration governance

The GRHRC is responsible for the development and implementation of Absa's remuneration philosophy and policy, and has oversight over the compensation of executive directors and senior executives[1].

Consistent with international best practice, the Group Chief Executive and the Group Chairman make recommendations in respect of the remuneration of non-executive directors for the board to review and thereafter for shareholders to approve.

Progressive governance to improve rigour and robustness of compensation decisions

The GRHRC's remit, as it pertains to individual compensation, is both quantum and level referenced. Further, all appointments to and exits from Group Exco are subject to the direct review and approval of the GRHRC. Similarly, new appointments and special circumstance terminations, where the costs exceed a stipulated materiality threshold, are subject to oversight and approval by the GRHRC.

To ensure rigour below these levels, a lower threshold of both cost and seniority is established and is governed by the Group Recruitment and Promotions Committee (GRPC). The GRPC consists of six senior executives and meets weekly, as required. The GRPC also reviews all proposals for the GRHRC (other than those relating to peers of the GRPC member, which go directly to the GRHRC) to ensure consistency in decision-making and adherence to the highest standards of governance.

Advisers to the GRHRC

The GRHRC has access to independent local and international external consultants to ensure it receives expert advice on remuneration, both in general and in terms of the specific businesses within the Group. The Group bears all costs of these external consultants.

Absa uses the services of Towers Watson (previously Towers Perrin MGMC), a global remuneration consulting firm based in New York, to ascertain international trends and to obtain specific details on developments in investment banking compensation.

Absa also uses the services of several local independent remuneration consulting companies to assist with benchmarking:

- Global Remuneration Solutions (Proprietary) Limited provides detailed survey analysis from general industry and the banking industry, specifically on remuneration at top and senior executive levels.
- Deloitte provides data with regard to executive and non-executive directors' fees (as published in annual reports).
- RemChannel provides information in respect of general benchmarking of remuneration levels.
- General publications regarding executive and non-executive director remuneration are also used as reference material to inform compensation decisions at this level.

The Group Chief Executive, Chief Human Resources Executive and the Group Head: Reward and Benefits and, as necessary, members of Group Exco, supported by their teams, also advise the GRHRC.

[1] *For the purpose of the remuneration report, senior executives are defined as members of Group Exco.*

Absa's reward philosophy, policy and practice

Absa's remuneration philosophy and policy are designed to align the interests of stakeholders, directors and employees. In determining the remuneration of executive directors and other senior employees, the GRHRC is sensitive to the conditions of remuneration and employment for employees across the Group as well as the changing regulatory and statutory frameworks that affect compensation.

Absa's remuneration policy aims to build long-term sustainable stakeholder value, and to attract and retain employees of the highest calibre who demonstrate the Group's values.

Absa's overall remuneration policy aims are as follows:

- » Promoting compliance with global regulatory trends and local requirements, with an emphasis on long-term sustainability.
- » Helping to align the interests of senior executive and professional employees, including executive directors, with those of the Group's stakeholders.
- » Maximising employees' personal contributions to the business unit in which they work as well as to the Group. This will enable employees to make the most of the Group's offerings to better serve customers.
- » Assisting to achieve commercially competitive reward levels, enabling the Group to attract and retain people of proven ability, experience and skills.
- » Assisting to implement reward plans that are clear and transparent, and that reinforce the Group's strategic positioning.
- » Rewarding and encouraging behaviour consistent with the Group's values.
- » Determining reward frameworks consistent with emerging governance frameworks on executive and managerial compensation.

The above policy, which underpins Absa's reward strategy, aims to facilitate appropriate alignment of the human resources agenda (which includes the attraction, retention and motivation of talented people) with the broader One Absa strategic objective of being a customer- and people-centred organisation.

Performance development

A key principle of the Group's reward philosophy is 'pay for performance'. The Group's performance management process, known as performance development, was updated in 2010. Although the underlying fundamentals of how performance is assessed (focusing on a combination of achievement of quantitative objectives and the behaviours exhibited in this regard, as assessed against the Absa values) remained unchanged, material improvements were made to the definition of different levels of performance. No changes were made to the definitions of poor performance and top performance (the outer parameters of the rating scale). However, the distinction between inconsistent performance and good performance was refined, reducing any ambiguity in terms of how performance is described. This change has greatly enhanced the link between performance and reward (in particular, variable compensation), with the result that the Group was able to more conclusively define the eligibility criteria for considering participation in the Group's variable compensation arrangements.

For the 2010 year-end rating process, 99% of employees received performance ratings. A more robust approach to career development discussions was introduced as part of the six-monthly talent management reviews.

Remuneration report

Fixed compensation

Fixed compensation is delivered using a cost-to-company (CTC) methodology. In terms of this, all contributions to employee benefits (primarily pension, group life insurance and medical aid) are included in the CTC package. The employee benefits in operation for all employees, including executive directors and senior executives, are as follows:

» The Absa Group Pension Fund, a defined contribution pension fund to which all employees must, as a condition of service, belong. The fund includes a death-in-service benefit that is distinct from the Group Life benefit, and is subject to underwriting requirements.
» The Absa Group Life benefit, which includes a death-in-service benefit, as well as temporary and permanent disability benefits. These benefits are funded separately from the Group Pension Fund.
» Bankmed Medical Aid, which is a condition of employment unless an employee is a member of a spouse or partner's registered medical scheme.

In addition, employees may, subject to eligibility and compliance with the relevant employee tax requirements, make voluntary allocations from their CTC package towards a 13th cheque (payable in November of each year) as well as motor vehicle benefits (a company car or travel allowance).

In addition to the CTC package, the Group pays a stand-alone medical subsidy of R7 200 per annum per employee. This was introduced to assist employees with rising medical costs and applies to all members of a registered medical scheme.

The Group targets a market median position with regard to CTC. Market relativity is a key consideration in guaranteed compensation reviews. The objective is to accelerate compensation towards the median for those higher performing individuals paid at the lower end of the compensation range. Where deemed appropriate, based on the existence of key or critical skills, the Group may target an above-median position to ensure the attraction and retention of particular employees.

Variable compensation (total incentive compensation)

The Group introduced the concept of total incentive compensation in 2009 as the preferred methodology for the delivery of total variable compensation. This philosophy ensures an appropriate link between short- and long-term compensation in that a consolidated approach is taken to remuneration related decisions, in line with the Group's overall approach to total compensation.

Under the total incentive philosophy, a single total incentive recommendation is considered. The decision is then made regarding the appropriate proportionality between short-term compensation (via a cash bonus award for 2010 performance) and future-focused share-based compensation through the Deferred Award Plan (DAP). In the 2010/11 payround process, no awards were made under any of the Group's other share-based plans, in accordance with the Group's intention to simplify compensation arrangements and to wind down legacy plans.

The level of total funding made available under the total incentive arrangements was informed by the Group's overall performance, with a specific focus on:

» growth in profit before taxation;
» attributable earnings growth; and
» growth in headline earnings.

In addition, the quality of the Group's performance was reviewed. This included consideration of the impact of one-off items in the current and previous year, changes to the Group's impairment and cost-to-income ratios, and the Group's return on equity. Capital utilisation and the longer-term impact of cluster performance on future results were also considered in apportioning the total incentive pools.

A further consideration in determining the quantum of the cash bonus pool relative to the pool allocated for awards under the Deferred Award Plan (DAP) was the overall retention requirements in the organisation, with a specific focus on improving the ability to retain employees through enhanced long-term awards in certain areas.

Cash awards, in respect of 2009 performance, were paid in February 2010, and similarly, in respect of 2010 performance, were paid in February 2011. The cash bonus was subject to an individual's prior-year performance. Contingent compensation is delivered via the DAP. This is a phantom share plan that vests pro rata in equal parts over a three-year period. This approach was adopted in view of the relatively high levels of participation in the DAP across the organisation (and the relative ratios of short- to long-term compensation), and is also in keeping with the internationally accepted requirements of the Financial Stability Board. While the vesting arrangements are earlier than those contemplated under King III, Absa is of the view that the high levels of participation in the DAP (see below) act as mitigation against the development of a short-term focus.

In line with developing international practice, Absa set target ratios for total incentive compensation, which outline maximum levels of the cash bonus and a DAP award. For the 2010/11 payround process:

» any total incentive below R200 000 was paid entirely in cash;
» above this level, a graduated approach was adopted;
» at R200 000, a minimum target short- to long-term compensation ratio of 80% to 20% was established (meaning that a minimum of 20% of total incentive compensation was awarded in the form of a DAP award);
» at the maximum threshold, cash bonus awards were capped at a maximum of 35% of the total incentive compensation; and
» Group Exco members were subjected to a maximum cash bonus of 35% of the total incentive compensation. For the Group Chief Executive, half of the cash bonus is subject to a further hold of six months, in a share-based arrangement.

Where deemed necessary, business clusters were able to vary the cash: deferred award ratios, based on their specific business needs, subject to the Group outer parameters as described above.

All awards under the DAP (for the 2011 to 2013 cycle) were made in February 2011.

Special retention plan

The Group implemented a highly selective retention plan in March 2010. This one-off initiative was aimed at securing the services of the top 100

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key leaders and key specialists for the Group for the next two to three years, and is aligned to the objectives of the One Absa strategy over the same timeframe. Two plan arrangements were implemented, as follows:

» **The Key Leaders Plan** was targeted at individuals in senior leadership positions who have the ability to materially influence the execution of the One Absa strategy over the period from 2010 to 2012, and whom the Group would like to retain beyond this timeframe. Awards were made 50% in cash and 50% in phantom shares, with the entire award vesting after the end of 2012. The share-based component is dependent on the Absa share price, whereas the cash component will only vest if the primary financial stretch objective of the One Absa strategy is achieved to the satisfaction of the board. A sliding scale, based on the progressive achievement of this objective, has been agreed by the GRHRC to guide its exercise of discretion in this regard.
» **The Key Specialists Plan** was targeted primarily at senior functional specialists holding critical and scarce skills. Payments were made up front and in cash, but are subject to full clawback provisions in the event of the employee leaving the Group during his/her retention period, which is between two and three years. These clawback provisions require the refund, in full, of the gross amount of the payment. All participants signed legally binding contracts to this effect prior to payments being made.

The plan design and structure, as well as the plan rules and, where applicable, performance conditions, were reviewed in detail by the GRHRC prior to the plan being launched. Further, the Group Chief Executive and GRHRC reviewed all individual participation nominations to ensure appropriateness and eligibility for participation in the respective plans. The values awarded under the two plans were appropriately moderated to ensure effective parity between the two plans based on the time and performance requirements attached to each.

Executive directors' and senior executives' compensation

Executive directors and senior executives are rewarded in accordance with the provisions of the Absa reward philosophy and principles. The following are the conditions pertinent to the implementation of the rewards to executive directors and senior executives:

Performance

All executive directors (except for the Group Chief Executive) and senior executives are subject to a performance assessment by the Group Chief Executive, of their role as Group Exco members. The GRHRC reviews the performance outcomes for each executive director and senior executive in detail, to ensure consistency in the reviews and appropriate oversight over the evaluation process. Performance outcomes are a key driver of total incentive participation.

The remuneration of Group executive directors is also considered alongside their performance objectives. The main performance criteria for 2010 were:

» the provision of clear strategic direction and inspirational leadership;
» progress on the One Absa strategy;
» sustainable stakeholder value;
» governance and control;
» customer experience;
» employee experience;
» transformation; and
» stakeholder relationships.

These performance criteria are aligned to the four pillars of the One Absa strategy.

The contribution of executive directors and senior executives is based on their contribution both to the Group and to the business or functional units that they lead.

Fixed compensation

A number of new appointments were made to Group Exco in 2010, which were accompanied by the appropriate level of compensation adjustment. This has ensured that fixed compensation is appropriately aligned to the market for incumbents in these roles.

Market benchmarking is conducted for senior executive roles. Given the scale of the South African senior executive market and the general transferability of senior executive skills across industries, general executive surveys, which include retail, mining, construction, utilities and consumer-goods companies, are used in this regard. This ensures sufficient breadth and therefore comparability of sample populations. Each executive is individually benchmarked based on his/her scope of responsibility to enhance the reliability of the survey data.

Other factors are also considered in regard to the relative competitiveness of senior executive compensation. These factors include scarcity of skills, specific market issues related to the respective roles and the industry segments that are most comparable. The consideration of these factors ensures an appropriate balance of qualitative and quantitative elements in setting senior executive compensation levels.

Fixed compensation will be held stable for executive directors and senior executives in 2011, with no salary increase applying for these individuals.

Determination of total incentive compensation (including that of the Group Chief Executive)

The allocation of total incentive compensation for executive directors and senior executives is based on the contribution they made to the sustainable success of the Group, together with the need to drive appropriate future focus and retention among the senior executive population.

Executive directors and senior executives participate in discretionary variable compensation plans. Therefore, there are no formal arrangements in place to link exact performance outcomes to a specific rand value award. Instead, a full range of factors are considered when deciding on the awards to be made to each executive director and to each member of Group Exco. Factors include:

- contribution to Group and cluster results;
- contribution made to the Group outside their specific role or remit;
- retention;
- enhancement of long-term focus; and
- market competitiveness relative to performance and contribution.

The Group Chairman makes recommendations to the GRHRC regarding the Group Chief Executive's incentive compensation (cash award and DAP participation). Cash bonus awards and awards, under the DAP, to members of Group Exco are recommended by the Group Chief Executive. These are reviewed in detail by the GRHRC and, where necessary, amendments are made.

Further reading

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Remuneration report

In addition to GRHRC oversight, all recommendations for executive directors are submitted to the board for approval. This ensures that full cognisance is taken of their roles as executive directors, in addition to their senior executive positions in the Group.

Funding of both short- and long-term awards for executive directors and senior executives is provided for within the overall pools agreed by the GRHRC. This ensures that appropriate consideration is given to the relativities and overall impact of decisions taken regarding senior executive variable pay levels in the context of overall pools.

Awards made in line with the total incentive philosophy to executive directors and senior executives were subject to a standard apportionment of 35% cash, payable in February 2011, and 65% awarded under the DAP, to be released in February 2012, 2013 and 2014. All DAP awards made to executive directors and senior executives are subject to performance conditions for each year of the award.

The cash bonus multiple for executive directors is capped at a maximum possible individual annual performance bonus of 2,5 times the CTC remuneration. Given the levels of participation in the DAP, this threshold was not reached by any executive director in the 2010 financial year.

The Group Chief Executive was, in 2010, subject to a full mandatory deferral of her 2009 cash bonus until February 2011. In regard to the cash bonus payable to the Group Chief Executive for her 2010 performance, half of the bonus was paid in cash in February 2011. The remaining half will be held in escrow linked to the Absa share price, and will be released after six months. This is in keeping with the requirements of the United Kingdom Financial Services Authority's Remuneration Code, which apply given her role on the Barclays Group Executive Committee.

A further material requirement of the United Kingdom Financial Services Authority's Remuneration Code for the Group Chief Executive is that not more than 40% of total incentive compensation may be delivered in the form of a cash bonus. Absa is compliant with this requirement as the cash bonus of the Group Chief Executive (inclusive of the share-linked component subject to the six-month retention period) is capped at 35% of total incentive compensation.

Payment of board fees to executive directors

Executive directors no longer receive board fees for their membership of the Absa Group board. These fees have been incorporated into executive directors' CTC packages with effect from 1 April 2010. This applied to M Ramos and L L von Zeuner. D W P Hodnett's membership of the Absa board was effective from 1 March 2010 and the changes in respect of board fees for executive directors were factored into the decision regarding his new CTC package as Group Financial Director.

Executive directors' service contracts

Executive directors are employed on permanent contracts of employment with the Group. These (and the contracts of employment for Group Exco members) provide for a six-month notice period. The contracts of executive directors or senior executives do not preclude the Group from exercising its normal rights to terminate the contract in the event of misconduct or poor performance. Executive directors retire from their positions and from the board at the age of 60.

Special arrangements in respect of executive directors and senior executives

Several special arrangements with regard to executive directors remained in place during 2010. These arrangements do not preclude Absa from terminating the services of the individuals for misconduct or poor performance, in which case the payments and conditions outlined would not apply. Further, where eligible leaver provisions apply in respect of share plan or share-based plan participation, these remain contingent on the individual remaining in good standing with Absa (in addition to any other conditions that may apply).

In the latter part of 2008, at the time of change in the Group Chief Executive, special arrangements were entered into with J H Schindehütte and L L von Zeuner to ensure appropriate continuity during the transition period. These were disclosed in the 2008 and 2009 annual reports.

The details of the arrangements are as follows:

J H Schindehütte: Execution of contractual exit terms

J H Schindehütte resigned from his position as Group Financial Director and as an executive director, effective from 28 February 2010, under the terms previously disclosed. In terms of this arrangement, he received the following:

- A termination payment of R9 million, comprising one year's compensation (consisting of CTC and a specified annual bonus amount).
- Six months' contractual notice, taken as special leave.
- Good leaver treatment on all shares and share-based payments.

All payments due under this arrangement were made in September 2010, with the exception of those applicable under the various share or share-based plans and which are subject to a specific vesting based on time or other conditions. J H Schindehütte ceased to be an employee of the Absa Group on 31 August 2010.

L L von Zeuner: Confirmation of scope of contractual exit terms

A similar retention contract was entered into with L L von Zeuner. In terms of this, the following termination benefits apply in the event that he resigns or is asked to leave (other than for misconduct or poor performance):

- A termination payment of R12,35 million.
- Six months' contractual notice, taken as special leave.
- Good leaver treatment on all shares and share-based awards made up to and including 28 February 2009.

These arrangements remain effective, notwithstanding Mr von Zeuner's inclusion in the 2010 special retention arrangements linked to the One Absa strategy.

Where specific retention arrangements were concluded (see details under the special retention plans and the tables of disclosures), these were in relation to specific time and business performance conditions. All awards were subject to full oversight by the GRHRC and are regarded as aligned with the interests of stakeholders.

Non-executive directors

Non-executive directors' terms of engagement

Non-executive directors do not have service contracts. Instead, letters of appointment confirm the terms of engagement of non-executive directors. The letters of appointment confirm that non-executive directors receive fees rather than salaries, and stipulate that they are not eligible for participation in employee incentive plans (including long-term incentive plans).

Absa shares held by non-executive directors

Non-executive directors' interest in Absa shares are disclosed in the directors' report.

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Interests in Absa Group ordinary shares (beneficial and non-beneficial interests) 340

Interests in Absa Bank Limited preference shares 342

Remuneration report

Non-executive directors' remuneration

Non-executive director remuneration is recommended by the Group Chief Executive and the Group Chairman for review by the GRHRC. The DAC also has oversight and final recommendations are made to the Absa Group board, which recommends the proposed fees for shareholder approval.

Non-executive directors' remuneration is based on the size and complexity of the Group. The structure and quantum of remuneration payable aims to fairly and competitively remunerate the directors for their contribution to the organisation through their involvement in board and, where applicable, committee activities.

Non-executive directors (excluding the Group Chairman) are paid a fixed fee for board membership. Similarly, where a non-executive director is a member of a board committee, he/she will be paid a fixed fee for membership of the committee. Special committees and ad hoc meetings are dealt with via specific fees for attendance at the relevant meeting. Stipulated rates for ad hoc work also apply, which could include investigative and consultancy work.

Premiums are payable for chairmanship of committees, ranging from double to triple the fee payable to non-executive directors. No distinctions are made between fees payable to independent non-executives and other non-executive directors. Similarly, fees are not differentiated based on seniority on the board.

The approach of remuneration for non-executive directors recognises that, in light of increasing regulation of financial services organisations, the role of a non-executive director for a large financial services organisation extends substantially beyond his/her attendance at meetings. Non-executive directors are being called upon more frequently than in the past to participate in discussions related to the Group, often beyond the specific remit of their board or committee memberships. Remuneration is therefore a function of board and committee membership, rather than a function of meeting attendance.

Should attendance or contribution issues arise (no such instances having occurred in 2010), it is incumbent upon the chairman of the board or the relevant committee to address this with the non-executive director, with a view to remedying the situation. This would extend to issues such as preparation for and engagement with the agenda and subject matter of the meetings. This approach, in the view of the GRHRC, ensures that non-executive directors conduct themselves as representatives of Absa shareholders in all interactions related to the Group and ensures a strong alignment of the non-executive directors to the interests of stakeholders.

Market practice informs (but does not necessarily dictate) the fee structure applicable for board and committee memberships. Other factors include the amount of time required of non-executive directors and considerations of competitiveness to ensure that Absa board membership becomes the 'appointment of choice' when considering one's overall involvement as a non-executive director. This ensures that the Group is able to attract to its board the right calibre of non-executive director, creating effective and robust oversight over the Group's affairs.

Non-executive directors' fee structure as approved by shareholders

Category	Fees of the 12-month period from 1 May 2010 to 30 April 2011	Fees of the 12-month period from 1 May 2009 to 30 April 2010
Group Chairman	**3 500 000**	3 500 000
Absa Group board member	**166 900**	151 686
Group Audit and Compliance Committee (GACC) member	**155 300**	141 192
Group Risk and Capital Management Committee (GRCMC) member	**155 300**	141 192
Group Remuneration and Human Resources Committee (GRHRC) member	**82 600**	75 048
Directors' Affairs Committee (DAC) member	**56 800**	51 622
Concentration Risk Committee (CoRC) member	**56 800**	51 622
Group Credit Committee member	**1 100 per facility reviewed**	1 000 per facility reviewed
Brand and Reputation Committee member[1] (per meeting)	**14 700**	13 356
Special board meeting (per meeting)	**22 900**	20 776
Special board committee meeting (including Board Finance Committee) (per meeting)	**14 700**	13 356
Ad hoc board fees:		
» Per ad hoc board committee meeting attended	**14 700**	13 356
» Consultancy work (per hour)	**3 300 per hour**	3 000 per hour

Note

[1]*Brand and Reputation Committee was disbanded during 2010.*

Non-executive directors' fees

Name	2010 Absa Group Limited R	2010 Absa Bank Limited R	2010 Absa board committees and sub-committees R	2010 Subsidiary boards, board committees and trusts R	2010 Other R	2010 Total R	2009 Total R
Current directors							
D C Arnold	**161 829**	**161 829**	**726 931**	**102 496**	**—**	**1 153 085**	1 178 914
C Beggs	**87 243**	**87 243**	**120 005**	**—**	**—**	**294 491**	—
B P Connellan	**161 829**	**161 829**	**238 725**	**80 828**	**—**	**643 211**	649 358
Y Z Cuba	**161 829**	**161 829**	**260 939**	**—**	**—**	**584 597**	553 604
B C M M de Vitry d'Avaucourt[1]	**161 829**	**161 829**	**136 195**	**—**	**—**	**459 853**	361 410
S A Fakie	**161 829**	**161 829**	**150 597**	**—**	**—**	**474 255**	488 419
G Griffin (Group Chairman)[2]	**995 104**	**120 104**	**420 291**	**234 744**	**—**	**1 770 243**	1 139 049
M W Hlahla	**161 829**	**161 829**	**162 363**	**—**	**—**	**486 021**	455 776
M J Husain	**161 829**	**161 829**	**217 437**	**—**	**—**	**541 095**	542 434
A P Jenkins[1]	**161 829**	**161 829**	**230 680**	**—**	**—**	**554 338**	427 326
R Le Blanc[1]	**161 829**	**161 829**	**217 437**	**—**	**—**	**541 095**	561 373
T M Mokgosi-Mwantembe	**161 829**	**161 829**	**106 795**	**47 143**	**—**	**477 596**	425 048
E C Mondlane, Jr	**161 829**	**161 829**	**162 363**	**358 003**	**—**	**844 024**	973 925
T S Munday	**161 829**	**161 829**	**617 958**	**—**	**66 500**	**1 008 116**	972 168
S G Pretorius	**161 829**	**161 829**	**224 293**	**26 514**	**—**	**574 465**	439 678
B J Willemse	**161 829**	**161 829**	**274 049**	**—**	**—**	**597 707**	559 092
Past directors							
D C Brink (former Group Chairman)[3]	**2 625 000**	**—**	**—**	**—**	**—**	**2 625 000**	2 194 562
Total	**5 972 953**	**2 472 953**	**4 267 058**	**849 728**	**66 500**	**13 629 192**	11 922 136

Notes

[1]*These fees are paid to Barclays and not to the individuals.*

[2]*Appointed as the Group Chairman on 1 October 2010. He received board and committee fees under the standard non-executive fee structure to this date. This was then changed to the fixed compensation arrangements applicable to the Group Chairman.*

[3]*Retired from the board on 30 September 2010.*

Remuneration report

Summary of executive and employee share-based plans operational in the Group

As previously indicated, there are various legacy long-term incentive plans in operation in the Group, some of which are in the process of being wound down, based on their particular vesting profile. These historical long-term incentive plans are set out in summary form on the pages to follow.

Plan name	Award year	Vesting profile 2006	2007	2008	2009	2010	2011	2012	2013	2014	Performance conditions	Status
Executive share-based plans												
Incentive Share Option Plan	2005			1/3	1/3	1/3					No	Active
Performance Share Plan	2006				Paid						Yes	Closed
	2007					Lapsed					Yes	Closed
	2008 (1)						Partially lapsed				Yes	Closed
	2008 (2)						Lapsed				Yes	Closed
	2009										Yes	Active
Executive Share Award Scheme[1] (including the Voluntary Executive Share Award Scheme)	2006				Available						No	Active
	2007					Available					No	Active
	2008										No	Active
	2009										No	Active
Deferred Award Plan	2010						Paid	1/3	1/3		Yes	Active
	2011 (1)							1/3	1/3	1/3	Yes	Active
	2011 (2)							1/3	1/3	1/3	No	Active
Joiners Share Award Plan (JSAP)	2006 onwards	Variable based on the awards being substituted under the JSAP arrangements.									No	Active

Plan name	Award year	2006	2007	2008	2009	2010	2011	2012	2013	2014	Performance conditions	Status
Broad-based share-based plans												
Employee Share Ownership Trust	2004										No	Closed
Batho Bonke Capital (Proprietary) Limited	2004										No	Active

● **Award**

▼ **Vesting**

Full details of the respective plans (excluding the DAP, which is covered in detail on page 152), are included on pages 168 to 170 of the report.

Note

[1]*Executive Share Award Scheme shares may be exercised between the third and fifth anniversary of the date of award.*

Anticipated changes for 2011

It is anticipated that 2011 will see the crystallisation of the progress made in 2010 regarding the design and governance of remuneration plans within the Group. The following major initiatives are scheduled to conclude in 2011:

» Changes to the DAP, to introduce a two-tiered structure for awards made in 2011 are set out below:

	Deferred Award Plan 1	Deferred Award Plan 2
Eligible population	Members of Group Exco and their senior direct reports.	All employees eligible for awards under the DAP.
Performance condition	Return on average equity greater than or equal to the cost of equity for each year of the award (in separate tranches).	No specific performance conditions.
Prudent financial control provision	Absa's overall financial health must be such that the vesting of share-based awards is justified. This will apply for each tranche of the awards.	
Malus condition	Any actions resulting in the misstatement of accounts, failures in risk management or actions which result in reputational damage for Absa may be grounds for removal from plan participation (in addition to any other sanction that may be appropriate).	
General GRHRC override	The GRHRC has the discretion to make determinations regarding the impact of exogenous events on the achievement (or otherwise) of performance or prudent financial control provisions.	

» The vesting arrangements, which will see one-third of the award vesting on each of the first, second and third anniversaries of the date of grant, are consistent with the arrangements currently in place.

» The formalisation of a Group compensation framework that articulates the range of measures (financial, non-financial, risk and other) that will be used at a Group level to determine the appropriateness of total incentive funding that will apply in each year. This comprehensive framework will be established as an enduring structure that guides the variable compensation conversation over the coming years by setting appropriate upper and lower thresholds based on the mix of measures selected. The framework will ensure a broad-based, formalised approach that takes account of the range of factors that impact business performance in the short and long term. The Group compensation framework, which will provide top-down parameters for total incentive funding, will be supplemented by the development of cluster-level frameworks to assist in compensation planning. These will inform the final approval of total incentive funding at a cluster level (as a share of the Group pools) by ensuring that the range of factors impacting cluster-specific performance and sustainability are considered.

» Integration of reward and risk through the formalisation of a regular process of engagement between the Group's remuneration and risk committees. A process of greater co-operation between the Group's risk and human resources functions in the design, implementation and monitoring of compensation plan has already commenced.

» Rationalisation of stand-alone long-term incentive arrangements to enhance focus and ensure increased alignment between the interests of stakeholders and executives of the Group. This will involve a review of the current share plan environment to ensure an optimal structure for the delivery of long-term compensation to key executive directors, senior executives and members of the executive team. Participation in such plans will, in the future, be limited to individuals who have a material impact on business performance and therefore on the creation of stakeholder value. The Joiners Share Award Plan (JSAP) and BBBEE arrangements will not form part of this rationalisation as these remain fit for purpose and have been in operation for several years.

Disclosure overview

The disclosures set out on the pages to follow comply with the following regulatory provisions:

» Section 8.63 (k) of the JSE Listings Requirements.

» Principle 9 and Standard 15 of the International Financial Stability Board's Principles for Sound Compensation Practice (the FSB principles).

The following approach is adopted in this report for disclosure under these statutes, codes and regulations:

» Detailed individual disclosures are made in respect of non-executive and executive director compensation (including all aspects of compensation).

Remuneration report

» The compensation of senior executives is included in the related-party payments section in the notes to the financial statements, as set out on page 439 of the report.

The GRHRC has direct and detailed oversight over decisions concerning the compensation of all individuals included in the disclosures, and has satisfied itself that decisions taken regarding compensation for these individuals are appropriate and in the best interests of the Group and its stakeholders. The GRHRC has further satisfied itself that there are no payments that override the appropriate performance considerations, and that there has, accordingly, been no 'reward for failure'.

Appointment dates of executive directors

Group executive director	Date appointed to the board	Date resigned/retired from the board
M Ramos	1 March 2009	
L L von Zeuner	1 September 2004	
D W P Hodnett	1 March 2010	
J H Schindehütte[1]	1 January 2005	28 February 2010

Note

[1]*Received six months' special leave from 1 March 2010 to 31 August 2010.*

Group executive directors' total current year compensation

Group executive director	Period	Directors' fees[8] R	Guaranteed remuneration[9] R	Other R	Cash performance bonus R	Total current year compensation R
M Ramos	**2010[1]**	**37 922**	**6 519 857**	**—**	**4 550 000**	**11 107 779**
	2009[2, 3]	124 974	5 088 855	—	2 916 550	8 130 379
L L von Zeuner	**2010[4]**	**37 922**	**4 280 993**	**88 093**	**3 850 000**	**8 257 008**
	2009	168 424	3 743 747	—	3 500 000	7 412 171
D W P Hodnett	**2010[5]**	**—**	**2 774 213**	**—**	**2 450 000**	**5 224 213**
	2009	—	—	—	—	—
J H Schindehütte	**2010[6]**	**25 281**	**503 757**	**10 503 600**	**—**	**11 032 638**
	2009[7]	168 424	3 008 820	14 273	6 000 000	9 191 517
Total	**2010**	**101 125**	**14 078 820**	**10 591 693**	**10 850 000**	**35 621 638**
	2009	461 822	11 841 422	14 273	12 416 550	24 734 067

Notes

[1]*M Ramos's 2010 performance bonus was paid 50% in cash in February 2011, with 50% being linked to the Absa share price and subject to release after six months. The amount disclosed is the full value of the bonus award.*

[2]*Performance bonus was for the period 1 March 2009 to 31 December 2009 (as M Ramos joined both Absa and the board on 1 March 2009), and was deferred in full to February 2011. The bonus was disclosed in the 2009 annual report.*

[3]*Guaranteed remuneration for 2009 is for the period 1 March 2009 to 31 December 2009 (i.e. the 10 months served as an employee and a Group executive director).*

[4]*Payment of R88 093 made in respect of accrued leave. The maximum days that employees are allowed to hold is capped and any additional leave days are paid out in cash.*

[5]*Guaranteed remuneration for 2010 is for the period 1 March 2010 to 31 December 2010 (i.e. the 10 months served as a Group executive director). The cash bonus is the full amount paid to D W P Hodnett in respect of 2010.*

[6]*Other payment refers to the value of J H Schindehütte's termination benefits amounting to R9 million, and the value of the special leave was R1,5 million.*

[7]*Received a long service award to the value of R14 273.*

[8]*This payment was discontinued for all Group executive directors on 1 April 2010. No payments were made to D W P Hodnett in this regard, notwithstanding him having joined the board in March 2010.*

[9]*The composition of guaranteed remuneration is set out in detail in the table on page 164.*

Group executive directors' future contingent compensation

Group executive director	Period	Deferred Award Plan[1] R	Key Leaders' Plan[2] R	Illustrative potential vesting profile (before share price movement, performance conditions and consideration for dividends[3]) Deferred Award Plan 2011 R	Deferred Award Plan 2012 R	Deferred Award Plan 2013 R	Deferred Award Plan 2014 R	Key Leaders' Plan 2013 R
M Ramos	**2010**	**8 450 000**	**8 000 000**	**—**	**2 816 667**	**2 816 667**	**2 816 667**	**8 000 000**
	2009[4]	5 416 450	—	1 805 483	1 805 483	1 805 483	—	—
L L von Zeuner	**2010**	**7 150 000**	**8 000 000**	**—**	**2 383 333**	**2 383 333**	**2 383 333**	**8 000 000**
	2009	6 500 000	—	2 166 667	2 166 667	2 166 667	—	—
D W P Hodnett	**2010**	**4 550 000**	**6 000 000**	**—**	**1 516 667**	**1 516 667**	**1 516 667**	**6 000 000**
	2009	—	—	—	—	—	—	—
Total	**2010**	**20 150 000**	**22 000 000**	**—**	**6 716 667**	**6 716 667**	**6 716 667**	**22 000 000**
	2009	11 916 450	—	3 972 150	3 972 150	3 972 150		

Notes

[1] *Awards reflected under 2010 are made under the DAP in the 2010/11 payround (and therefore were awarded in February 2011) in respect of the period from 2011 to 2013, with vesting subject to the fulfilment of future-based performance conditions and vesting one-third each on the first, second and third anniversaries of the award grant date. Awards reflected under 2009 are awards made under the DAP in the 2009/10 payround process (awarded in February 2010) and are subject to 2010 to 2012 performance.*

[2] *These are long-term awards made in respect of the key leaders special retention plan linked to the achievement of the One Absa strategy. Awards were made 50% in cash and 50% in phantom shares, but the entire award vests after the end of 2012. The vesting of the cash component is subject to performance conditions.*

[3] *This section illustrates the vesting arrangements in regard to the various plans, and the value (before share price movement, performance conditions or consideration of dividends). The values show potential future payments against the awards made under each plan. The dates shown reflect the year in which payment will actually be made. The value of dividends that were paid to ordinary shareholders over the period of the award are added to the final value to vest.*

[4] *The award was pro rated in 2009 to reflect the 10 months served as an employee and Group executive director.*

Remuneration report

Composition of guaranteed remuneration

The remuneration tabled below relates only to the period that an individual is or was a Group executive director. Thus, where a Group executive director joined the board part-way through the year, only the remuneration for the period on the board is reflected:

Group executive director	Period	Salary R	Additional vehicle benefit R	Medical aid R	Retirement and other employee benefit funding[1] R	Total R
M Ramos	**2010**	**5 948 781**	**—**	**59 100**	**511 976**	**6 519 857**
	2009[2]	4 645 040	—	42 830	400 985	5 088 855
L L von Zeuner	**2010**	**3 789 461**	**86 293**	**76 044**	**329 195**	**4 280 993**
	2009	3 348 034	37 747	66 132	291 834	3 743 747
D W P Hodnett	**2010[2]**	**2 484 240**	**9 879**	**63 370**	**216 724**	**2 774 213**
	2009	—	—	—	—	—
J H Schindehütte	**2010[2]**	**426 877**	**2 557**	**8 960**	**65 363**	**503 757**
	2009	2 505 514	49 304	61 824	392 178	3 008 820
Total	**2010**	**12 649 359**	**98 729**	**207 474**	**1 123 258**	**14 078 820**
	2009	10 498 588	87 051	170 786	1 084 997	11 841 422

Notes

[1] *Contributions towards Group Life, retirement fund and Group funeral scheme.*

[2] *The remuneration tabled above relates only to the period that an individual is or was a Group executive director during the reporting period and is therefore not full-year compensation.*

Group executive directors' share incentive scheme options: Composition of opening balances as at 1 January 2010

Group executive director	Date of grant	Expiry date of option	Number of options granted	Price per share R
L L von Zeuner	19 Aug 04	19 Aug 14	102 000	51,61
	18 Aug 05	18 Aug 15	60 000	91,70
			162 000	
J H Schindehütte	18 Aug 05	18 Aug 15	30 000	91,70
			30 000	

Group executive directors' Share Incentive Scheme option movements[1]

Group executive director	Period	Opening balance as at 1 January (number of options)	Number of options exercised	Purchase date/ exercise date[2]	Price per option R	Shares purchased/ gains on options exercised[3]	Closing balance as at 31 December (number of options)
L L von Zeuner	**2010**	**162 000**	—	—	—	—	**162 000**
	2009	251 334	63 334	27 Feb 09	Shares purchased at share option price of R35,01		162 000
			26 000	9 Jun 09	Shares purchased at share option price of R48,73		
J H Schindehütte	**2010**	**30 000**	—	—	—	—	**30 000**
	2009	154 571	124 571	19 Aug 09	Shares purchased at share option price of R46,56		30 000

Notes

[1] *The Share Incentive Scheme has not been used for new allocations to Group executive directors since 2006.*

[2] *Options are exercisable at any date from the vesting date. When the activity reported on is a purchase of shares, the purchase date is shown. In this case, a preceding exercise of the options would already have taken place.*

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

Group executive directors' share award movements under the Phantom PSP[1]

Group executive director	Period	Opening balance as at 1 January (number of options)	Number of options awarded	Price per share[2] R	Expiry date	Number of options vested/ (lapsed)	Closing balance as at 31 December (number of options)	Number of shares implemented[3]	Share price R	Value generated/ (lost) R
L L von Zeuner	**2010[4]**	**161 073**	—	—	—	**(31 696)**	**129 377**	—	—	**(4 212 398)**
	2009	125 341	69 349	95,17	20 Feb 12	33 617	161 073	74 094	98,64	7 308 632
J H Schindehütte	**2010[4]**	**106 450**	—	—	—	**(24 878)**	**81 572**	—	—	**(3 306 286)**
	2009	87 884	42 030	95,17	20 Feb 12	23 464	106 450	51 714	98,64	5 101 069
D W P Hodnett	**2010[5]**	**48 556**	—	—	—	—	**48 556**	—	—	—
	2009	—	—	—	—	—	—	—	—	—

Notes

[1] *One Phantom PSP option has a value equivalent to one Absa ordinary share. The scheme is subject to performance measures: for 2007, profit after tax and earnings 2008, a combination of total shareholders' return and earnings per share, and for 2009, profit after tax and earnings.*

[2] *The price is the volume-weighted average share price for the 20 trading days immediately preceding the grant date.*

[3] *A multiple of 1,9 was achieved for the period ended 2008 in respect of awards made in 2006. This was the final number of shares plus 'dividend shares' that vested per participant for the performance period from 2006 to 2008 in respect of outstanding awards granted in 2006.*

[4] *The PSP options awarded in 2007 lapsed in full in 2010 on account of the non-fulfilment of performance conditions.*

[5] *Calculated on the same basis as a vesting decision without the addition of 'dividend shares' (i.e. before the value of dividends paid to ordinary shareholders, which is added to the award based on the number of phantom shares held and released as additional shares on the vesting date).*

Group executive directors' holdings under ESAS

Group executive director	Period	Opening balance as at 1 January (number of options)	Number of options awarded	Price per share[1] R	Expiry date[2]	Number of vested options taken up	Closing balance as at 31 December (number of options)	Number of options implemented[3]	Share price[4] R	Value R
L L von Zeuner	**2010**	**49 474**	**—**	**—**	**—**	**14 639**	**34 835**	**20 326**	**132,98**	**2 702 951**
	2009	62 112	11 015	95,17	20 Feb 12	23 653	49 474	32 920	102,53	3 375 287
D W P Hodnett	**2010**	**13 835**	**—**	**—**	**—**	**—**	**13 835**	**—**	**—**	**—**
	2009	—	—	—	—	—	—	—	—	—
J H Schindehütte	**2010**	**58 536**	**—**	**—**	**—**	**10 191**	**48 345**	**14 378**	**141,01**	**2 027 442**
	2009	40 148	18 388	95,17	20 Feb 12	—	58 536	—	—	—

Notes

[1] *The price is the volume-weighted average share price for the 20 trading days immediately preceding the grant date.*

[2] *Although the vesting date is the third anniversary of the award date, there is an opportunity for a participant to remain in the scheme for a further two-year period.*

[3] *The number of shares taken up on the third anniversary plus the 20% bonus shares and 'dividend shares' (see note 5 under Phantom PSP on page 165 for an explanation of 'dividend shares'). Participants who did not elect to take up the shares on the third anniversary may still do so up to the fifth anniversary.*

[4] *The volume-weighted average share price of the 20 trading days prior to the implementation date.*

Group executive directors' holdings under VESAS

Group executive director	Period	Opening balance as at 1 January (number of shares)	Number of shares awarded	Price per share R	Expiry date	Closing balance as at 31 December (number of shares)
J H Schindehütte	**2010**	**23 224**	**—**	**—**	**28 Feb 11**	**23 224**
	2009	23 224	—	—	28 Feb 11	23 224

Group executive directors' share award holdings under the DAP[1]

Group executive director	Period	Opening balance as at 1 January (number of awards)[2]	Number of awards awarded	Price per share[3] R	Expiry date[4]	Closing balance as at 31 December (number of awards)
M Ramos	2010	—	40 845	132,61	20 Feb 13	40 845
L L von Zeuner	2010	—	49 016	132,61	20 Feb 13	49 016
D W P Hodnett	2010	—	24 508	132,61	20 Feb 13	24 508

Notes

[1]*Long-term award made in the 2009/10 payround but in respect of the period from 2010 to 2012. Vesting subject to the fulfilment of performance conditions based on one third on each of the first, second and third anniversaries of the grant date.*

[2]*Allocations made in respect of future-based performance conditions over the period from 2010 to 2012, and therefore subject to risk, based on these conditions.*

[3]*The volume-weighted average share price of the 20 trading days prior to the grant date.*

[4]*The final expiry date of all tranches.*

Group executive directors' holdings under the Joiners Share Award Plan (JSAP)[1]

Group executive director	Period	Opening balance as at 1 January (number of awards)	Expiry date	Number of vested awards	Share price R	Value[2] R	Closing balance as at 31 December (number of awards)
D W P Hodnett	2010[3]	9 473	31 Mar 11	3 917	140,18	599 606	5 556

Notes

[1]*Phantom restricted share plan used primarily to make whole previous share plan participation of new joiners.*

[2]*The final value plus 'dividend shares' that vested.*

[3]*JSAP award made in 2008.*

Group executive directors' holdings under Key Leaders Retention Plan (KLR)[1]

Group executive director	Period	Opening balance as at 1 January (number of awards)	Number of awards awarded	Price per share[2] R	Expiry date	Closing balance as at 31 December (number of awards)
M Ramos	2010	—	30 098	132,90	Feb 13	30 098
L L von Zeuner	2010	—	30 098	132,90	Feb 13	30 098
D W P Hodnett	2010	—	22 574	132,90	Feb 13	22 574

Notes

[1]*See description of the plan on page 154 of the report. Altogether 50% of the award was made in phantom shares, which vest in the first quarter of 2013, and is reflected in the above table as a share-based payment. The balance of 50% of the award was made in cash, which will be released in the first quarter of 2013 subject to the achievement of the agreed performance conditions. The full award for each Group executive director is shown in the table headed "Group executive directors' future contingent compensation".*

[2]*The volume-weighted average share price of the 20 trading days prior to the implementation date.*

Remuneration report

Share and share-based plans awarded primarily to senior employees

	Share Incentive Scheme	Performance Share Plan (PSP)	Executive Share Award Scheme (ESAS)	Voluntary Executive Share Award Scheme (VESAS)	Joiners Share Award Plan (JSAP)
Plan type and description	Share Option Scheme, with awards provided under the Absa Group Share Incentive Trust.	Phantom restricted share plan, with vesting subject to performance conditions.	Phantom restricted share plan offered as a mandatory bonus deferral arrangement for all bonuses at or exceeding a specific threshold.	Phantom restricted plan allowing for voluntary deferral of any bonus up to 100% of the total award into the plan. Only applies to individuals already participating in the mandatory ESAS arrangements.	Phantom restricted share plan used primarily to make whole the previous share plan participation of new joiners where this is forfeited upon joining Absa, or to provide a longer-term share-based incentive to attract new entrants.
Period of operation	Last awards were made in 2005. The scheme is still available for use should it become appropriate to do so.	2006 to 2009. The scheme is still available for use should it become appropriate to do so.	2007 (in respect of the 2006 performance year) to 2010 (in respect of the 2009 performance year). The scheme is still available for use should it become appropriate to do so.	2007 (in respect of the 2006 performance year) to 2010 (in respect of the 2009 performance year). The scheme is still available for use should it become appropriate to do so.	2006 to present (still in operation).
Vesting arrange-ments	All awards have vested, but participants have until the 10th anniversary of the date of grant to exercise awards or take delivery of the shares.	**PSP 2006** vested in 2009 at a multiple of 1,9 times the original award. **PSP 2007** lapsed in full in 2010 on account of non-fulfilment of the performance conditions. **PSP 2008:** Plan 1: 50% of the award vested at a multiple of 3 times the original award in February 2011 based on fulfilment of the total shareholder return condition. The remaining 50% of the award lapsed based on the non-fulfilment of the attributable earnings performance condition. Plan 2: this did not vest in February 2011 based on performance against the attributable earnings performance condition.	25% of the total bonus, where this exceeds a specific threshold, is deferred into ESAS. Awards vest on the third anniversary of the date of grant, at which point an award of bonus shares equal to 20% of the original award is made. The participant may exercise the award at any time between the third and fifth anniversary of the date of grant, at which time the current value of the original award, plus the bonus shares, plus the value of any dividends paid during the life of the award, will be paid out.	The VESAS arrangements allow for the voluntary deferral of all or part of the 75% of the total bonus not already deferred into ESAS. Where an employee elects to participate in VESAS, the net (after-tax) amount is converted into a VESAS award. The converted bonus then takes the form of Absa shares.	This is a flexible scheme that allows for the determination of an appropriate vesting scale (subject to vesting occurring on a quarter-end) to replicate the arrangements replaced under the JSAP award. Similarly, where JSAP awards are made as part of an individual's joining arrangements, an appropriate vesting scale can be structured to ensure an appropriate balance of longer-term focus and retention.

	Share Incentive Scheme	Performance Share Plan (PSP)	Executive Share Award Scheme (ESAS)	Voluntary Executive Share Award Scheme (VESAS)	Joiners Share Award Plan (JSAP)
Vesting arrange-ments *(continued)*		**PSP 2009:** This is subject to an attributable earnings performance condition and will be tested against performance over the period from 2009 to 2011. Settlement (where awards vest) is based on the 20-day volume-weighted average price of Absa ordinary shares immediately preceding the vesting date. Notional dividends for the portion of the award that vests, are added to the value of the release in the form of additional shares and this is paid out with the balance of the vested award. Awards made in 2006 were cash settled. Awards made in 2008 and 2009 are, subject to the fulfilment of the relevant performance conditions, be equity settled.	Should the participant remain in the plan until the fifth anniversary of the date of grant, a further 10% of the original award will accrue as bonus shares. Awards may not be held beyond the fifth anniversary of the date of grant, at which point they will automatically vest to the individual and be paid out. Payments are made based on the 20-day volume-weighted average price immediately preceding the exercise date, (or vesting date, where this is the fifth anniversary of the date of grant). Awards made in 2006 and 2007 (in respect of the 2005 and 2006 financial years respectively) are cash settled, whereas awards made in 2008 and 2009 (in respect of the 2007 and 2008 financial years) are equity settled.	Employees may take delivery of the shares at any time after conversion of all or part of their cash bonus into VESAS. However, the same approach to matching shares applies (albeit on a net basis) as applies under ESAS, subject to the individual remaining in the scheme until the third or fifth anniversaries of the date of grant.	JSAP awards are not subject to performance conditions. However, where a buy-out is effected over awards at a previous employer that are subject to performance conditions, progress made to achieving these is taken into account. Where relevant, the fair value of awards is discounted to reflect the relative performance against the conditions. This discounted value is then used in determining the number of phantom JSAP shares that are awarded. JSAP awards are all cash settled and include the value (as additional shares) of uncompounded dividends.
Details of awards made to executive directors	Page 165 of this report.	Page 165 of this report.	Page 166 of this report.	Page 166 of this report.	Page 167 of this report.
Further details	Further details are contained in note 54.1 to the consolidated financial statements.	Further details are contained in notes 54.4 and 54.8 to the consolidated financial statements.	Further details are contained in notes 54.5 and 54.7 to the consolidated financial statements.	Further details are contained in notes 54.5 and 54.7 to the consolidated financial statements.	Further details are contained in note 54.6 to the consolidated financial statements.

Remuneration report

Broad-based share-based plans

	Employee Share Ownership Trust	Batho Bonke Capital (Proprietary) Limited
Plan type and description	Broad-based share option plan applicable to all employees. Each employee in the Group as at 1 July 2004 was allotted 200 redeemable option-holding preference shares against receipt of the R400 subscription price. Options could be exercised at specific intervals, with the final opportunity being 30 June 2009. Where individuals, who were eligible to exercise their options, had not done so, the board gave authority for these to be automatically exercised. This ensured that employees who could not be contacted did not forfeit their rights to the options.	Awards under the Batho Bonke scheme for employees and some non-executive directors qualifying as 'previously disadvantaged' were approved by shareholders. This was part of the BBBEE arrangement with Batho Bonke Capital (Proprietary) Limited in July 2004. Awards made are held in the Absa Group HDSA Employees Trust on behalf of the beneficiaries. An allocation of almost 2 million unallocated shares was approved by the trustees of the HDSA Employees Trust and the GRHRC in 2010. These shares had accumulated in the trust as a consequence of attrition, where awards were forfeited. Of the 2 million shares available for allocation, approximately 1,6 million were allocated to employees who either were not participants, or who had shares allocated below a specified threshold. The balance is available for allocation to new joiners. Awards took into account the reduced period during which participants would be beneficiaries of the HDSA Employees Trust, and were therefore pro rated relative to the original allocations.
Period of operation	2004 to 2009	2004 to present.
Vesting arrangements	All awards made under this arrangement vested in June 2009. The trust is thus in the process of being wound up (such winding up having been approved by the board and the GRHRC in December 2010).	The final vesting of the shares in the HDSA Employees Trust is subject to approval by the board of Batho Bonke Capital and the trustees.
Awards made to executive directors and other senior executives	All awards made under this plan vested in 2009 and were disclosed in the 2009 annual report.	The details of awards made to executive directors are listed on page 341 of this report.
Further details	There are no outstanding awards under this arrangement.	Further details are contained in note 54.2 to the consolidated financial statements on page 454 of this report.

Human resources report

Introduction

Integral to the One Absa strategy, the Group understands that to meet its goal of being truly customer-centred in everything that it does, it must be resourced with talented, energised and passionate people. For Absa to become a more people-centred organisation, its focus is on fostering healthy and mutually beneficial relationships with its employees. The revised Group Human Resources strategy (2010 to 2012) was approved by the board in March 2010 and underlines three people imperatives:

Transformation: moving from employment equity to a culture of inclusivity.

Talent management: improving the talent pipeline and succession ratio.

Learning and development: shifting the focus from compliance-driven learning to skills-driven learning.

Governance

Effective management and oversight of all matters pertaining to Absa employees are vital to the achievement of the One Absa strategy. As highlighted in the remuneration report, the role of the GRHRC and the GRPC deliver on the responsibility of sustainable remuneration practices and other human resource matters. In addition, the Group Transformation Steering Committee (GTC) has been tasked with the responsibility of oversight of the cluster transformation, national disability as well as women's forums. This committee is chaired by the Group Chief Executive and meets twice a year.

Transformation

Workforce demographics

The Group's gender distribution has remained stable with 34,8%[1] male and 65,2%[1] female employees at the end of the financial year. The total workforce increased marginally by 1% year-on-year. As at 31 December 2010, the Group has 36 770 permanent employees and 43 239 permanent and non-permanent employees.

Employment equity

Absa is fully committed to transformation and reflecting the natural demographics of South African society in its workforce. Absa subscribes to the requirements of the Department of Trade and Industry's BBBEE CoGP and to the commitments in the Financial Sector Charter. The Group has made good progress in the achievement of employment equity targets during 2010 with all categories showing improvement. The need to further deliver on targets, particularly at middle and senior management levels, will remain a priority in 2011.

Talent management

Recruitment: Attracting top talent remained a key driver of the human resources agenda in 2010 and significant progress has been made in attracting and promoting more African talent when compared to 2009. Great strides were made in senior management appointments during 2010, which included a blend of external appointments and internal promotions to ensure a well balanced management team.

Retention and succession planning: A new talent management system was introduced in 2010 to identify and develop top talent within the organisation for more effective succession planning. An increase in internal promotions and transfers compared to external appointments was evident from 2009 (28%) with 36% of appointments during 2010 constituting existing Absa talent. Talent exchange programmes between Absa and its African businesses were also initiated this year to provide talented employees with opportunities to gain more extensive experience.

Note

[1]*This ratio is based on the Absa Group's permanent employee complement excluding Woorlworths Financial Services (Proprietary) Limited, NBC and BBM.*

Human resources report

Skills development

Absa is committed to promoting a learning culture which enables employees to develop and grow to reach their full potential. Absa spent R372 million on learning activities in 2010, of which R284 million was spent on historically disadvantaged groups. This equates to 3,0% of leviable payroll spend, meeting the target set by the Department of Trade and Industry's BBBEE CoGP. A significant investment in skills development was also evident in NBC and BBM.

Learnerships: In total, 1 850 learners were provided an opportunity to gain skills by working at Absa, of which 115 are currently employed full time by the Group. Absa also partnered with the Banking *Sector Education and Training Authority* (BankSeta) to offer learnerships to previously disadvantaged school leavers and unemployed graduates. During 2010, 621 learnerships in Absa were made available through these BankSeta programmes.

Absa graduate programme: Absa runs an annual graduate programme which caters for developing the skills of university graduates across all fields at Absa. A total of 98 graduates completed the programme in 2010. Altogether 70% of the 2009 graduate intake was retained of which 24% has been promoted during the year. NBC introduced an in-country graduate programme in 2010 with the top five graduates on this programme being selected to participate in the Absa graduate programme in 2011.

Leadership development: The Absa Development Initiative (ADI) and Accelerated Leadership Development (ALD) programmes offer young people with potential a series of growth opportunities to enhance their leadership abilities. Altogether 158 employees participated in these programmes during the 2010 financial year of which 37 employees completed their final year.

Programmes for lifelong learning: More than R20 million was invested by Absa to assist 1 767 employees to further their education during 2010, which is a significant uplift from 2009. NBC also offers a bursary scheme through the University of Dar Es Salaam. Over and above employee development, Absa offers bursaries to support employees' dependants.

Performance development

The Group has a well-embedded and standardised process for the setting of performance objectives and the evaluation of performance. Formal performance reviews are conducted twice a year during June and November. Year-end performance ratings are an important input into remuneration decisions. An enhanced performance development approach was introduced to ensure that employee performance is consistently and fairly reviewed.

Employee engagement

Employee opinion survey (EOS)

Fostering healthy and mutually beneficial relationships with its employees is central to Absa's ambition of becoming a more people-centred organisation. Annually, Absa participates with Barclays in an EOS administered by international research firm Towers Watson. The aim of EOS is to gauge employee engagement levels and perceptions about their work environment. Insights gained from this survey are used to guide and prioritise employee engagement and human resources initiatives. Some 91% of the Group's employees, including Absa, BBM and NBC, participated in the 2010 survey (2009: 82%). The results showed significant year-on-year improvements in seven of 13 categories, especially in the area of employee commitment. This marked improvement in the commitment score places Absa strongly when compared to the Towers Watson global financial services norm.

Communicating with employees

In 2010, an extensive One Absa engagement programme was introduced to enable a deeper understanding of the role that each employee plays in realising the objectives of the One Absa strategy. The programme consisted of a number of phases to embed the strategy, connect with customers, promote a more customer-centred organisation and celebrating the FIFA World Cup™ through a One Absa behind One Nation campaign. The EOS results confirmed that 90% of employees strongly believe in the goals and objectives of Absa and understand their role in living the One Absa strategy, which demonstrates the positive impact of this programme.

Employee relations and human rights

Fair labour practices

Absa recognises that every employee is entitled to fair labour practices, has the right to his/her dignity and has the right to privacy. A range of policies affirm Absa's commitment to recognising an employee's rights and to provide procedures that protect such rights. Absa continues to foster strong relationships with relevant roleplayers such as the employee unions to ensure that employees' interests are respected and protected.

Employee wellness

Absa has a comprehensive wellness programme called 'Live Well Work Well' to encourage employees to choose healthier, more balanced lifestyles. The findings of a knowledge, attitude and perception survey conducted in August 2010 will be used to inform the implementation of a comprehensive Absa HIV counselling and testing (HCT) and chronic disease management campaign in 2011. The Group's HIV/Aids programme and policy undertakes to deal with infected employees in the same manner as employees suffering from any other life-threatening disease.

Further reading

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Human resources report

Focus for 2011

Emphasis will continue to be placed on the identified focus areas of the Group's human resources strategy, with particular attention being paid to:

Transformation: moving from employment equity drivers to a culture of inclusivity.
- » Continued focus on enhancing Absa's employment equity status.
- » Further strengthening an inclusive culture through continuous employee engagement.
- » Creating development opportunities through graduate, learnerships and leadership programmes for historically disadvantaged individuals.

Talent management: improving the talent pipeline and succession ratio.
- » Further streamlining the recruitment process and building a strong internal recruitment capability.
- » Improved management and succession planning for internal talent.
- » Ensuring an integrated approach to employee recognition to enhance talent retention.

Learning and development: shifting the focus from compliance-driven learning to skills-driven learning.
- » Introducing a new on-line learning management system for employees to easily access learning opportunities.
- » Introducing new leadership framework to inform leadership competencies and development.
- » Embedding a consistent people change management approach in the organisation.

Report from the Chairman of the Group Audit and Compliance Committee

Des Arnold
Chairman: Group Audit and Compliance Committee

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.

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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;
- ensuring that controls and procedures relating to the IT environment and processes were adequately considered by internal audit, including recovery procedures;

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Report from the Chairman of the Group Audit and Compliance Committee

- 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

Compliance report

Introduction

As a leading financial services institution and as a member of the Barclays Group, Absa faces complex challenges in ensuring its activities comply with not only local laws, regulations and supervisory requirements and with those of the various jurisdictions in which Absa operates, but also with the relevant international requirements applicable to the Barclays Group. To this end, the board requires that the compliance risks associated with Absa's business activities are clearly directed, assessed, challenged, managed, controlled and reported on, as required by the relevant jurisdictions.

Compliance risk is the risk that the processes and procedures implemented by Absa to comply with applicable laws, regulations and supervisory requirements are not followed, or are inadequate and ineffective. The failure to manage compliance risks can ultimately result in one or more of the following:

- Financial penalties (corporate and/or personal liability).
- Criminal prosecution and imprisonment of directors, executive officers, management and employees.
- Public reprimands and the associated reputational damage.
- Greater regulatory scrutiny and intervention.
- In extreme cases, the loss of or restrictions placed on the Group's licences to perform financial services related activities.

Approach to compliance

The board, through the GACC, has delegated to the Group Compliance Officer the authority to prescribe and implement a governance framework within which directors, management, employees and the compliance function operate in order to enforce a compliance culture and to identify, prioritise, manage, monitor and report on the compliance risks inherent to the business. An effective and independent compliance function is a key contributor to good corporate governance and is a requirement of King III, the Banks Act and various other legislation.

Highlights

- Continued vigilance in respect of the identification of new and amended regulatory requirements impacting on the Group.
- Group-wide projects to address the prescriptions of the amended Financial Advisory and Intermediary Services Act's Fit and Proper requirements, the Companies Act and the Consumer Protection Act.
- Implementation and enhancement of the control environment managing money laundering and terrorist financing risks.

Compliance report

Absa Group Compliance consists of Regulatory Compliance and Group Money Laundering Control and is structured in a centralised function with a decentralised footprint, covering all divisions of Absa Bank, other legal entities, Absa Africa, and all significant subsidiaries, including joint ventures in which Absa has an interest of 50% or more. The centralised function sets the compliance standards for the whole Group and forms the centre of excellence and expertise regarding legislation and compliance policies impacting Absa. The compliance cluster heads, business unit compliance officers and the business unit money laundering control officers, who ultimately report directly to the Group Compliance Officer, are deployed into the business units and Group support functions. The business unit compliance functions are responsible for business unit specific guidance, support, training and independent monitoring.

2010 review

Key activities undertaken

The key activities undertaken by Regulatory Compliance to support the directors, executive officers, management and employees in discharging the relevant compliance responsibilities included the following:

- **Compliance risk identification, assessment and prioritisation:** The compliance risks, once assessed, are consolidated into a regulatory risk profile. Given that Absa is a dynamic corporate entity and that the regulatory landscape is evolving and becoming increasingly stringent, the regulatory risk profile is reviewed and updated at least twice a year to ensure any possible risks of non-compliance with applicable laws, regulations and supervisory requirements are addressed.
- **Compliance risk management:** Compliance risk management plans were compiled. They serve as a management tool, outlining the compliance risks that the business units or Group support functions were exposed to and controls implemented to manage and mitigate those risks. Compliance risk management plans are reviewed and updated at least annually.
- **Compliance risk monitoring:** Compliance risks were monitored and tracked by various parties, including regulators, management and the Group compliance function. Monitoring undertaken by regulators takes place at a high level and is specific to each of the regulators' supervision regimes. Monitoring undertaken by management takes place day-to-day as part of daily operations. Monitoring undertaken by Group Compliance is conducted across the entire Group in accordance with a risk-based approach. No significant financial penalties, regulatory censure or public reprimands were imposed on the Group during 2010.
- **Compliance risk reporting:** Compliance reports were submitted to governance committees attended by directors, executive officers and management, and to various regulators.
- **Awareness and training:** Steps were taken to advise employees of and train them on the finer aspects of the relevant regulatory requirements.

The key activities undertaken by Group Money Laundering Control to support the directors, executive officers, management and employees in discharging their responsibilities in respect of the risk of money laundering and terrorist financing risks included the following:

- **Governance and oversight:** Group Money Laundering Control set policies and provided guidance and training relating to anti-money laundering, anti-terrorist financing and anti-corruption regulatory requirements.
- **Customer and payment screening:** The customer and payment monitoring systems ensured that the risk of entering into a relationship with a sanctioned person or being involved in a payment to a person mentioned on a sanctions list is low.

- **Cash threshold reporting:** All cash transactions of R25 000 and above were reported to the Financial Intelligence Centre in accordance with the regulator's cash threshold reporting rules.
- **Dispensations and waivers of policy:** Any dispensations or waivers relating to the policies were strictly controlled and monitored to determine whether such dispensations and waivers were still relevant.
- **Regulatory or policy breaches:** Group Money Laundering Control reports any breaches to the various governance forums and, if required, to the regulators. Any resulting changes to the control environment are managed by the central function in conjunction with the business unit's money laundering control officers.

The activities described address the key compliance roles and responsibilities prescribed in the Banks Act. The methodology followed by Group Compliance has been developed and benchmarked against industry and international best practice.

In support of the One Absa strategy, Group Compliance's key focus areas for 2010 included the following:

Strategic pillar: Sustainable growth in targeted markets

Absa continuously strives to identify opportunities to grow value, enter new markets and understand and satisfy the needs of customers.

In August 2006, the Competition Commission launched an enquiry into the transactional aspects of the South African retail banking sector. The banking enquiry focused on the transparency and level of fees and charges imposed on consumers as well as the need for interchange fees for ATM transactions and the level of interchange fees for card transactions.

In June 2008, the panel of the banking enquiry concluded that transaction charges in South Africa were higher than they would be at competitive levels, owing to market structure, current information asymmetries and product complexities. To address these concerns, the panel issued 28 recommendations touching on many aspects of transactional accounts, such as ATM fees, payment cards, electronic fund transfers and debit orders.

During May 2010, the Minister of Finance met with representatives of Absa with the aim of determining progress made on the recommendations as well as obtaining the industry's commitments to the next steps. In respect of the next steps, the Minister of Finance and Absa agreed to ensure that the Code of Banking Practice and the switching code be made as effective as possible by exploring additional means to empower customers in relation to debit orders, committing to the principle of ATM screen messages facilitating the transparency of ATM withdrawal fees and reviewing the policy of cash-back at point of sales to make it affordable for customers to withdraw cash at merchants. Absa remains supportive of the objectives of the banking enquiry and has made significant progress in implementing the commitments agreed with the Minister of Finance.

During 2010, Absa launched a number of entry-level and inclusive banking outlets across the country. The new outlets incorporate a help area dedicated to assisting customers finding and using the most convenient channels through which to conduct transactions, as well as educating them on the product offerings. In general, the new outlets are designed to be customer friendly, less intimidating and offer a more relaxed approach to banking with a product set that is both simple and aimed at the needs of customers. Group Compliance conducted a comprehensive review of this concept prior to the launch of the outlets to ensure the requirements of both the National Credit Act (NCA) and the Consumer Protection Act (CPA) were met, in that documentation was made available in clear and understandable language, customers are educated and given correct advice when taking up products and a fair and non-discriminatory marketplace for access to financial services and consumer credit is promoted.

Compliance report

Strategic pillar: Balance sheet optimisation and proactive risk management

Absa requires that all new products and services be subject to a standardised process that makes sure any new product or new market (or significant changes to existing products or markets) can only be launched after a comprehensive review and sign-off process across all control and logistics functions. This process ensures the consistency of Absa's offerings in the marketplace according to its overall business strategy. It also makes certain that products are only changed or launched after due consideration of all primary and consequential risks (such as financial, compliance and legal), infrastructure and resources. Group Compliance is responsible for the compliance risk evaluation and is a compulsory signatory to any new product and service approval.

The new Companies Act (CA), which is anticipated to be effective from 1 April 2011, aims to simplify the registration of companies, encourage entrepreneurship and high standards of corporate governance, balance the rights and obligations of shareholders and directors and promote the efficient and responsible management of companies. It also provides for increased liabilities of directors for breaches of fiduciary duty causing any direct or indirect loss, damage or costs to a company. A Group-wide project addressing the requirements of the act through the implementation and enhancement of the control environment commenced during 2009 and will continue until 2011 to ensure that Absa effectively addresses the legal and compliance obligations of the new act in a timely manner. The regulations to the CA, once issued, will provide greater guidance and clarity on the act.

Governments and regulators internationally continue to place significant emphasis on money laundering and terrorist financing. Financial institutions such as Absa are expected to implement robust controls to detect these activities and report them to the authorities as quickly as possible. Regulators may impose substantial fines on financial institutions for failures in controls. As part of the Barclays Group, Absa has implemented world-class systems and processes to ensure the risk of money laundering and terrorist financing is minimised as far as possible. During 2010, Absa continued improving its anti-money laundering, terrorist financing and sanctions control environment. Advanced automated customer and payment screening systems were rolled out across the Group. These systems allow the Group to be proactive in identifying suspicious transactions and reporting them to regulators.

The National Gambling Act (NGA) prohibits internet gambling in South Africa. A recent court case, found in favour of the National Gambling Board, declared that internet gambling performed within South Africa is illegal if performed without a licence, irrespective of whether or not the device enabling the gambling within South Africa is situated outside South Africa. In response, a Group-wide project was launched, which is aligned with the Barclays internet gambling project. The project is aimed at addressing the requirements of the NGA, and any additional requirements imposed by the Barclays Group, by implementing and enhancing the control environment to ensure transactions and relationships related to internet gambling are identified and managed in accordance with the legislation.

Strategic pillar: Simple, streamlined Group for customer delivery

Absa endeavours to simplify and streamline its operations and to build processes and procedures with the aim of improving efficiencies.

In April 2010, the Financial Services Board (FSB) published amendments to the General Code of Conduct regulating the issue of conflicts of interest. The amendments will have a significant impact on promotional and financial incentives provided to financial services providers, representatives, product suppliers and associates. A Group-wide project is addressing the requirements of the amendments by implementing and enhancing Absa's control environment.

The regulatory landscape relating to financial institutions is constantly changing and evolving, with the introduction of new regulatory requirements as well as the amendment of existing regulatory requirements. Absa's New Regulatory Forum (NRF) is responsible for assessing the impact that new regulations as well as changes and amendments to existing regulations will have on the Group's business. The NRF scans and evaluates the entire regulatory landscape in respect of each business area in Absa as well as in respect of the Group as a whole. It assesses changes according to all identified risk components, and then develops and introduces remediation related controls to minimise the risks.

Absa's footprint in both the banking and financial services industries means that it is regulated by several regulatory stakeholders. Absa seeks to maintain relationships of honesty, trust and transparency with all its regulators. The contact with regulators policy provides a framework for prompt and professional ad hoc communication with all financial services regulatory authorities. In terms of the policy, Group Compliance provides guidance to business before and during meetings with regulators. It also maintains a log of all commitments made to regulators and monitors the progress made towards meeting these commitments. As required, formal and informal contact with regulators takes place through identified designated officials. The Group Compliance Officer presents the regulatory relationship tracker to the Group Management Committee monthly.

Strategic pillar: Customer- and people-centred organisation

Values are integral to Absa's operations and to the building of a compliance culture. Absa places a high value on its reputation for integrity and fair dealing in the marketplace. Through the employee compliance conduct guide and the associated Group-wide attestation process, Absa employees are made aware of the compliance-related policies as well as the conduct expected of all employees by the Group. The employee compliance conduct guide is revised annually. All Absa employees and temporary employees are required to acknowledge that they have received and understood the employee compliance conduct guide on first joining Absa and every year thereafter.

Absa has control measures in place to minimise the risk of corrupt activities as outlined in the Prevention and Combating of Corrupt Activities Act. Absa's ethics policy was implemented as a control to address this specific risk. Absa has also adopted an anti-corruption policy applicable to all employees and is aligned to this act. In the United Kingdom, the United Kingdom Bribery Act 2010 was introduced on 8 April 2010. This is among the most stringent anti-bribery and corruption legislation in the world and has extra-territorial reach. As a member of the Barclays Group, Absa is party to a project initiated by Barclays aimed at addressing the requirements of this act through the implementation and enhancement of the control environment and policies.

Compliance report

Employees and other stakeholders may anonymously report instances of unlawful or unethical behaviour to the Tip-offs Anonymous hotline. Allegations of corruption are investigated by dedicated specialist teams and the investigations are monitored by Group Compliance. Any identified issues and trends are reported to the appropriate forums through the Group governance structures. The process is designed to protect whistleblowers from being discriminated against as a result of reporting unlawful or unethical behaviour.

The Protection of Personal Information (POPI) Bill, tabled before parliament in August 2009, and expected to be promulgated during 2011, will regulate processing of the personal information of individual and juristic persons and will apply to individuals and all private and public sector bodies. The compliance function continues to monitor legislative progress made in respect of the POPI Bill and will take appropriate steps to implement the requirements of the Bill once it is enacted and, in so doing, ensure the delivery of excellent customer service.

A discussion paper was recently published by the FSB setting out the principles of Treating Customers Fairly. The discussion paper requires the non-banking financial services industry to consider its treatment of customers at all stages of the product life cycle, from the design phase of an offering through to the marketing and after-sale practices. Absa, as a member of the Barclays Group, has adopted a similar set of principles applicable under United Kingdom legislation. This has already enabled Absa to enhance the customer experience. The compliance function will continue to monitor legislative progress made in respect of the discussion paper and will provide comments to the regulator when invited to do so.

A new CPA was promulgated and is effective from April 2011. This act aims to promote a fair, accessible and sustainable marketplace for consumer products and services. The act will establish national norms and standards for consumer protection. The act prohibits certain unfair marketing and business practices and promotes responsible consumer behaviour. A Group-wide project was initiated, aimed at addressing the requirements of this act.

The ability to adapt and transform is important to enable an institution to deliver services and products to a diverse customer base in a progressive economy. In this light, Absa already views the BBBEE CoGP as a core measure for performance in respect of transformation. Absa continuously seeks to achieve and exceed its transformation targets. The compliance function supports the Group in reviewing its adherence to the BBBEE CoGP.

Absa recognises the role that financial institutions play in the protection, promotion and fulfilment of social, economic and environmental rights in South Africa, by conducting their operations in a sustainable manner. As a member of the Banking Association of South Africa, Absa has played an integral role in the drafting of a new code of conduct on managing environmental and social risk. The aim of the code is to promote understanding and best practice on a national scale and, as a result, to enable any financial institution to manage the impact of the organisation and to execute responsible practices throughout its value chain.

Focus for 2011

Key compliance focus areas for 2011 include:

- the continuous review and assessment of new regulatory requirements and amendments to existing regulatory requirements and, if these are found to have an impact on Absa, the development and implementation of controls to minimise the compliance risk;
- Group-wide projects to address the requirements of the CPA, the CA, the United Kingdom Anti-Bribery and Corruption Act, the POPI Bill (when enacted) and the NGA through the implementation and enhancement of the control environment;
- continued vigilance in respect of money laundering, anti-terrorist financing and anti-bribery and corruption;
- training employees in respect of compliance related matters; and
- creating an awareness of relevant compliance issues among employees and thereby empowering them to ensure that Absa remains compliant at all times.

Disclosure requirements in terms of the Home Loan and Mortgage Disclosure Act 63 of 2000

The Home Loan and Mortgage Disclosure Act 63 of 2000 ("the HLAMDA") requires certain disclosures by South African financial institutions of loans or advances to persons for purposes of constructing, purchasing, renovating or improving in any way such person's home, with the security of a registered mortgage bond or other form of accepted security. The Bank, and more specifically, Home Loans, is responsible for granting home loans to members of the public as contemplated by the HLAMDA. The Bank, accordingly, is required under the HLAMDA to disclose the total number and amount in rand of:

- completed home loan applications received;
- home loan applications declined and reasons for the rejections;
- home loans, closed and disbursed by the Bank; and
- home loans approved by the Bank,

during the financial year in respect of which financial statements have been prepared. Under the regulations to the HLAMDA, the Bank is required to make the required disclosures in respect of race groups (African, White, Indian and Coloured) and province.

The reasons for the rejection of home loans by the Bank include unaffordability or a poor credit record on the part of the customer, or an unacceptable LTV ratio in respect of the property.

Compliance report

Home loan disclosures in respect of race[1]

	Approved – taken up Number	Approved – taken up R'000	Approved – not taken up/withdrawn Number	Approved – not taken up/withdrawn R'000
African	3 972	1 787 275	14 366	6 932 635
Coloured	1 422	664 508	5 191	2 468 320
Indian	612	463 862	1 784	1 206 441
White	7 075	5 886 137	26 969	21 277 042
Unknown	582	679 779	2 039	1 707 153
Total	13 663	9 481 561	50 349	33 591 591

	Approved – taken up Number	Approved – taken up R'000	Approved – not taken up/ withdrawn Number	Approved – not taken up/ withdrawn R'000
African	4 537	1 974 819	54 562	23 705 962
Coloured	1 553	734 641	17 674	7 956 963
Indian	702	440 551	6 296	4 801 092
White	10 961	9 306 007	82 046	59 246 099
Unknown	493	389 235	7 413	5 550 988
Total	18 246	12 845 253	167 991	101 261 104

Home loan disclosures in respect of provincial areas[2]

	Approved – taken up Number	Approved – taken up R'000	Approved – not taken up/withdrawn Number	Approved – not taken up/withdrawn R'000
Eastern Cape	669	374 815	2 508	1 437 932
Free State	556	409 501	1 986	1 190 383
Gauteng	5 593	3 905 538	23 502	16 248 571
KwaZulu-Natal	2 328	1 684 968	5 061	3 053 831
Limpopo	314	225 940	1 622	991 101
Mpumalanga	471	303 843	2 775	1 657 297
North West	681	393 541	2 209	1 429 935
Northern Cape	211	142 712	785	404 232
Western Cape	2 815	2 003 512	9 752	7 041 561
Unknown	25	37 191	149	136 748
Total	13 663	9 481 561	50 349	33 591 591

	Approved – taken up Number	Approved – taken up R'000	Approved – not taken up/ withdrawn Number	Approved – not taken up/ withdrawn R'000
Eastern Cape	756	446 885	7 359	3 437 737
Free State	840	598 800	6 023	3 061 821
Gauteng	5 949	4 070 705	64 879	42 433 612
KwaZulu-Natal	1 280	766 364	17 018	9 234 676
Limpopo	466	386 714	4 566	2 390 278
Mpumalanga	806	519 971	8 461	5 712 237
North West	736	515 563	6 304	3 408 675
Northern Cape	247	267 566	2 031	1 029 146
Western Cape	2 652	1 832 217	25 667	16 796 786
Unknown	4 514	3 440 468	25 683	13 756 136
Total	18 246	12 845 253	167 991	101 261 104

Notes

[1]*Race information as provided by the applicant during the mortgage loan application process.*
[2]*Provincial information is matched against deeds office information.*

2010							
Declined		Pending		Disbursed		Completed applications received	
Number	R'000	Number	R'000	Number	R'000	Number	R'000
87 599	37 889 579	18 241	6 461 254	10 320	3 257 950	134 498	56 328 693
20 480	96 442 333	10 511	2 789 954	4 638	1 577 407	42 242	103 942 522
4 531	2 856 008	4 375	1 578 088	2 476	1 292 804	13 778	7 397 203
57 558	43 026 603	43 411	20 588 814	29 100	18 658 315	164 113	109 436 911
5 905	4 267 670	2 146	1 597 537	941	637 403	11 613	8 889 542
176 073	184 482 193	78 684	33 015 647	47 475	25 423 879	366 244	285 994 871

2009							
Declined		Pending		Disbursed		Completed applications received	
Number	R'000	Number	R'000	Number	R'000	Number	R'000
59 828	221 386 150	5 531	2 172 579	10 767	3 024 862	135 225	252 264 372
15 447	4 627 638	3 018	1 033 169	6 754	1 609 231	44 446	15 961 642
2 337	991 932	1 320	535 804	3 268	1 091 435	13 923	7 860 814
24 369	13 178 960	13 367	7 638 388	36 521	17 513 882	167 264	106 883 336
2 867	1 590 213	802	657 349	974	529 362	12 549	8 717 147
104 848	241 774 893	24 038	12 037 289	58 284	23 768 772	373 407	391 687 311

2010							
Declined		Pending		Disbursed		Completed applications received	
Number	R'000	Number	R'000	Number	R'000	Number	R'000
9 960	4 115 592	4 404	1 455 966	2 610	1 081 563	20 151	8 465 868
8 338	3 670 999	3 948	1 449 478	2 381	1 061 815	17 209	7 782 176
80 785	136 792 663	31 476	14 892 505	19 643	11 423 977	160 999	183 263 254
19 377	9 860 310	9 779	3 688 741	5 569	2 606 286	42 114	20 894 136
6 506	3 125 139	1 515	664 640	1 371	456 145	11 328	5 462 965
10 775	5 844 196	2 712	1 084 827	1 979	889 434	18 712	9 779 597
8 960	4 676 512	3 605	1 401 374	2 479	1 163 982	17 934	9 065 344
2 878	1 171 989	1 576	520 440	935	351 526	6 385	2 590 899
27 533	14 560 467	18 821	7 685 030	10 466	6 354 783	69 387	37 645 353
961	664 326	848	172 646	42	34 368	2 025	1 045 279
176 073	184 482 193	78 684	33 015 647	47 475	25 423 879	366 244	285 994 871

2009							
Declined		Pending		Disbursed		Completed applications received	
Number	R'000	Number	R'000	Number	R'000	Number	R'000
6 573	2 006 134	1 303	575 151	2 379	784 096	18 370	7 250 003
5 344	1 734 266	1 110	503 009	2 334	856 232	15 651	6 754 128
38 501	17 409 680	6 347	3 895 503	15 043	7 348 919	130 719	75 158 419
10 078	3 884 812	2 409	1 261 228	4 361	1 586 998	35 146	16 734 078
3 439	1 345 357	470	250 576	1 146	415 852	10 087	4 788 777
5 356	2 311 060	913	459 427	2 115	800 400	17 651	9 803 095
5 160	2 029 201	1 035	543 688	2 175	843 153	15 410	7 340 280
2 028	619 923	356	166 646	724	261 124	5 386	2 344 405
14 212	5 071 460	4 292	2 282 344	9 389	4 179 322	56 212	30 162 129
14 157	205 363 000	5 803	2 099 717	18 618	6 692 676	68 775	231 351 997
104 848	241 774 893	24 038	12 037 289	58 284	23 768 772	373 407	391 687 311

Report from the Chairman of the Group Risk and Capital Management Committee

Trevor Munday
Chairman: Group Risk and Capital Management Committee

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.

Focus on further enhancing controls over operational risks.

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 Group placed high importance on ensuring robust risk management processes were in place to ensure that the Group 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 Group 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 them and high level procedures for risk management.

Risk governance

The Group'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 the responsibility of 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 Group and apply to all business units, wholly owned subsidiaries and majority shareholdings where the Group 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

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 Group's risk appetite to the board and then reviews and monitors the Group'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 Group.

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 GCE, 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 Group'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.

Report from the Chairman of the Group Risk and Capital Management Committee

In order to execute his responsibilities, the Chairman of the 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 Group. 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 Group's risk landscape during 2010 was affected by the continuing hesitant economic recovery. In an attempt to safeguard the interest of stakeholders, the Group 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.

Core activities of the GRCMC

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

- Recommending the Group'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 with respect to 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 Group is able to optimally manage these risks;
  - 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 defining capital adequacy goals with respect to risk, strategic focus and business plans of the Group.
- Monitoring the Group'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 Group.
- 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 Group.
- Assessing the Group'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 Group 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 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 targets for 2011 capital adequacy levels set by the board are as follows:

- Absa Group Limited: 12,0% – 14,0%.
- Absa Bank Limited: 11,5% – 13,5%.

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

Further focus areas were:

- revisions to the capital plans in response to the impact of the credit model refinements carried out on risk-weighted assets (RWAs) during 2010;
- evaluating Basel amendments and planning for the impact of its proposed regulatory changes; and
- finalising the recapitalisation of BBM in July 2010.

Credit risk

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

In the retail credit environment, impairments reduced across the Group. Impairment losses on loans and advances as a percentage of average loans and advances in 2010 were 1,20% (2009: 1,74%). Credit models were reviewed and recalibrated to reflect the current economic conditions. The product areas where these 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 Group'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.

Report from the Chairman of the Group Risk and Capital Management Committee

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 Group 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 were 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 Group is able to respond effectively to these changes.

Operational risk

Focus was placed on the continued improvement of operational controls as well as operational risk management systems and processes. In addition, a new financial crime operating model was implemented.

Insurance and underwriting risk

The insurance and underwriting environment was impacted by slower growth because of the uncertain economic conditions experienced in 2010. However, favourable returns were still achieved, with short-term loss ratios reducing from 69,9% to 68,5%. Return on shareholders' assets exceeded the benchmark set. Focus was placed on governance processes and modelling required to enhance risk management.

In the short-term insurance environment underwriting discipline and controls were enhanced and progress was made in developing a capital model in line with solvency legislative developments.

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 Group's processes;

» support in respect of new and amended regulatory requirements including the Financial Advisory and Intermediary Services (FAIS) Act, No 37 of 2002 and the 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 appetite

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

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 Group. 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 Group'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 Group's financial performance;
» improve management responsiveness and debate regarding the Group'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 Group and is a key focus area during the strategic planning processes. Through the use of stress testing and scenario analysis the Group 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 Group, 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 Group's financial performance and capital management over a three to five year horizon. Stress testing also forms an integral part of evaluating the Group'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 Group's sensitivity to adverse changes in the business environment, which includes operational risk events that may impact the Group as a whole. Group-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 Group can best react to them.

Report from the Chairman of the Group Risk and Capital Management Committee

Besides Group-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 program of reverse stress testing has been initiated in order to evaluate the impact of events not previously experienced by the Group. It is utilised to evaluate the impact of low probability, but plausible scenarios.

Risk disclosure

In preparation for King III, effective March 2011, the Group has enhanced its risk management disclosures by combining accounting and regulatory disclosures to provide greater transparency to stakeholders in evaluating the Group's performance.

Focus in 2011

The Group 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 Group remains committed to developing and enhancing appropriate risk management procedures and practices, and to keeping 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 Group's risk appetite and stress testing frameworks to allow the Group to continuously evaluate its strategy and planning processes under challenging market conditions. Key focus areas are as follows:

- further embedding stress testing and scenario analysis in the planning and continuous evaluation of the Group's financial performance and capital management over a three to five year horizon; and
- enhancing and continuously evaluating the risk appetite and liquidity management to ensure that the Group is prepared for the implementation of the proposed Basel amendments and to ensure that the Group 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 Group. The Group will ensure it stays abreast with international and local regulatory changes. This will ensure the Group achieves best practice in the measurement and management of risks associated with liquidity and capital management.

Credit risk

- a key component will be the quality of new business written and the Group 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 Group will continue to focus on impairments and related collections as well as stabilising the debt counselling book; and
- the Group will continue to prepare for the change to the AIRB approach for wholesale credit risk.

Market risk

- » the Group 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 Group will continue to manage the structural banking book interest rate hedging programme effectively and efficiently.

Operational risk

- » the Group will focus on further improving the effectiveness and efficiency of operational risk management processes; and
- » Group Technology will focus on further strengthening information technology governance processes, continuing to secure and protect systems and information, thereby ensuring availability of key production systems and that comprehensive disaster recovery plans are maintained.

Insurance risk

- » The Group will keep abreast of developing solvency legislation.

Regulatory risk

- » The Group will focus on implementing new regulatory and legislative requirements and ensuring that all the relevant processes, systems and governance measures comply with the new requirements.

Conclusion

Risk management remains an integral part of the Group'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.

Trevor Munday

Chairman: Group Risk and Capital Management Committee

9 March 2011

Disclosures and governance

Risk disclosures

Introduction

The Group's approach to disclosures on risk management represents the required disclosures under both IFRS and Basel Pillar 3 disclosure requirements and therefore presents a holistic view of risk for the Group.

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

- Credit risk tables 10, 11, 13 and 22 to 33.
- Market risk tables 41, 43 to 45, 47 and 50.
- Liquidity risk tables 52 and 53.
- Insurance risk tables 54 to 59.

All other disclosures represent regulatory disclosures, which are unaudited.

Basel II and accounting consolidations

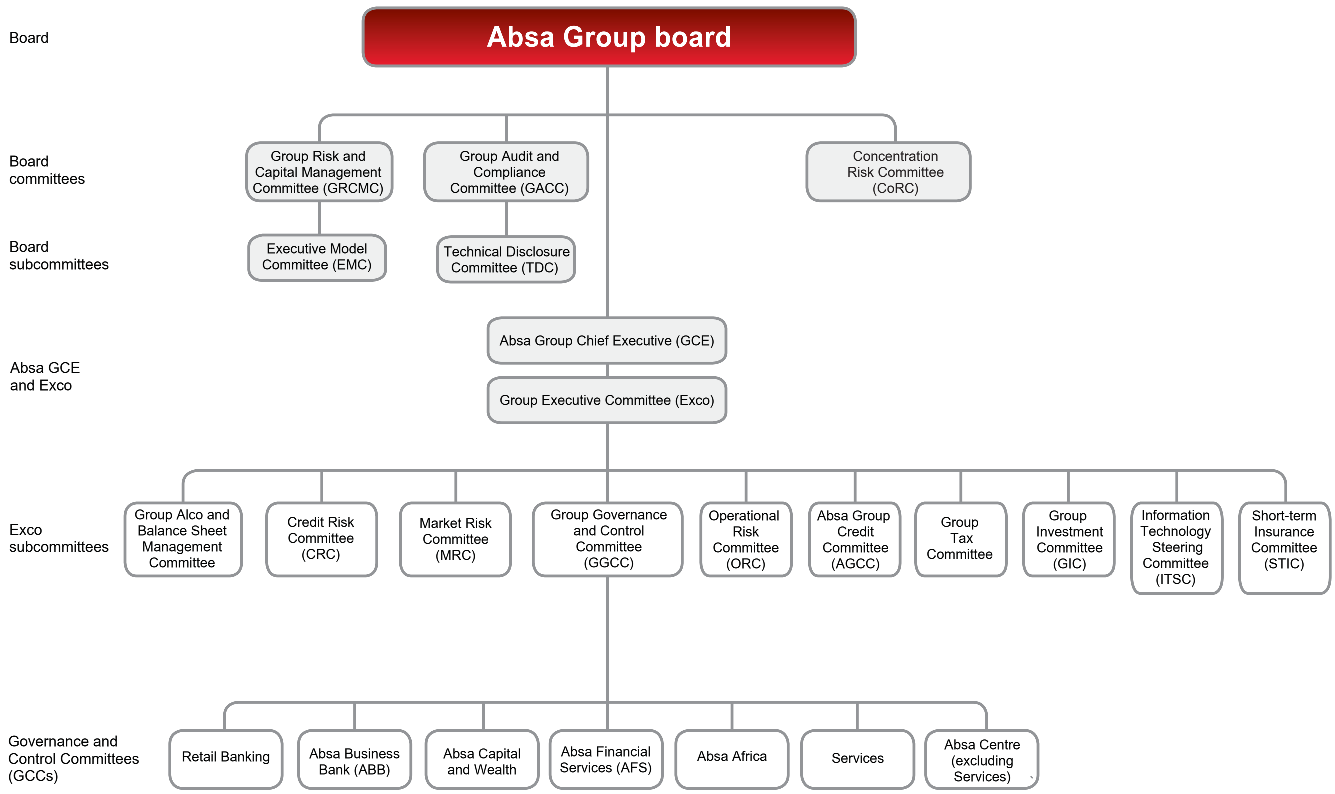
Regulatory and accounting treatment may differ for certain entities. Where different treatment is applied, the following approach is followed:

Entity	Statutory accounting treatment	Basel II regulatory treatment
Subsidiaries engaged in insurance activities.	Consolidated	Excluded from the calculation of the Group's capital adequacy ratio.
Associates, joint ventures and participations in businesses which are financial in nature.	Equity-accounted	Deducted from qualifying capital or proportionately consolidated.
Associates, joint ventures and participations in businesses which are not financial in nature.	Equity-accounted	Included in equity investment risk capital.

Risk governance framework

Risk management is critical to the sustainability of the Group. Strong oversight is in place to ensure effective risk management.

The board is responsible for setting the Group's risk appetite, establishing the PRP and takes ultimate accountability for the management of risk. The board then delegates the management and control of the PRP to various subcommittees.



Disclosures and governance

The board and its committees

The information regarding the board can be found in the corporate governance statement.

Concentration Risk Committee (CoRC)

The CoRC is the highest level credit sanctioning forum in the Group with the mandate to sanction credit limits to customers equal to or greater than 10% of the Group's qualifying capital and reserves.

Group Chief Executive and Executive Committee

The GCE is appointed by the board to manage, with the assistance of Exco, the Group's businesses within an acceptable risk profile, while achieving sustainable profits. From a risk control perspective, the GCE is required to ensure that the PRP is adhered to. From a risk management perspective, the GCE is responsible for ensuring that:

» all risks are managed within the approved risk appetite;
» the various risk profiles of the Group are understood and appropriately managed;
» appropriate internal controls are in place, which are achieved by developing and providing a strong control environment;
» policy control frameworks and supporting risk management policies are approved and are in place from a Group and divisional/subsidiary perspective;
» reporting systems pertaining to risk management and control are adequate, accurate and effective;
» risk is taken into account in long-term plans and investments; and
» risks are reported to the GRCMC, GACC and the board on a regular basis.

Exco risk committees

The CRC, MRC, ORC, AGCC and Group Alco and Balance Sheet Management Committee (Group Alco) are committees established by Exco to manage the principal risks. The committees convene frequently with an overall objective of ensuring that the risk-reward profile for each risk type supports the overall risk appetite of the Group.

Group Governance and Control Committee (GGCC)

GGCC is an Exco committee that assists Exco and the GACC through oversight of the design and implementation of the internal control framework of the Group. The committee meets quarterly and is responsible for the design and operation of the Group's control framework, communication of the framework and its contents, independent assurance and ensures there is an appropriate escalation of issues. The GGCC reviews control issues escalated from the divisional risk governance and control committees, and escalates these issues, as needed to the GACC.

Other oversight committees

The Group has established a number of committees with oversight of specialised areas such as investments, taxation and actuarial valuation in the long-term insurance business, short-term insurance and IT.

Risk management approach

The risk management approach followed by the Group is to ensure that all significant risks are identified and managed. The board approved PRP defines the major risks that the Group is exposed to.

Each of the principal risks is assigned an owner who is responsible for implementing policies, processes and reporting measures. Principal risks are closely monitored in terms of the control framework applied by the Group.

Risk management process

Integrated and structured risk assessments take place across all risk types and businesses in accordance with the established risk management framework. Monitoring is carried out using ongoing processes built into the normal, recurring operating activities, as well as taking account of internal and external audit recommendations. All risks are comprehensively and regularly reported across the Group. The five step process as described below is followed:

Risk management process	
Identify	» Understand the principal risks fundamental to achieving the Group's strategy. » Establish the risk appetite. » Establish and communicate the risk management framework including responsibilities, authorities and key controls.
Assess	» Establish the process for analysing business-level risks. » Agree and implement measurement and reporting standards and methodologies.
Control	» Establish key control processes and practices, including limit structures, provisioning requirements and reporting standards. » Monitor controls and adherence to risk direction and limits. » Provide early warning of control or appetite breaches. » Ensure that risk management practices and conditions are appropriate for the business environment.
Report	» Interpret and report on risk exposures, concentrations and risk-taking outcomes. » Interpret and report on sensitivities and key risk indicators. » Communicate with external parties.
Manage/ challenge	» Review and challenge all aspects of the Group's risk profile. » Assess new risk-return opportunities. » Advise on ways to optimise the Group's risk profile. » Review and challenge risk management practices.

Disclosures and governance

Risk management and sustainability

The aim of the One Absa strategy is to ensure the Group grows in a responsible, ethical and sustainable manner. The four pillars of the strategy are designed to make this a reality. The Group's principal risk framework, in conjunction with the Group's identified material topics, ensure the relevant controls and disclosures are in place. Many of the Group's identified material topics have a direct relationship with the principal risks, thereby further emphasising the relevance of these risks and material topics to the Group.

Principal risks relative to the identified material topics

Principal risk	Material topics coverage
Wholesale credit	Risk management and responsible lending.
Retail credit	Risk management, responsible lending and financial inclusion.
Market risk	Risk management.
Capital	Capital and liquidity.
Liquidity	Capital and liquidity.
Financial reporting	Covered by the required disclosures in the annual report.
Financial crime	Risk management as well as governance and compliance.
Operations (excl product development)	Process and system effectiveness.
Operations – product development	Responsible lending, financial inclusion and process and system effectiveness.
Technology	Process and system effectiveness.
People	Employee engagement and transformation.
Taxation	Covered by the required disclosures in the annual report.
Legal	Covered by the required disclosures in the annual report.
Regulatory	Capital and liquidity, governance and compliance responsible lending and transformation.
Insurance underwriting and investments	Covered by the required disclosures in the annual report.

The management and monitoring of the people and corporate responsibility risks in particular ensures the Group manages risks relating to people and the planet.

People risk encompasses all of the risks the Group is exposed to by virtue of being an employer, in all of its businesses and fields of operation.

The inability to manage direct risks exposes the Group to potential damage to reputation, financial penalties due to non-compliance and the inability to identify inefficient practices resulting in unnecessary costs.

The inability to manage indirect risks exposes the Group to potential loan defaults, decreases in security values (collateral/assets), direct liability for environmental damage and damage to reputation.

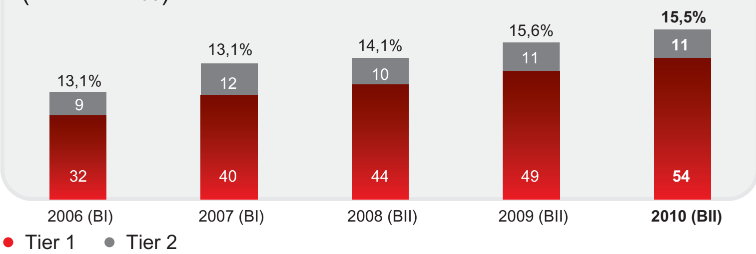
The CRC considers issues surrounding environmental credit risks which fall within corporate responsibility risk. Environmental risk is governed by the environmental management policy statement and ultimate responsibility lies with the Environmental Steering Committee (ESC). The Environmental Risk department provides independent oversight and challenge to ensure environmental risks are managed at an adequate standard across the Group and supports business units (BUs) in implementing the required environmental frameworks and policies.

Capital management

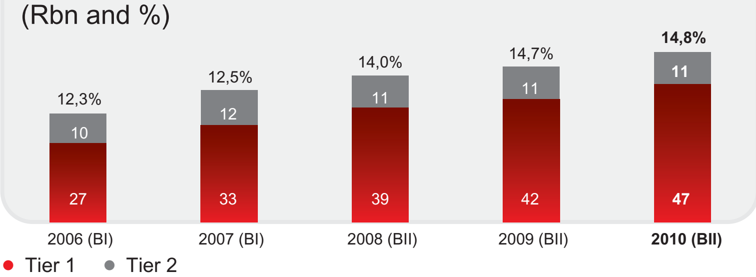
Highlights

- Strong capital position maintained.
- Capital buffers above minimum regulatory requirements incorporated in board approved capital target ranges.
- Investment grade credit rating maintained.

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



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



Notes
BI: Basel I
BII: Basel II

Introduction

Capital management is a key focus area for the Group. The Group's capital management strategy is focused on maximising shareholder value by optimising the level and mix of capital resources. Decisions on the allocation of capital resources 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).

Key performance indicators[1]

Absa Group

	2010	2009	Minimum regulatory require-ments
Capital adequacy ratios (%)			
Core Tier 1	**11,7**	11,5	5,25
Tier 1	**12,8**	12,7	7,00
Total	**15,5**	15,6	9,75
Capital supply and demand for the year (Rm)			
Free cash flow generated	**2 017**	3 747	
Qualifying capital	**65 417**	60 052	
Total RWAs	**422 713**	386 264	
Key metrics (%)			
Cost of capital[2]	**14,0**	14,0	
Return on risk-weighted assets (RoRWA)	**1,99**	1,97	
Return on average economic capital (RoEC)	**19,7**	18,2	

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 (%)			
Cost of capital[2]	**14,0**	14,0	

Notes
[1] *Reported ratios include unappropriated profits.*
[2] *The average cost of capital is based on the Capital Asset Pricing model (CAPM).*

Capital management

Strategy

The strategic objectives for capital management are:

- meeting the capital ratios required by regulators and the target ranges set by the board;
- maintaining an adequate level of available capital resources as cover for the economic capital (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 Group, with the board assessing and approving the capital management policy, capital target ranges and capital strategy.

The Group 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.

2010 review

During the year under review, the Group maintained its strong capital adequacy position. The Group 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 Group generated free capital of R2,0 billion, after the provision of 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 Group to ensure 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 Group 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 Group'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 Group's desired strategic positioning.

ICAAP process

The Group 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 Group 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. Aside from its application in capital management, EC is a key component of Group 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 Group has been suitability for capital management and other internal applications. The Group 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 Group'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 the Group'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-weighted 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 Group that uses the Basic Indicator Approach or Standardised Approach.*

Capital management

Absa Group 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	**316 967**	**30 112**	276 172	26 237
Portfolios subject to the AIRB approach	**167 618**	**15 924**	145 672	13 839
Portfolios subject to the FIRB approach	**140 802**	**13 376**	120 292	11 428
Portfolios subject to the SA	**8 547**	**812**	10 208	970
Equity investment risk				
Market based approach (simple risk-weighted method)	**25 911**	**2 462**	28 657	2 722
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	**54 317**	**5 160**	53 032	5 038
Non-customer assets	**16 505**	**1 568**	18 741	1 780
	422 713	**40 158**	386 264	36 695

Absa Bank RWAs and minimum required capital – Table 2:

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 Group that uses the Basic Indicator approach, or SA.*

Capital requirements

The Group 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:** which are derived from the stress testing results, and are set above the minimum regulatory requirements.

Capital adequacy

The Group sets target capital ranges/levels for regulated entities 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 Group 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 were set for the following regulated entities: Absa Group Limited, Absa Bank Limited, BBM, NBC, Absa Life and Absa Insurance Company Limited. Target capital levels for all other entities are equal to the minimum regulatory requirements as set by the respective regulators.

Capital management

Absa Group Limited and its subsidiaries – local, foreign banking entities and insurance entities – Table 3:

		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 target[1] %**
Local entities (South Africa)							
Absa Group Limited[2]	SARB	**12,8**	**15,5**	12,7	15,6	**9,75**	**13,00**
Absa Bank Limited[2]	SARB	**11,9**	**14,8**	11,6	14,7	**9,75**	**13,00**
Foreign banking entities							
BBM[3]	Banco de Mozambique	**22,4**	**22,4**	15,8	15,8	**8,00**	**15,00**
NBC[3]	Bank of Tanzania	**13,0**	**13,0**	14,2	14,2	**12,00**	**14,00**
Insurance entities							
Absa Life	FSB[4]	**n/a**	**3,5 x CAR[5]**	n/a	3,6 x CAR[5]	**1,0 x CAR[5]**	**2,0 x CAR[5, 6]**
Absa Insurance Company Limited	FSB[4]	**n/a**	**53,7% x NWP[7]**	n/a	55,5% x NWP[7]	**25% x NWP[7]**	**45% x NWP[8]**
Absa *idirect* Limited	FSB[4]	**n/a**	**60,1% x NWP[7]**	n/a	81,8% x NWP[7]	**25% x NWP[7]**	**25% x NWP[9]**

Notes

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

	Total	*Total Tier 1*	*Core Tier 1*
Absa Group Limited	*12,00% – 14,00%*	*10,00% – 12,00%*	*9,00% – 11,00%*
Absa Bank Limited	*11,50% – 13,50%*	*9,50% – 11,50%*	*8,50% – 10,50%*

[2]*Statutory ratios include unappropriated profits.*
[3]*Basel I host regulatory ratios and requirements.*
[4]*Financial Services Board.*
[5]*Capital adequacy requirement (CAR).*
[6]*CAR: actuarial calculation of value at risk on insurance liabilities. Two times (2009: 2,5 times) being the target capital level determined by Absa Life.*
[7]*Net written premiums.*
[8]*45% (2009: 45%) of NWP, being the target capital level determined by Absa Insurance Company Limited.*
[9]*Quota share reinsurance is used to maintain capital adequacy at a level sufficiently in excess of the regulatory minimum.*

Capital supply

The Group increased its total qualifying capital supply by R5,4 billion (2009: R6,3 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.

Movements in qualifying capital – Table 4:

	Group 2010 Qualifying capital Rm
Balance at the beginning of the year	**60 052**
Share capital, premium and reserves	4 743
Non-controlling interest – ordinary shares	(84)
Tier 2 subordinated debt issued	1 000
Tier 2 subordinated debt matured	(1 500)
General allowance for credit impairments: SA	(53)
Regulatory deductions[1]	1 259
Balance at the end of the year	**65 417**

Note

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

Capital management

Movements in qualifying capital – Table 4 *(continued)*:

	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 Absa Group's capital – Table 5:

	2010 Qualifying capital Rm	2010 %[2]	2009 Qualifying capital Rm	2009 %[2]
Primary capital				
Ordinary share capital	**1 433**	**0,3**	1 432	0,4
Ordinary share premium	**4 590**	**1,1**	4 784	1,2
Preference share capital and premium	**4 644**	**1,1**	4 644	1,2
Reserves[3]	**45 011**	**10,6**	40 075	10,4
Non-controlling interest – ordinary shares	**1 215**	**0,3**	1 299	0,3
Deductions	**(2 832)**	**(0,7)**	(3 263)	(0,8)
Goodwill	**(572)**	**(0,1)**	(572)	(0,1)
50% financial and insurance entities not consolidated	**(61)**	**(0,0)**	(120)	(0,0)
50% of amount by which expected loss exceeds eligible provisions	**(1 214)**	**(0,3)**	(1 833)	(0,5)
50% of first loss credit enhancement provided in respect of a securitisation scheme	**—**	**—**	(150)	(0,0)
Other deductions	**(985)**	**(0,3)**	(588)	(0,2)
	54 061	**12,8**	48 971	12,7
Secondary capital				
Subordinated redeemable debt	**12 611**	**3,0**	13 111	3,4
General allowance for credit impairment, after deferred tax – SA	**20**	**0,0**	73	0,0
Deductions	**(1 275)**	**(0,3)**	(2 103)	(0,5)
50% financial and insurance entities not consolidated	**(61)**	**(0,0)**	(120)	(0,0)
50% of amount by which expected loss exceeds eligible provisions	**(1 214)**	**(0,3)**	(1 833)	(0,5)
50% of first loss credit enhancement provided in respect of a securitisation scheme	**—**	**—**	(150)	(0,0)
	11 356	**2,7**	11 081	2,9
	65 417	**15,5**	60 052	15,6

Notes

[2] *Percentage of capital to RWAs.*

[3] *Reserves include unappropriated banking profits.*

Breakdown of Absa Bank's capital – Table 6:

	2010 Qualifying capital Rm	2010 Qualifying capital %[1]	2009 Qualifying capital Rm	2009 Qualifying capital %[1]
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[2]	**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

[1] *Percentage of capital to RWAs.*

[2] *Reserves include unappropriated banking profits.*

Capital transferability

The Group is the primary provider of equity capital to its subsidiaries and capital is held centrally within the context of the approved annual Group capital plan.

The Group policy stipulates that capital held in Group entities in excess of the local regulatory requirements should be repatriated to the Group in the form of dividends and/or capital repatriation, subject to local regulatory requirements and exchange controls. Apart from the aforesaid, the Group is not aware of any material impediments to the prompt transfer of capital resources or repayment of intra-group liabilities when due.

Capital management

Economic capital (EC)

EC capital is defined as the minimum capital needed to maintain an AA Investment rating under an extreme stress scenario.

The Group assesses EC requirements by measuring its risk profile using both internally and externally developed models. The Group assigns EC primarily within six risk categories: retail credit risk, wholesale credit risk, traded and non-traded market risk, operational risk, fixed assets risk and equity investment risk in the banking book.

The Group regularly enhances its EC methodology and benchmarks outputs to external reference points. The framework reflects default probabilities during average credit conditions (through-the-cycle (TTC) effect), rather than those prevailing at the reporting date (point-in-time (PIT)), therefore removing cyclicality from the EC calculation.

EC for wholesale credit risk includes counterparty credit risk arising as a result of credit risk on traded market exposures. EC for market risk covers both traded and non-traded market risk. The framework also adjusts EC to reflect time horizon, correlation of risks and risk concentrations.

EC is allocated on a consistent basis across all of the Group's businesses and risk activities. A single cost of equity is applied to calculate the cost of risk. The total average EC required by the Group, as determined by risk assessment models and after considering the Group's estimated portfolio effects, is compared with the supply of EC to evaluate EC utilisation.

Economic capital supply

The supply of EC is calculated as the average available shareholders' equity after adjustment and including preference shares, but excluding other non-controlling interests. The Group's EC calculations form the basis of the Group's submission for the Basel II ICAAP.

Funds available for EC are impacted by a number of factors that have arisen from the application of IFRS and are adjusted for in calculating available funds for EC. EC supply includes:

» ordinary shareholders' equity;

» retained earnings, whether appropriated or not; and

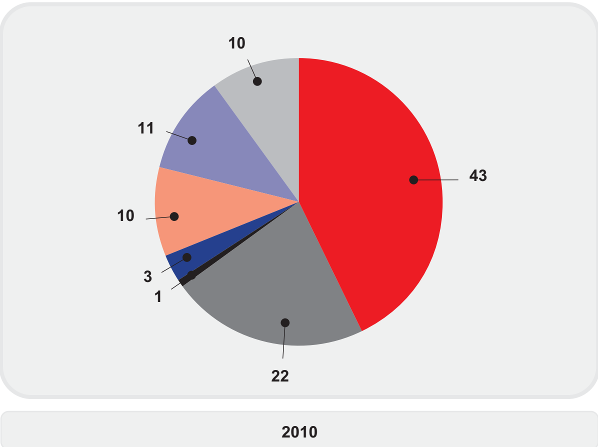
» non-redeemable non-cumulative preference shares.

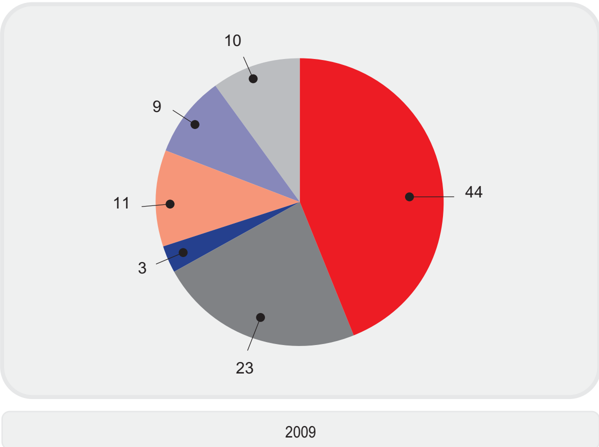
The following other capital resources are excluded from EC:

» Cash flow hedging reserve: to the extent that the Group undertakes the hedging of future cash flows, shareholders' equity will include gains and losses that will be offset against the gain or loss on the hedged item when it is recognised in the statement of comprehensive income at the conclusion of the hedged transaction. Given the future offset of such gains and losses, they are excluded from shareholders' equity when calculating EC.
» Available-for-sale reserve: unrealised gains and losses on such securities are included in shareholders' equity until disposal or impairment. Such gains and losses are excluded from shareholders' equity for the purposes of calculating EC.
» Retirement benefit assets and liabilities: the Group has recorded a surplus with a consequent increase in shareholders' equity. This represents a non-cash increase in shareholders' equity. For the purposes of calculating EC, pension surplus is excluded from shareholders' equity.
» Non-controlling interest.
» Goodwill.
» Other perpetual debt, preference shares and subordinated debt.
» Tertiary capital.

EC allocations reflect varying levels of risk. The EC framework covers not only Basel II Pillar 1 risks but also additional economic risks not covered at all, or inadequately covered in Pillar 1. Further, other risks included in EC are an add-on for concentration risk within the credit portfolio and country transfer risk.

Economic capital[1] (%)





● Retail credit risk ● Wholesale credit risk ● Residual ● Traded and non-traded market risk
● Equity investment risk ● Operational risk ● Fixed assets

Note

[1]*Excludes insurance due to difference in confidence level in terms of insurance regulation.*

Capital management

Credit ratings

Credit ratings – Table 7:

	Moody's July 2010 Absa Bank Limited	Fitch ratings January 2011 Absa Bank Limited	Fitch ratings January 2011 Absa Group Limited
National			
Short-term	**Prime-1.za**	F1+ (zaf)	F1+ (zaf)
Long-term	**Aa1.za**	AAA (zaf)	AAA (zaf)
Outlook	**Stable**	Stable	Stable
Local currency			
Short-term	**Prime-1**	–	–
Long-term	**A1**	A	A
Outlook	**Stable**	Stable	Stable
Foreign currency			
Short-term	**Prime-2**	F1	F1
Long-term	**A3**	A	A
Outlook	**Stable**	Stable	Stable
Bank financial strength	**C-**	C	C
Outlook	**Stable**	—	—
Support	**—**	1	1

Fitch

Fitch revised Absa Group Limited and Absa Bank Limited's foreign currency outlook from negative to stable in January 2011.

Moody's

Moody's released a rating report pertaining to Absa Bank Limited in July 2010. There were no changes in the ratings in the July 2010 report compared to the November 2009 report.

Focus for 2011

In the year ahead, focus will be placed on:

- RWA optimisation in the Group;
- 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 Group 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 Group's exposure to financial instruments decline.

Strategy

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

The Group'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);

» proactively 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 Group;

» maintaining an efficient and robust credit life cycle; and

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

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 (%)	**(1,0)**	5,0
Non-performing advances as percentage of loans and advances (%)	**7,7**	7,0
Impairment losses ratio	**1,20**	1,74
Total credit impairments as percentage of total gross loans and advances (%)	**3,0**	3,0

Credit risk

Governance

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

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 CRC and are supported by 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, 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 review

Wholesale credit risk

One of the main focus areas has been the initiative to migrate the wholesale portfolio to the AIRB approach. Various workstreams 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 statements of financial position. 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 the numbers experienced in 2009.

The credit quality of the performing book has shown significant improvement and 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 the improved ability of customers to make payments, the 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 Group 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 Group'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 Group'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

Abacas 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.

Credit risk

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

Approach to credit risk

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

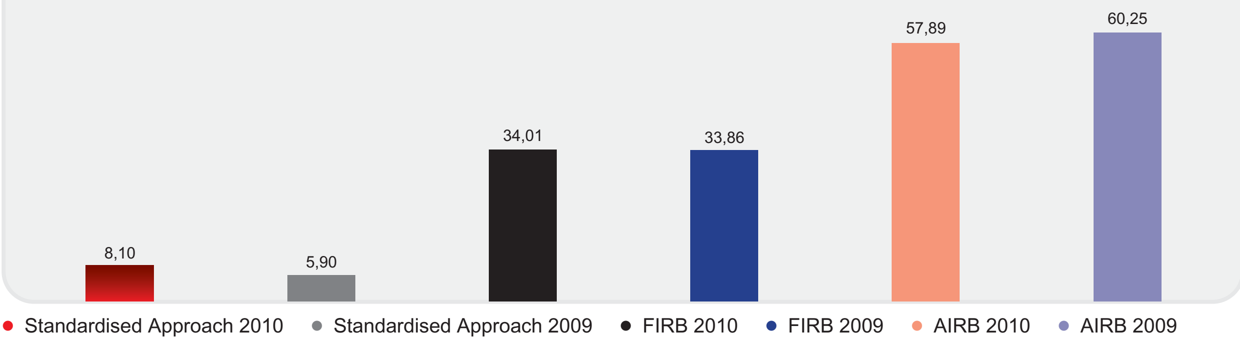
Currently, the Group applies both the Standardised and IRB approaches to various portfolios for the purpose of calculating regulatory capital requirements but, in many cases, uses more sophisticated approaches for the management of risk internally.

Basel II approaches adopted

In terms of the approaches used under Basel II, and with the 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 » African operations	» 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

EAD per Basel approach as at 31 December (%)



Standardised Approach

The Group's African operations and the statutory liquid asset portfolios are subject to the Standardised Approach. For capital calculation purposes these exposures are multiplied with the standard risk weight percentages as stipulated in the regulations relating to banks. The Group is investigating the possibility of moving its statutory liquid asset portfolio to the more advanced approach as set out in the regulations relating to the Banks Act, No 94 of 1990.

IRB Approach

To assess credit risk under this approach, the Group analyses this risk into its common components of probability of default (PD), exposure at default (EAD) and loss given default (LGD), modelled at a customer, facility and portfolio level. These risk components are then used in the calculation of a number of aggregate risk measures such as expected loss (EL), RC and EC.

The assessment of credit risk relies heavily on quantitative models and tools which have, to a large degree, been developed internally and which are supplemented by vendor solutions in a number of areas.

The Group classifies all credit models by materiality, based on a combination of measures aimed at assessing the 'value at stake' (VAS) for the Group. The VAS measure used for a specific model is determined by its relevance for the respective portfolio as well as the risk the model is intended to assess. The pertinent measures for most credit models are EC and the amount of exposure covered by the model.

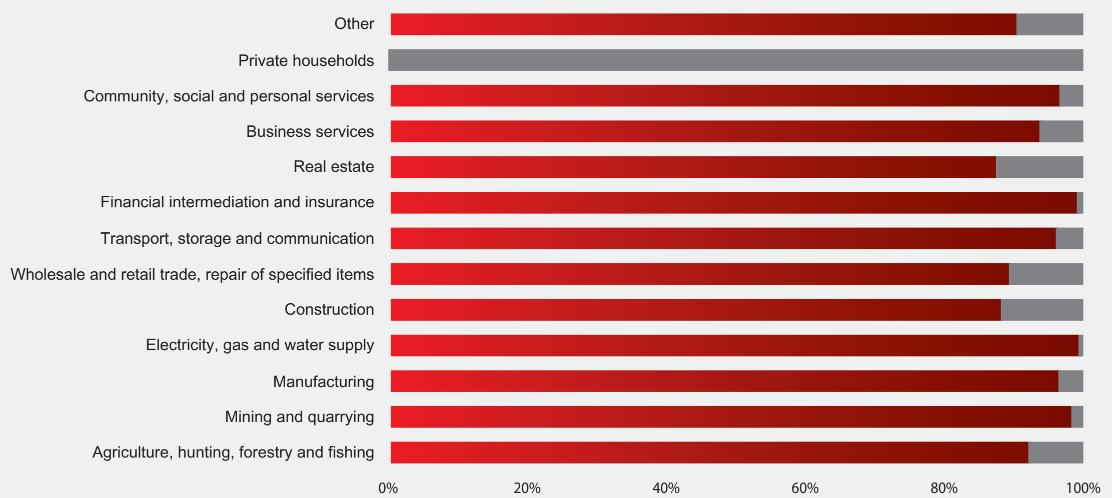
The levels of materiality at Group level, as prescribed by the MRP, are as follows:

» A significant models requiring Group Exco approval;
» A high materiality at Group level requiring Group Exco approval;
» B medium materiality at Group level;
» C low materiality at Group level; and
» D very low materiality at Group level.

All models are monitored on an ongoing basis and validated, at least annually, by an independent validation unit within Group Credit. Monitoring information and validation results are reported to and discussed at the CMMC, the CRTC, the CRC, the EMC and the GRCMC.

The graph below provides a view of the split between the wholesale and retail portfolios per industry.

Total industry EAD – 31 December 2010 (%)



● Wholesale ● Retail

Credit risk

Retail portfolios

The rating assignment across each retail portfolio is based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter for use in decisioning. Decisioning includes underwriting, 'pay/no pay' decisions and the assignment of accounts to risk grades that are in turn used in the calculation of regulatory capital. The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

- » Internal risk estimates of PD, LGD and EAD are grounded in historical experience, incorporating all relevant material and available data, information and methods. Both the historical observation periods and default definitions used are consistent with regulatory requirements.
- » For each product, PDs are assigned at account level by calibrating the raw behavioural model scores/ratings to the observed long-run average default rate for each pool.
- » For each product, EADs are assigned to each account based on the EAD pool that the account has been assigned to. EAD estimates incorporate all relevant data and information including account balance, utilised and unutilised limits, if present.
- » LGDs are estimated for each product and assigned at account level, based on the LGD pool that the account has been assigned to. Calibration data on historically defaulted accounts includes observed EADs, recovery streams, cure and write-off rates. The models also make use of suitable risk drivers such as LTV valuations which are updated monthly.

Wholesale portfolio

The rating process across these portfolios is similar and relies both on internally developed PD rating models and vendor provided solutions. Contrary to the largely automated rating and credit decision process used for retail portfolios, extensive credit analyses and expert assessments are used in the credit decision process. Information used in the calculation of client ratings includes:

- » financial statements;
- » projected cash flows;
- » equity price information;
- » external rating agency grades; and
- » behavioural scorecards.

PD measures based on behavioural scores and equity prices are updated monthly for credit risk management and capital calculation purposes. Other PD models which rely on more static information are updated at least quarterly in a conventional environment or as and when extraordinary circumstances warrant a review of the client's credit standing.

The assessment of credit risk relies heavily on quantitative models and tools, which have, to a large degree, been developed internally and which are supplemented by vendor solutions.

The following sections provide an overview of the aforementioned concepts and their usage in the assessment of credit risk across the Group's portfolios.

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 Group 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 Group'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 Group's decision processes and several types of rating approaches are employed across the Group.

For communication and comparison purposes, the Group 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 8).

Exposure at default (EAD)

The EAD denotes the total amount the Group expects to be outstanding from a particular customer at the time of default. The Group 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 credit risk mitigants the Group 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 as the judgement of credit experts and are primarily driven by the type and value of collateral held. The Group 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 Group'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.

Credit risk

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.

The Group categorises its current exposures according to a 21-grade internal rating scale DG that corresponds to a statistical probability of customers in that rating class defaulting within a 12 month period. An indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are set out in the table below:

Mapping of DG to PD band, alphanumeric agency grades and regulatory bands – Table 8:

Default grade bucket	Note	Absa DG to PD mapping Min PD (>) %	Max PD (<) %	PD Midpoint %	Alphanumeric scale mapping Standard & 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

Regulatory PD band to PD mapping PD band	Lower bound %	Upper bound %
1	0,0001	0,0120
2	0,0121	0,0170
3	0,0171	0,0240
4	0,0241	0,0340
5	0,3410	0,0480
6	0,0481	0,0670
7	0,0671	0,0950
8	0,0951	0,1350
9	0,1351	0,1900
10	0,1901	0,2690
11	0,0269	0,3810
12	0,3811	0,5380
13	0,5381	0,7610
14	0,7611	1,0760
15	1,0761	1,5220
16	1,5221	2,1530
17	2,1531	3,0440
18	3,0441	4,3050
19	4,3051	6,0890
20	6,0891	8,6110
21	8,6111	12,177
22	12,177	17,222
23	17,222	24,355
24	24,355	34,443
25	34,443	100,00
Default	100,00	100,00

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

Notes

[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 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 Group will sustain some loss when default occurs.*

Expected vs actual losses

Probability of default

The objective of PD backtesting is to compare the accuracy of the probability of default estimates for regulatory purposes with the actual default data.

For each retail and wholesale Basel II asset class, the assigned PD for regulatory capital purposes as at 31 December 2009 is compared to the non-performing loans ratio observed at 31 December 2010.

Regulatory PD is adjusted to the cycle (TTC – through the cycle) while the non-performing loans ratio is observed at a particular point in the cycle (31 December 2010). To complete the analysis, the observed non-performing loan (NPL) ratio is also compared to the point-in-time (31 December 2010) probability of default (PIT PD).

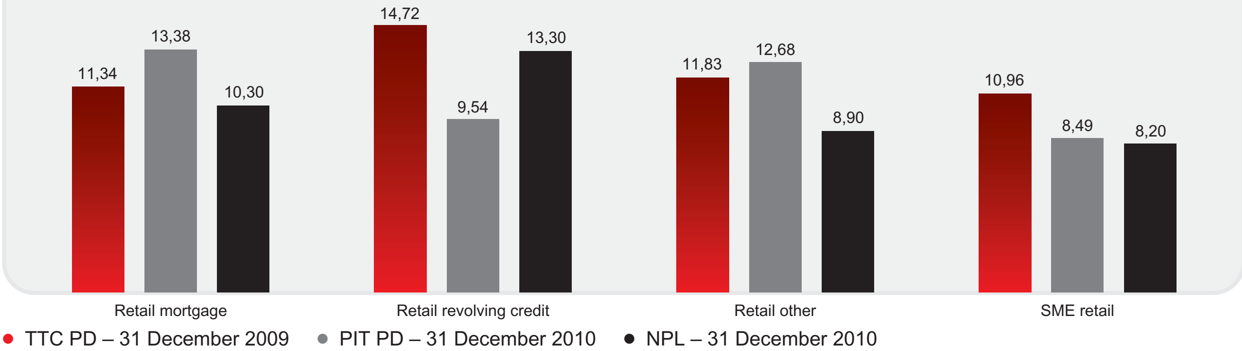
The main conclusions of the analysis are as follows:

» For all asset classes, the regulatory or TTC PD is clearly above the NPL ratio observed in December 2010.

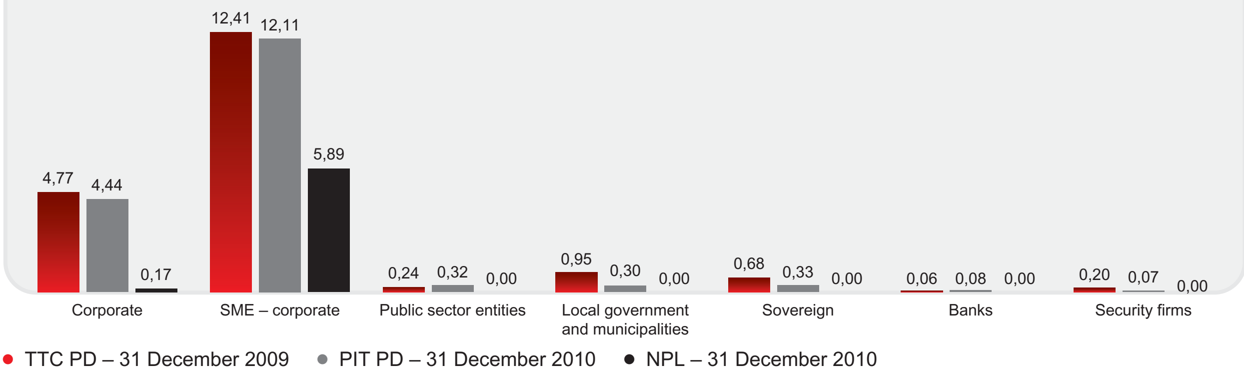
» The PIT PD, i.e. the point-in-time estimates of the model, is above the observed NPL ratio in most of the cases, except for retail revolving credit.

(All numbers stated are Group numbers and include defaults):

Comparison of PD estimates with actual default (Retail AIRB) (%)



Comparison of PD estimates with actual default (Wholesale FIRB) (%)



Note

Retail PIT PD and TTC PD models in place at 31 December 2009 have been replaced with new models at 31 December 2010. Comparatives are therefore not possible.

Credit risk

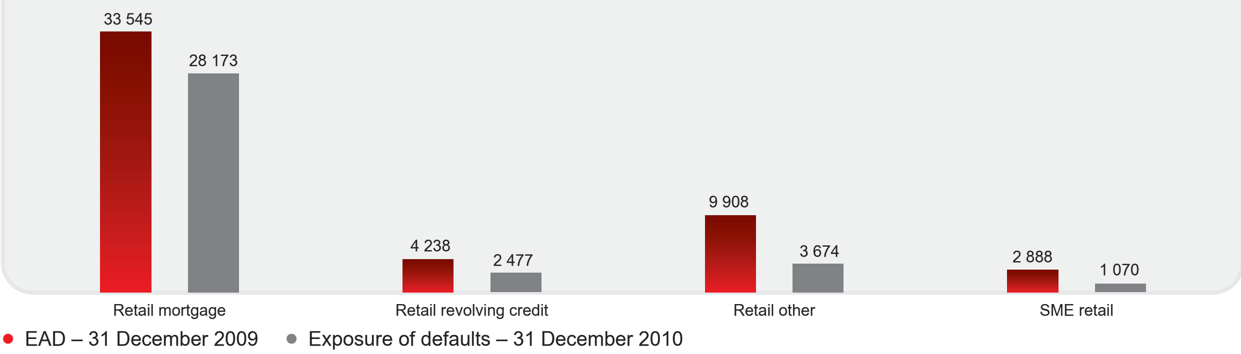
Exposure at default

The objective of EAD backtesting is to compare the accuracy of EAD estimates for regulatory purposes with the actual EADs.

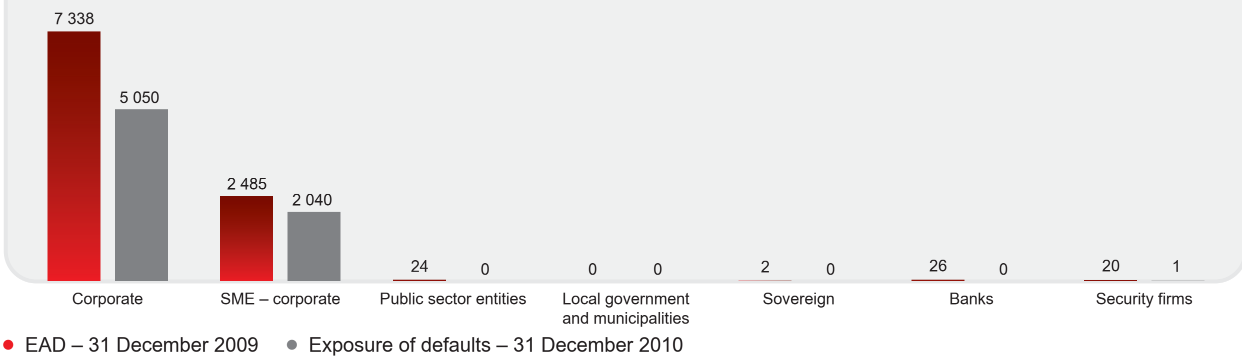
For each retail and wholesale Basel II asset class, the estimated EAD as at 31 December 2009 is compared to the actual EAD as at 31 December 2010.

The main conclusion of the analysis is that the actual EAD as at 31 December 2010 was lower than the estimated EAD as at 31 December 2009 in all cases (30% and 28% lower in total for retail and wholesale respectively).

Comparison of EAD estimates with actual exposure of defaults (Retail AIRB) (Rm)



Comparison of EAD estimates with actual exposure of defaults (Wholesale FIRB) (Rm)



Note

Retail EAD models that were in place at 31 December 2009 were replaced with new models at 31 December 2010. Woolworths Financial Services (Proprietary) Limited (R8,2 billion EAD) was excluded from the above.

Expected losses compared to actual write-offs

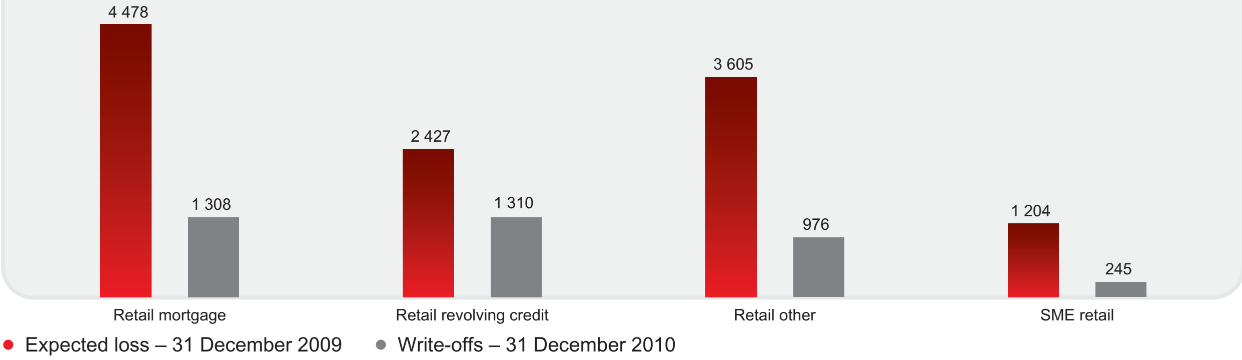
The objective of EL backtesting is to compare the accuracy of the EL estimates with actual write-off data.

For each retail and wholesale Basel II asset class, the estimated EL as at 31 December 2009 is compared to the actual amount written off for the year ended 31 December 2010.

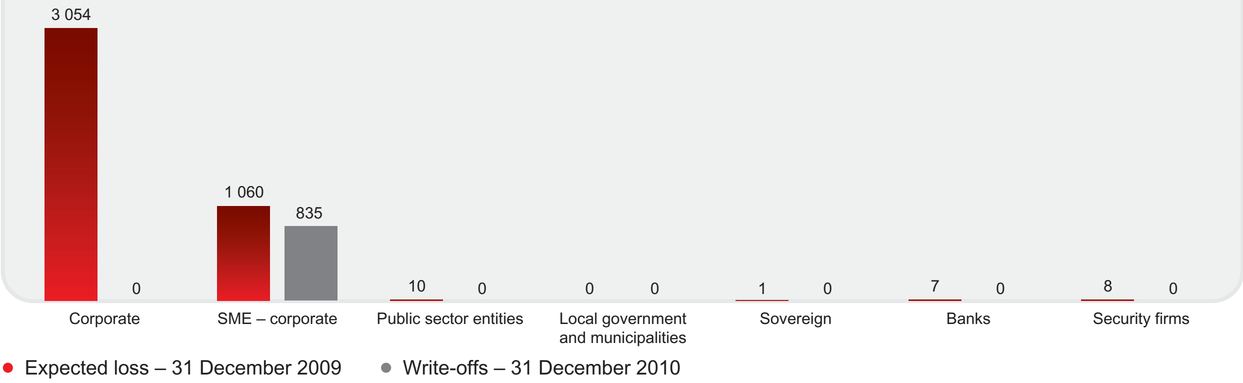
EL is a function of TTC PD, downturn LGD and EAD *(EL = TTC PD x downturn LGD x EAD)*, i.e. it is a TTC measure adjusted for an economic downturn while the amount written-off is observed at a particular point in time (31 December 2010).

The main conclusion of the analysis is that for all asset classes, the EL estimates are clearly above the actual write-offs observed for the year ended 31 December 2010.

Comparison of EL estimates with actual write-offs (Retail AIRB) (Rm)



Comparison of EL estimates with actual write-offs (Wholesale AIRB) (Rm)



Note

The retail LGD and downturn LGD models that were in place at 31 December 2009 were replaced with new models at 31 December 2010.

Credit risk

Credit risk mitigation, collateral and other credit enhancements

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

Collateral types used by the Group, grouped by type of asset – Table 9:

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 Group.*

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 Group 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.

Credit risk

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 Group'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 Group 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 Group endeavours to use netting agreements wherever possible. The Group 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 Group unrelated to the underlying instruments in the event of a credit downgrade. Only a small number of the Group's agreements make use of such a tiered structure and an instantaneous downgrade by one rating grade from the current AA-rating (S&P and Fitch) would not trigger any such clauses and create a requirement for the Group 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.

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 10 (audited):

	Group	
	2010 Rm	2009[1] Rm
Retail Banking	**34 574**	38 156
Cheque accounts	**27**	31
Instalment credit agreements	**2 810**	4 636
Mortgages	**31 617**	33 362
Personal and term loans	**120**	127
Absa Business Bank	**7 753**	7 434
Corporate	**1 596**	1 313
Large and Medium	**5 665**	5 601
Other	**169**	242
Small	**323**	278
Absa Capital	**241**	327
	42 568	45 917
Carrying values of loans past due but not impaired (refer to table 31)	**5 964**	4 607
Carrying values of loans individually impaired (refer to table 32)	**57 713**	57 190

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 Group using a probability of default model when assessing the impairments raised against these assets.

Enforcement of collateral

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

Loans and advances to customers – Table 11 (audited):

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

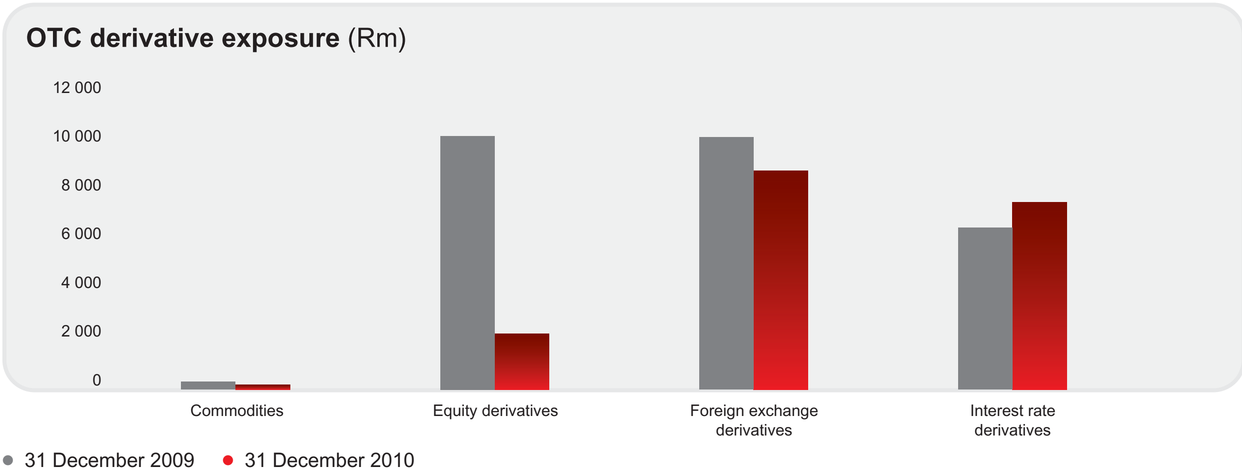
Credit risk

Credit derivatives

The following table provides an overview of the outstanding amount of exposure held in respect of the Group's credit derivative positions, used in the management of its credit portfolio, broken down by product type, indicating whether protection was bought or sold:

Exposures by instrument bought or sold – Table 12:

	2010 Own credit portfolio		2009 Own credit portfolio	
	As protection buyer Rm	As protection seller Rm	As protection buyer Rm	As protection seller Rm
Credit derivative product type				
Credit-default swaps	**2 567**	**7 253**	1 587	7 012
Total return swaps	**—**	**—**	106	106
Total notional exposure to credit derivative transactions	**2 567**	**7 253**	1 693	7 118



The decrease in equity derivatives was as a result of the netting of underlying stock equity CFDs to Barclays Capital securities.

Concentration risk

Due to the composition of the Group's business portfolios, a certain degree of risk concentration in the collateral portfolios is evident. The Group 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 Group 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 Group's mark-to-market (MTM) exposure.

Concentration risk – Table 13 (audited):

	Group				
	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	17 549	1 873	—	—	19 422
Statutory liquid asset portfolio	48 215	—	—	—	48 215
Loans and advances to banks	3 249	1 308	19 361	959	24 877
Trading and hedging portfolio assets	40 562	87	19 787	1 226	61 662
Other assets[1]	12 574	221	583	128	13 506
Loans and advances to customers	488 578	7 388	1 146	1 523	498 635
Reinsurance assets	703	—	137	20	860
Investment securities	7 773	487	—	—	8 260
Subject to credit risk (refer to table 22)	619 203	11 364	41 014	3 856	675 437
Off-statement of financial position exposures					
Financial guarantees	552	—	47	—	599
Guarantees	11 051	—	—	—	11 051
Irrevocable debt facilities	45 432	672	391	—	46 495
Letters of credit	4 976	3	—	—	4 979
Subject to credit risk (refer to table 22)	62 011	675	438	—	63 124

	2009[2]				
	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	13 098	2 167	157	—	15 422
Statutory liquid asset portfolio	33 943	—	—	—	33 943
Loans and advances to banks	17 238	843	16 614	1 337	36 032
Trading and hedging portfolio assets	28 687	373	19 544	342	48 946
Other assets[1]	14 886	144	27	18	15 075
Loans and advances to customers	493 215	8 264	4 423	261	506 163
Reinsurance assets	533	—	186	—	719
Investments securities	11 262	426	21	—	11 709
Subject to credit risk (refer to table 22)	612 862	12 217	40 972	1 958	668 009
Off-statement of financial position exposures					
Financial guarantees	944	—	63	—	1 007
Guarantees	9 879	605	—	—	10 484
Irrevocable debt facilities	53 048	1 037	432	—	54 517
Letters of credit	4 577	428	2	—	5 007
Subject to credit risk (refer to table 22)	68 448	2 070	497	—	71 015

Notes

[1]*Excludes cash under management.*

[2]*Comparatives have been reclassified.*

Credit risk

The following table reflects the Group'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 14:

	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[1] Rm
Agriculture	—	—	—	108	—
Construction and property	—	—	—	28	114
Consumer (home loans)	—	—	—	—	—
Consumer (other personal lending)	—	—	—	—	18
Electricity				2 392	3
Finance	19 422	—	24 877	47 525	12 747
Government	—	48 215	—	8 919	328
Manufacturing	—	—	—	632	—
Mining	—	—	—	171	4
Other	—	—	—	129	271
Services	—	—	—	759	15
Transport	—	—	—	694	3
Wholesale	—	—	—	305	3
Subject to credit risk	**19 422**	**48 215**	**24 877**	**61 662**	**13 506**

	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[1] Rm
Agriculture	—	—	—	15	—
Construction and property	—	—	—	2	138
Consumer (home loans)	—	—	—	—	8
Consumer (other personal lending)	—	—	—	47	187
Electricity	—	—	—	1 682	2
Finance	15 422	—	36 032	37 812	13 367
Government	—	33 943	—	7 908	380
Manufacturing	—	—	—	338	10
Mining	—	—	—	338	11
Other	—	—	—	13	939
Services	—	—	—	281	30
Transport	—	—	—	342	—
Wholesale	—	—	—	168	3
Subject to credit risk	15 422	33 943	36 032	48 946	15 075

Notes

[1]*Excludes cash under management.*

[2]*Comparatives have been reclassified.*

Group

2010

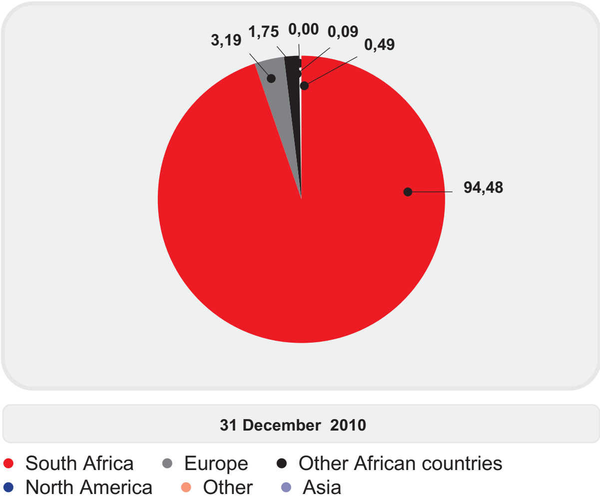
Loans and advances to customers Rm	Re-insurance assets Rm	Investment securities Rm	Financial guarantees Rm	Guarantees Rm	Irrevocable debt facilities Rm	Letters of credit Rm	Total Rm
20 680	**—**	**—**	**—**	**295**	**—**	**26**	**21 109**
43 505	**—**	**280**	**—**	**1 861**	**44**	**397**	**46 229**
247 424	**—**	**—**	**—**	**—**	**—**	**—**	**247 424**
28 983	**—**	**—**	**—**	**—**	**—**	**101**	**29 102**
2 674	**—**	**22**	**164**	**63**	**2 135**	**1**	**7 454**
73 807	**860**	**3 897**	**250**	**2 467**	**40 136**	**1 686**	**227 674**
7 871	**—**	**679**	**—**	**468**	**—**	**228**	**66 708**
12 528	**—**	**26**	**185**	**2 020**	**—**	**304**	**15 695**
6 265	**—**	**1 284**	**—**	**340**	**898**	**981**	**9 943**
27 107	**—**	**1 528**	**—**	**2 331**	**2 977**	**1 160**	**35 503**
4 033	**—**	**508**	**—**	**203**	**172**	**12**	**5 702**
7 216	**—**	**36**	**—**	**704**	**—**	**61**	**8 714**
16 542	**—**	**—**	**—**	**299**	**133**	**22**	**17 304**
498 635	**860**	**8 260**	**599**	**11 051**	**46 495**	**4 979**	**738 561**

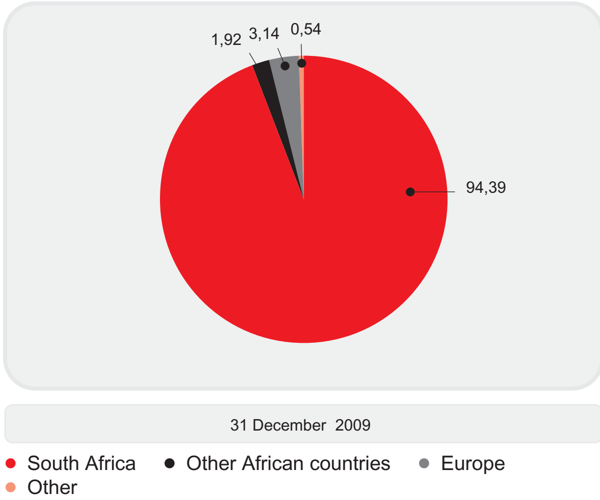
2009[2]

Loans and advances to customers Rm	Re-insurance assets Rm	Investment securities Rm	Financial guarantees Rm	Guarantees Rm	Irrevocable debt facilities Rm	Letters of credit Rm	Total Rm
17 439	—	—	—	217	10	12	17 693
53 370	—	3 248	—	981	166	505	58 410
256 769	—	1 655	—	—	—	—	258 432
38 887	—	—	—	3 446	9 726	11	52 304
2 276	—	—	64	463	866	75	5 428
44 171	719	1 880	256	670	41 642	1 437	193 408
3 929	—	1 011	—	14	—	—	47 185
11 954	—	189	562	554	6	297	13 910
6 534	—	1 137	125	66	3	636	8 850
23 413	—	879	—	2 154	1 706	1 646	30 750
21 575	—	1 337	—	668	37	221	24 149
8 584	—	373	—	119	240	69	9 727
17 262	—	—	—	1 132	115	98	18 778
506 163	719	11 709	1 007	10 484	54 517	5 007	739 024

Credit risk

EAD per geographical area (%)





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

The Group 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 Group's policies for establishing impairment allowances for traded products' counterparties are based on the applicable accounting requirements.

Securitisation

Securitisation transactions, used as part of the Group's credit portfolio, are primarily focused on the effective management of funding requirements. Planned securitisation transactions, market appetite and potential marketing and placement strategies are governed by a delegated mandate from the BFC and assessed with the assistance of the MRC. There are two main types of securitisation:

» traditional securitisations: originating bank transfers a pool of assets that it owns to an SPE on an arm's length basis; and

» synthetic securitisations: where the originating bank transfers only the credit risk associated with an underlying pool of assets, through the use of credit-linked notes or credit derivatives, while retaining legal ownership of the pool of assets.

All securitisation transactions entered into as at the reporting date have involved the sale of underlying assets to the securitisation vehicle. The Group has not originated any synthetic securitisations. Nonetheless, the Group calculates appropriate capital charges in respect of the risk assumed, through the provision of liquidity facilities and retained exposures, as per the Basel II securitisation framework.

As at the reporting date, the Group has securitised its own assets relating to the home loan and vehicle finance portfolios. The origination of transactions based on other asset classes, such as CPF loans are considered on an ongoing basis.

During the year under review, the Group securitised further home loans, which were originated from the Group's own statement of financial position.

Securitisation activities of the Group

Securitisation transactions have been used as a means of raising long-term funding. The Group applies the IRB approach in the assessment of its securitisation exposures for regulatory capital purposes and uses Fitch, Moody's and S&P as external credit assessment institutions (ECAIs).

Apart from originating and sponsoring securitisations, the Group also acts as an investor and a provider of services, liquidity and credit enhancements to a number of securitisation transactions. Investments in securitisation exposures may be made, directly or indirectly, through the Group's conduit (Abacas).

Credit risk

The following table provides a breakdown of the Group's role in each transaction it is involved in.

Roles played by the Group in securitisation transactions – Table 15:

	Origi-nator	Sponsor	Investor (Absa)	Investor (Abacas)	Liquidity provider	Service provider	Credit enhancement subordinated loan
On the Cards Investment II			✓				
Home Obligors Mortgage Enhanced Securities (Proprietary) Limited	✓	✓	✓			✓	✓
Collateralised Auto Receivables Securitisation Programme Series 1 (Proprietary) Limited	✓	✓				✓	✓
Vukile Investment Property Securitisation (Proprietary) Limited			✓		✓		
Prime Realty Obligors Packaged Securities (Proprietary) Limited					✓		
Nqaba Finance (Proprietary) Limited				✓	✓		
Private Residential Mortgages 3 (Proprietary) Limited			✓		✓		
Grayston Conduit (Proprietary) Limited					✓		
Ikhaya RMBS 1 Limited				✓	✓		
Ikhaya RMBS 2 Limited				✓	✓		
Asset Backed Arbitrage Securities (Proprietary) Limited		✓	✓		✓		✓
Private Commercial Mortgages (Proprietary) Limited					✓		
Private Commercial Mortgages (Proprietary) Limited					✓		
Growthpoint 1 (Proprietary) Limited				✓			
Growthpoint 2 (Proprietary) Limited			✓				
Blue Granite 1 (Proprietary) Limited			✓				
Blue Granite 2 (Proprietary) Limited				✓			
Blue Granite 3 (Proprietary) Limited			✓				
Blue Granite 4 (Proprietary) Limited				✓			
Thekweni Fund 7 (Proprietary) Limited			✓				

The following securitisation schemes have been redeemed during the year under review:

- Homeplan Financial Solutions (Proprietary) Limited.
- Collateralised Auto Receivables Securitisation Programmes Series 1 (Proprietary) Limited.
- Sanlam Home Loans 102 (Proprietary) Limited.
- Sanlam Home Loans 103 (Proprietary) Limited.
- Accelerator Fund 2 (Proprietary) Limited.
- Nitro Securitisation (Proprietary) Limited.
- Nitro Securitisation 2 (Proprietary) Limited.
- Nitro Securitisation 3 (Proprietary) Limited.
- Growthpoint 3 (Proprietary) Limited.
- Thekweni Fund 5 (Proprietary) Limited.

The following securitisation scheme note was purchased during the year under review:

- Thekweni Fund 7 (Proprietary) Limited.

Summary of applicable accounting policies

At the inception of a securitisation transaction, assets are sold to the securitisation vehicle at par value and no gains or losses are recognised. The transactions are treated as sales (rather than financing) and for financial reporting purposes the respective vehicles are consolidated at Group level.

Any retained interest in the securitisation vehicle is valued on the basis of the respective asset's performance. Where the Group acts as a service provider, normal impairment policies are applied and retained tranches are ultimately written off once sufficient capital losses accumulate.

Securitisation exposures

The following table provides a breakdown of the total funding raised through securitisation at the reporting date (excluding Abacas), as well as the ECAIs used in the various asset classes.

Securitisation assets – Table 16:

	2010		2009	
	Amount securitised Rm	**Absa Bank originator ECAI**	Amount securitised Rm	Absa Bank originator ECAI
Instalment debtors	**—**	**Moody's**	10 400	Moody's
Mortgage advances	**5 057**	**Moody's, Fitch and S&P**	3 342	Moody's, Fitch and S&P
	5 057		13 742	

Credit risk

Mortgage advances increased due to further home loans being securitised during the year under review.

Instalment debtors reflected a nil balance at the end of the year under review as the vehicle finance scheme was wound down. No securitised assets existed at the reporting date.

Absa originated securitisations performed according to expectations and no triggers were breached.

Outstanding underlying asset securitisation balances, including Abacas – Table 17:

	31 December 2010			
	Retail: mortgages Rm	Retail: instalment sales and leasing Rm	Retail: other[1] Rm	Total Rm
On-statement of financial position instruments	**4 533**	**—**	**2 554**	**7 087**
Off-statement of financial position instruments	**—**	**—**	**—**	**—**
Total IRB exposures	**4 533**	**—**	**2 554**	**7 087**
Of which notes issued investment grade	**4 019**	**—**	**2 554**	**6 573**
Sub-investment grade[2]	**1 038**	**—**	**—**	**1 038**

	31 December 2009			
	Retail: mortgages Rm	Retail: instalment sales and leasing Rm	Retail: other[1] Rm	Total Rm
On-statement of financial position instruments	3 186	1 112	5 641	9 939
Total IRB exposures	3 186	1 112	5 641	9 939
Of which notes issued investment grade	3 150	1 053	5 641	9 844
Sub-investment grade[2]	192	59	—	251

Notes

[1]*Retail: other represents Abacas (the Group being the sponsor) that is a conduit of the Group's asset backed commercial paper programme.*

[2]*Sub-investment grade – BBB below.*

Retained or purchased securitisation exposure by underlying asset type – Table 18:

Exposure type	31 December 2010 Retained Rm	Purchased Rm	Total Rm
Corporate/sovereign/banks	240	—	240
Other retail	—	936	936
Residential mortgages	946	993	1 939
Small- and medium-sized entities	—	351	351
	1 186	2 280	3 466

Exposure type	31 December 2009 Retained Rm	Purchased Rm	Total Rm
Corporate/sovereign/banks	140	—	140
Other retail	6	1 613	1 619
Residential mortgages	586	1 617	2 203
Small- and medium-sized entities	—	420	420
	732	3 650	4 382

Retained or purchased securitisation exposure by risk weight band – Table 19:

Risk-weight band	31 December 2010 Retained Rm	31 December 2010 Purchased Rm	31 December 2009 Retained Rm	31 December 2009 Purchased Rm
7 – 10%	—	—	—	—
11 – 19%	240	1 149	140	2 240
20 – 49%	—	1 076	350	1 230
50 – 75%	—	—	—	—
76 – 99%	—	—	—	—
100%	—	55	17	180
250%	23	—	115	—
350%	—	—	—	—
425%	—	—	—	—
650%	—	—	—	—
1 250% or deducted	923	—	110	—
Total	1 186	2 280	732	3 650

Credit risk

Retained securitised exposures in terms of the IRB approach – Table 20:

(Excluding deductions and investors' interest in respect of schemes with early amortisation features)

	31 December 2010				
	SME[1] receivables Rm	Retail: mortgages Rm	Retail: instalment sales and leasing Rm	Retail: other Rm	Total Rm
Senior exposure rated BBB or higher	**3,1**	**33,2**	**—**	**7,6**	**43,9**
Base risk weight exposures rated BBB or higher	**4,8**	**103,3**	**11,1**	**86,5**	**205,7**
Exposure rated BBB or below	**5,4**	**19,2**	**—**	**—**	**24,6**
	13,3	**155,7**	**11,1**	**94,1**	**274,2**

	31 December 2009				
	SME[1] receivables Rm	Retail: mortgages Rm	Retail: instalment sales and leasing Rm	Retail: other Rm	Total Rm
Senior exposure rated BBB or higher	3,7	18,5	0,7	9,2	32,1
Base risk weight exposures rated BBB or higher	5,3	36,2	4,9	163,2	209,6
Exposure rated BBB or below	5,4	42,0	—	—	47,4
	14,4	96,7	5,6	172,4	289,1

Note

[1]*Small- and medium-sized enterprises as defined by the regulations.*

Risk-weighted assets and capital deductions at Group level (IRB) – Table 21:

	31 December 2010			
	RWAs Rm	Required capital at 9,5%[1] Rm	Primary capital and reserve funds Rm	Secondary capital and reserve funds Rm
Retail: instalment sales and leasing	**113**	**11**	**—**	**—**
Retail: mortgages	**1 597**	**152**	**—**	**—**
Retail: other	**966**	**92**	**—**	**—**
SME receivables	**137**	**13**	**—**	**—**
	2 813	**268**	**—**	**—**

	31 December 2009			
	RWAs Rm	Required capital at 9,5%[1] Rm	Primary capital and reserve funds Rm	Secondary capital and reserve funds Rm
Retail: instalment sales and leasing	57	5	—	—
Retail: mortgages	1 139	108	149	149
Retail: other	1 768	168	—	—
SME receivables	148	14	—	—
	3 112	295	149	149

Note

[1]*Required capital is calculated at 9,5%. This excludes the Group specific (Pillar 2b) add on.*

Credit risk

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 Group regularly reconciles the data used for both financial (IFRS) and regulatory (Pillar 3) disclosure.

Impairment methods of assessment and use of allowance accounts

The Group 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 Group which 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 Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider such as in the case of restructuring.
- It becomes probable that the borrower will enter insolvency or other financial reorganisation.
- The disappearance of an active market for that financial asset as a result 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 Group'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.

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.

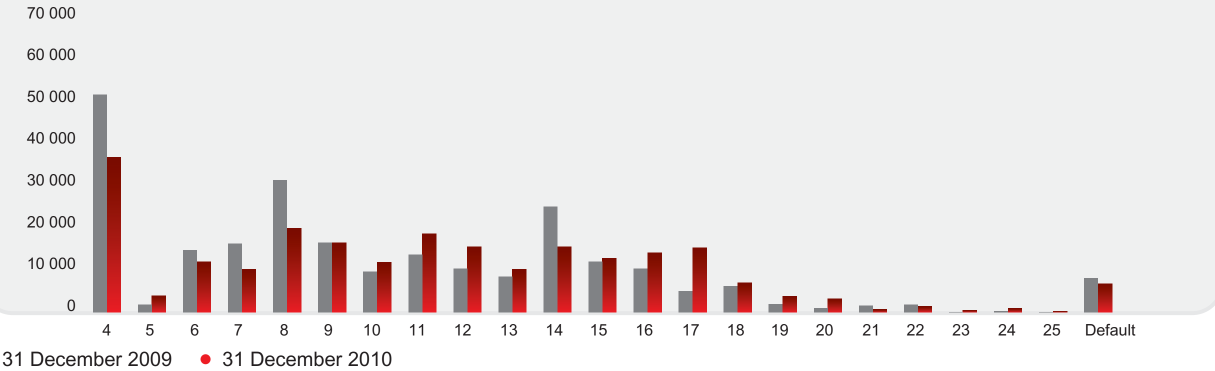
Differences in impairment calculations across retail and wholesale operations

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.

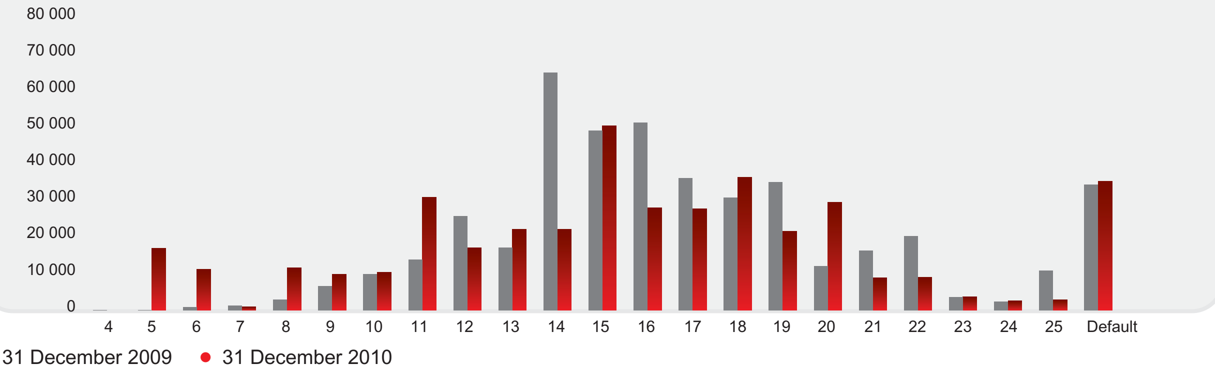
Credit risk

Within the Retail Banking portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow impairment to be monitored on a portfolio basis. It is consistent with the Group's policy of raising an impairment allowance as soon as objective evidence of impairment is identified as a result of one or more loss events that have occurred, 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.

Exposure migration across PD bands – wholesale operations (Rm)



Exposure migration across PD bands – retail operations (Rm)



Credit rating downgrade

The Group enters into derivative contracts with rated and unrated counterparties. To mitigate counterparty credit risk, the Group 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 Group 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 Group 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 Group'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 Group'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 was R133,1 million.

Strategic focus for the year ahead

Wholesale credit risk

The focus of the Group's wholesale's 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 SARB 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 Group'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 Group relies on data driven strategies, automated controls were implemented during 2010, to ensure data quality remains of the utmost importance.

Infrastructure for the Group's African operations is continuously being improved. Collections and underwriting processes are being enhanced to align with world class standards.

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 not have a material impact on the Group'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 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).

Credit risk

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 the Group 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.

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, net of impairments – Table 22 (audited):

	Group	
	2010 Rm	2009[1] Rm
Balances with other central banks	**859**	827
Balances with the SARB	**12 912**	10 983
Money market assets	**5 651**	3 612
Cash, cash balances and balances with central banks (refer to note 2)	**19 422**	15 422
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	**19 305**	27 100
Reverse repurchase agreements	**5 572**	8 932
Loans and advances to banks (refer to note 4)	**24 877**	36 032
Debt instruments	**11 694**	10 715
Derivative assets	**43 404**	31 836
Money market assets	**1 902**	3 837
Trading portfolio assets (refer to note 5)	**57 000**	46 388
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[2]	**4 708**	5 477
Collateral	**4 171**	7 931
Settlement accounts	**4 627**	1 667
Other assets (refer to note 6)	**13 506**	15 075

Notes

[1]*Comparatives have been reclassified.*

[2]*Excludes cash under management.*

Credit risk exposures relating to on-statement of financial position assets, net of impairments – Table 22 (audited): *(continued)*

	Group 2010 Rm	Group 2009[1] Rm
Retail Banking	**325 790**	322 034
Cheque accounts	**2 211**	2 241
Credit cards	**18 319**	17 434
Instalment credit agreements	**39 549**	39 599
Loans to associates and joint ventures	**4 827**	6 187
Microloans	**1 662**	2 563
Mortgages	**245 963**	242 653
Other advances	**31**	305
Personal and term loans	**13 228**	11 052
Absa Business Bank	**123 618**	125 181
Corporate	**23 816**	22 178
Large and Medium	**74 119**	74 967
Other	**20 616**	23 085
Small	**5 067**	4 951
Absa Capital	**50 044**	58 301
Other and intergroup eliminations	**(817)**	647
Loans and advances to customers (refer to note 8)	**498 635**	506 163
Insurance contracts	**386**	474
Investment contracts	**474**	245
Reinsurance assets (refer to note 10)	**860**	719
Debt instruments	**8 045**	11 299
Derivative instruments	**215**	410
Investment securities (refer to note 11)	**8 260**	11 709
Total assets subject to credit risk (refer to table 28)	**675 437**	668 009
Assets not subject to credit risk[2]	**41 033**	42 787
Total assets per the statement of financial position	**716 470**	710 796
Credit risk exposures relating to off-statement of financial position items – Table 23 (audited):		
Financial guarantees	**599**	1 007
Guarantees	**11 051**	10 484
Irrevocable facilities	**46 495**	54 517
Letters of credit	**4 979**	5 007
	63 124	71 015

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

Financial instruments designated at fair value through profit or loss – Table 24 (audited):

The following represents the maximum exposure at the reporting date to credit risk of financial instruments designated at fair value through profit or loss, before taking into account any collateral held or other credit enhancements.

	Group 2010 Rm	Group 2009 Rm
Assets		
Cash, cash balances and balances with central banks (refer to note 2)	**3 013**	2 271
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
Other assets (refer to note 6)	**16**	—
Loans and advances to customers (refer to note 8)	**9 990**	9 374
Investment securities (refer to note 11)	**6 365**	9 127
	29 894	26 811
Liabilities		
Deposits from banks (refer to note 17)	**1 679**	7 319
Other liabilities (refer to note 19)	**12**	294
Deposits due to customers (refer to note 21)	**16 856**	12 552
Debt securities in issue (refer to note 22)	**1 561**	1 741
Liabilities under investment contracts (refer to note 23)	**13 964**	12 446
Borrowed funds (refer to note 25)	**739**	718
	34 811	35 070

At the reporting date, the Group 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 or loss – Table 25 (audited):

The following represents the carrying value of financial liabilities designated at fair value through profit or loss and the amount which the Group is contractually required to pay to the holder of the obligation at maturity.

	Group 2010 Carrying value Rm	Group 2010 Contractual obligation Rm	Group 2009 Carrying value Rm	Group 2009 Contractual obligation Rm
Liabilities				
Deposits from banks (refer to note 17)	**1 679**	**7 584**	7 319	7 423
Other liabilities (refer to note 19)	**12**	**12**	294	294
Deposits due to customers (refer to note 21)	**16 856**	**21 913**	12 552	12 539
Debt securities in issue (refer to note 22)	**1 561**	**5 907**	1 741	1 828
Liabilities under investment contracts (refer to note 23)	**13 964**	**13 914**	12 446	12 446
Borrowed funds (refer to note 25)	**739**	**756**	718	811
	34 811	**50 086**	35 070	35 341

Decrease in fair value attributable to changes in credit risk during the year – Table 26 (audited):

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

Cumulative increase in fair value attributable to changes in credit risk – Table 27 (audited):

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

The following approaches are used by the Group 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 change in fair value due to changes in credit risk is calculated by assigning to each customer an internal risk grading based on the customer's probability of default. The risk grading determines the credit spread incorporated in the valuation curve. Changes in the risk grading will result in a change in fair value of the loan due to changes in credit risk. The change in fair value is calculated by stripping out the trading margin from the fixed rate instruments to determine the split between interest and credit movement.

» Constant credit spread approach: the cumulative 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 change in fair value due to change in credit risk was recognised.

Financial assets subject to credit risk

Financial assets subject to credit risk – Table 28 (audited):

For the purposes of the Group'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 29)	**19 422**	**48 215**	**24 877**
Past due but not impaired (refer to table 31)	—	—	—
Impaired (refer to table 32)	—	—	—
Impairment allowance (refer to table 33)	—	—	—
Identified impairments (refer to table 32)	—	—	—
Identified collective	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Identified individual	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Unidentified impairments	—	—	—
Carrying value of financial assets (refer to table 22)	**19 422**	**48 215**	**24 877**

	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 29)	15 422	33 943	36 032
Past due but not impaired (refer to table 31)	—	—	—
Impaired (refer to table 32)	—	—	—
Impairment allowance (refer to table 33)	—	—	—
Identified impairments (refer to table 32)			
Identified collective	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Identified individual	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Unidentified impairments	—	—	—
Carrying value of financial assets (refer to table 22)	15 422	33 943	36 032

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]*Exclude cash under management.*
[4]*Comparatives have been reclassified.*

Group

2010	Trading portfolio assets[2] Rm	Hedging portfolio assets Rm	Other assets[3] Rm	Loans and advances to customers Rm	Reinsurance assets Rm	Investment securities[2] Rm	Total Rm
	57 000	**4 662**	**13 099**	**448 860**	**860**	**8 260**	**625 255**
	—	**—**	**55**	**5 964**	**—**	**—**	**6 019**
	—	**—**	**372**	**57 713**	**—**	**—**	**58 085**
	—	**—**	**(20)**	**(13 902)**	**—**	**—**	**(13 922)**
	—	**—**	**(20)**	**(12 949)**	**—**	**—**	**(12 969)**
	—	**—**	**—**	**(10 615)**	**—**	**—**	**(10 615)**
	—	**—**	**—**	**(9 903)**	**—**	**—**	**(9 903)**
	—	**—**	**—**	**(712)**	**—**	**—**	**(712)**
	—	**—**	**(20)**	**(2 334)**	**—**	**—**	**(2 354)**
	—	**—**	**—**	**(1 912)**	**—**	**—**	**(1 912)**
	—	**—**	**(20)**	**(422)**	**—**	**—**	**(442)**
	—	**—**	**—**	**(953)**	**—**	**—**	**(953)**
	57 000	**4 662**	**13 506**	**498 635**	**860**	**8 260**	**675 437**

2009[4]	Trading portfolio assets[2] Rm	Hedging portfolio assets Rm	Other assets[3] Rm	Loans and advances to customers Rm	Reinsurance assets Rm	Investment securities[2] Rm	Total Rm
	46 388	2 558	15 001	457 524	719	11 709	619 296
	—	—	59	4 607	—	—	4 666
	—	—	23	57 190	—	—	57 213
	—	—	(8)	(13 158)	—	—	(13 166)
			(8)	(11 999)			(12 007)
	—	—	—	(1 839)	—	—	(1 839)
	—	—	—	(1 170)	—	—	(1 170)
	—	—	—	(669)	—	—	(669)
	—	—	(8)	(10 160)	—	—	(10 168)
	—	—	—	(8 766)	—	—	(8 766)
	—	—	(8)	(1 394)	—	—	(1 402)
	—	—	—	(1 159)	—	—	(1 159)
	46 388	2 558	15 075	506 163	719	11 709	668 009

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 Group's business. The credit quality of financial assets subject to credit risk, that were neither past due nor impaired, based on the Group's internal ratings, were as follows:

Credit risk exposures relating to on-statement of financial position assets – Table 29 (audited):

	Group			
	2010			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Balances with other central banks	859	—	—	859
Balances with the SARB	12 912	—	—	12 912
Money market assets	5 651	—	—	5 651
Cash, cash balances and balances with central banks	**19 422**	**—**	**—**	**19 422**
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	19 294	11	—	19 305
Reverse repurchase agreements	5 572	—	—	5 572
Loans and advances to banks	**24 866**	**11**	**—**	**24 877**
Debt instruments	11 694	—	—	11 694
Derivative assets	41 111	2 204	89	43 404
Money market assets	1 889	13	—	1 902
Trading portfolio assets	**54 694**	**2 217**	**89**	**57 000**
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	4 300	1	—	4 301
Collateral	4 171	—	—	4 171
Settlement accounts	4 447	180	—	4 627
Other assets	**12 918**	**181**	**—**	**13 099**

Credit risk exposures relating to on-statement of financial position assets – Table 29 (audited): *(continued)*

	Group			
	2010			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Retail Banking	87 321	189 630	7 438	284 389
Cheque accounts	716	1 382	1	2 099
Credit cards	3 154	12 249	545	15 948
Instalment credit agreements	5 769	28 139	1 195	35 103
Loans to associates and joint ventures	793	3 870	164	4 827
Microloans	454	807	220	1 481
Mortgages	74 083	135 732	2 917	212 732
Other advances	31	—	—	31
Personal loans	2 321	7 451	2 396	12 168
Absa Business Bank	53 720	57 474	4 147	115 341
Corporate	16 866	5 272	40	22 178
Large and Medium	28 300	37 513	2 634	68 447
Other	7 831	11 083	1 238	20 152
Small	723	3 606	235	4 564
Absa Capital	32 135	17 478	334	49 947
Other and inter-group eliminations	(856)	39	—	(817)
Loans and advances to customers	**172 320**	**264 621**	**11 919**	**448 860**
Insurance contracts	386	—	—	386
Investment contracts	474	—	—	474
Reinsurance assets	**860**	**—**	**—**	**860**
Debt instruments	6 783	1 262	—	8 045
Derivative instruments	215	—	—	215
Investment securities	**6 998**	**1 262**	**—**	**8 260**
Total (refer to table 28)	**344 955**	**268 292**	**12 008**	**625 255**

Credit risk

Credit risk exposures relating to on-statement of financial position assets – Table 29 (audited): *(continued)*

	Group			
	2009[1]			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Balances with other central banks	827	—	—	827
Balances with the SARB	10 983	—	—	10 983
Money market assets	3 612	—	—	3 612
Cash, cash balances and balances with central banks	15 422	—	—	15 422
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	26 181	919	—	27 100
Reverse repurchase agreements	8 932	—	—	8 932
Loans and advances to banks	35 113	919	—	36 032
Debt instruments	10 715	—	—	10 715
Derivative assets	27 736	4 092	8	31 836
Money market assets	3 550	287	—	3 837
Trading portfolio assets	42 001	4 379	8	46 388
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	5 402	1	—	5 403
Collateral	7 931	—	—	7 931
Settlement accounts	1 652	15	—	1 667
Other assets	14 985	16	—	15 001
Retail Banking	42 906	222 625	16 131	281 662
Cheque accounts	476	1 534	134	2 144
Credit cards	178	12 932	1 864	14 974
Instalment credit agreements	2 320	30 784	1 680	34 784
Loans to associates and joint ventures	405	5 487	295	6 187
Microloans	552	1 137	458	2 147
Mortgages	36 258	163 648	10 813	210 719
Other advances	317	—	—	317
Personal and term loans	2 400	7 103	887	10 390

Note

[1]*Comparatives have been reclassified.*

Credit risk exposures relating to on-statement of financial position assets – Table 29 (audited): *(continued)*

	Group 2009[1] DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Absa Business Bank	43 813	70 115	3 721	117 649
Corporate	12 866	8 143	48	21 057
Large and Medium	23 736	42 900	2 719	69 355
Other	6 949	15 196	632	22 777
Small	262	3 876	322	4 460
Absa Capital	35 064	22 200	337	57 601
Other	612	—	—	612
Loans and advances to customers	122 395	314 940	20 189	457 524
Insurance contracts	474	—	—	474
Investment contracts	245	—	—	245
Reinsurance assets	719	—	—	719
Debt instruments	8 928	2 371	—	11 299
Derivative instruments	410	—	—	410
Investment securities	9 338	2 371	—	11 709
Total (refer to table 28)	276 474	322 625	20 197	619 296

Note

[1]*Comparatives have been reclassified.*

Credit risk

Financial assets renegotiated

Certain of the Group's loans and advances to customers would have defaulted if their terms had not been renegotiated. At the 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 30 (audited):

	Group	
	2010 Rm	2009[3] Rm
Retail Banking	**2 276**	1 693
Cheque accounts	**2**	6
Credit cards	**287**	—
Instalment credit agreements	**143**	1
Microloans	**6**	2
Mortgages	**1 708**	1 561
Other advances	**—**	2
Personal and term loans	**130**	121
Absa Business Bank	**955**	891
Absa Capital	**154**	142
	3 385	2 726

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 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 where contractual interest or principal payments are past due, but the Group 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 31 (audited):

	Group					
	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	**11**	**7**	**33**	**—**	**4**	**55**
Other assets	**11**	**7**	**33**	**—**	**4**	**55**
Retail Banking	**610**	**70**	**55**	**55**	**2 153**	**2 943**
Cheque accounts	**10**	**—**	**—**	**—**	**—**	**10**
Mortgages	**600**	**70**	**55**	**55**	**2 153**	**2 933**
Absa Business Bank	**1 988**	**348**	**331**	**35**	**313**	**3 015**
Corporate	**435**	**—**	**—**	**—**	**—**	**435**
Large and Medium	**1 427**	**312**	**310**	**21**	**218**	**2 288**
Other	**58**	**29**	**11**	**5**	**5**	**108**
Small	**68**	**7**	**10**	**9**	**90**	**184**
Absa Capital	**—**	**—**	**—**	**—**	**6**	**6**
Loans and advances to customers	**2 598**	**418**	**386**	**90**	**2 472**	**5 964**
Total (refer to table 28)	**2 609**	**425**	**419**	**90**	**2 476**	**6 019**

	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	8	—	5	6	59
Other assets	40	8	—	5	6	59
Retail Banking	717	54	67	62	1 361	2 261
Cheque accounts	1	1	1	2	20	25
Instalment credit agreements	23	4	2	2	45	76
Mortgages	693	49	64	58	1 296	2 160
Absa Business Bank	830	534	153	108	720	2 345
Large and Medium	812	528	122	56	636	2 154
Other	1	1	27	6	10	45
Small	17	5	4	46	74	146
Absa Capital	1	—	—	—	—	1
Loans and advances to customers	1 548	588	220	170	2 081	4 607
Total (refer to table 28)	1 588	596	220	175	2 087	4 666

For details of the collateral held against the above loans and advances to customers, refer to table 9.

Note

[1]*Comparatives have been reclassified.*

Identified impairments on financial assets

The Group's credit policy considers the following to be key indicators (albeit not the only indicators) of default:

- the borrower is unlikely to pay its credit obligation in full, without recourse by the Group to actions such as realising any security held; 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 32 (audited):

	Group					
	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	372	(20)	352	23	(8)	15
Other assets	372	(20)	352	23	(8)	15
Retail Banking	49 441	(10 519)	38 922	48 240	(9 523)	38 717
Cheque accounts	242	(122)	120	233	(132)	101
Credit cards	4 559	(2 147)	2 412	5 102	(2 587)	2 515
Instalment credit agreements	6 025	(1 522)	4 503	6 013	(1 185)	4 828
Microloans	588	(384)	204	789	(358)	431
Mortgages	35 903	(5 290)	30 613	34 831	(4 679)	30 152
Personal and term loans	2 124	(1 054)	1 070	1 272	(582)	690
Absa Business Bank	7 722	(2 088)	5 634	7 658	(2 046)	5 612
Corporate	1 384	(147)	1 237	1 353	(200)	1 153
Large and Medium	4 860	(1 227)	3 633	4 948	(1 229)	3 719
Other	1 052	(618)	434	877	(497)	380
Small	426	(96)	330	480	(120)	360
Absa Capital	550	(342)	208	1 246	(419)	827
Other	—	—	—	46	(11)	35
Loans and advances to customers	57 713	(12 949)	44 764	57 190	(11 999)	45 191
Total (refer to table 28)	58 085	(12 969)	45 116	57 213	(12 007)	45 206

For details of the collateral held against the above loans and advances to customers, refer to table 9.

Note

[1]*Comparatives have been reclassified.*

Reconciliation of total impairments (identified and unidentified)

Reconciliation of total impairments (identified and unidentified) – Table 33 (audited):

	Group						
	2010						
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 identified Rm**	**Impairment raised un-identified Rm**	**Closing balance Rm**
Retail Banking	**10 130**	**(671)**	**—**	**(3 862)**	**5 531**	**(145)**	**10 983**
Absa Business Bank	**2 470**	**(87)**	**—**	**(1 147)**	**1 264**	**(40)**	**2 460**
Absa Capital	**547**	**(8)**	**(2)**	**(191)**	**121**	**(8)**	**459**
Other	**11**	**2**	**—**	**(19)**	**3**	**3**	**—**
Total (refer to table 28)	**13 158**	**(764)**	**(2)**	**(5 219)**	**6 919**	**(190)**	**13 902**

	2009[1]						
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 identified Rm	Impairment raised un-identified Rm	Closing balance Rm
Retail Banking	6 525	(772)	—	(3 969)	8 322	24	10 130
Absa Business Bank	2 052	(167)	(1)	(631)	1 414	(197)	2 470
Absa Capital	242	(6)	(2)	(7)	415	(95)	547
Other	39	—	—	(28)	—	—	11
Total (refer to table 28)	8 858	(945)	(3)	(4 635)	10 151	(268)	13 158

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.

Credit risk

Regulation 43 disclosure requirements

Gross exposure per asset class and EAD per approach under Basel II – Table 34:

Standardised approach[1]	31 December 2010 Utilised on-statement of financial position exposure Rm	31 December 2010 Off-statement of financial position exposure Rm	31 December 2010 Total credit exposure Rm	31 December 2010 EAD Rm	31 December 2009 EAD Rm
Corporate exposure	3 275	1 620	4 895	4 895	4 363
Corporate	—	—	—	—	—
SME	3 275	1 620	4 895	4 895	4 363
Banks	1 514	—	1 514	1 514	847
Public sector entities	149	—	149	149	511
Retail	1 362	—	1 362	1 362	1 943
Sovereign	49 567	—	49 567	49 567	36 026
	55 867	1 620	57 487	57 487	43 690

Note

[1]*Average balances have been utilised where applicable for consistency with the regulations.*

FIRB approach	31 December 2010 Utilised on-statement of financial position exposure Rm	31 December 2010 Off-statement of financial position exposure Rm	31 December 2010 Repurchase and resale agreements Rm	31 December 2010 OTC derivative instruments Rm	31 December 2010 Total credit exposure Rm	31 December 2010 EAD Rm	31 December 2009 EAD Rm
Corporate	133 557	136 362	132	5 709	275 760	185 424	174 822
Large	111 890	128 312	132	5 518	245 852	159 542	153 355
SME	17 324	6 539	—	—	23 863	21 211	21 467
Specialised lending – income producing real estate[1]	2 305	1 394	—	175	3 874	2 500	—
Specialised lending – project finance[1]	2 038	117	—	16	2 171	2 171	—
Banks	20 036	23 882	8 712	42 367	94 997	31 427	55 600
Local government and municipalities	5 202	3 236	—	—	8 438	7 325	—
Public sector entities	5 089	10 906	2 210	2 547	20 752	14 322	10 023
Retail	0	—	—	3	3	14	—
SME	0	—	—	3	3	14	—
Sovereign	1 026	100	—	—	1 126	1 026	309
Securities firms	1 536	274	721	47	2 578	1 903	9 961
	166 446	174 760	11 775	50 673	403 654	241 441	250 715

Note

[1]*Comparatives not available. Data has been refined in current year to facilitate and improve disclosure.*

AIRB approach	31 December 2010 Utilised on-statement of financial position exposure Rm	Off-statement of financial position exposure Rm	Total credit exposure Rm	EAD Rm	31 December 2009 EAD Rm
Retail					
Mortgages	**252 115**	**52 166**	**304 281**	**272 267**	293 079
SME retail	**16 863**	**9 333**	**26 196**	**22 600**	27 010
Revolving credit	**22 672**	**25 487**	**48 159**	**43 646**	35 361
Other	**71 791**	**5 380**	**77 171**	**72 378**	90 695
	363 441	**92 366**	**455 807**	**410 891**	**446 145**

EAD exposure by geography – Table 35:

	31 December 2010 South Africa Rm	Europe Rm	Other African countries Rm	North America Rm	Other Rm	Asia Rm	Total Rm
Standardised	**48 215**	**—**	**9 272**	**—**	**—**	**—**	**57 487**
Internal Ratings Based	**622 451**	**22 640**	**3 146**	**3 455**	**615**	**25**	**652 332**
AIRB	**410 891**	**—**	**—**	**—**	**—**	**—**	**410 891**
FIRB	**211 560**	**22 640**	**3 146**	**3 455**	**615**	**25**	**241 441**
	670 666	**22 640**	**12 418**	**3 455**	**615**	**25**	**709 819**

	31 December 2009 South Africa Rm	Europe Rm	Other African countries Rm	North America Rm	Other Rm	Asia Rm	Total Rm
Standardised	33 943	—	9 747	—	—	—	43 690
Internal Ratings Based[1]	665 095	23 286	4 467	—	4 012	—	696 860
Total	699 038	23 286	14 214	—	4 012	—	740 550

Note

[1]*Breakdown not disclosed previously.*

Credit risk

PDs, EADs and LGDs by risk grade under the FIRB approach as at 31 December – Table 36:

2009			Corporate				SME corporate			
Risk grade	Average PD %	Average PD %	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm
Non-default	6,16	1,19	43,40	68,31	905	154 668	42,07	78,39	225	19 171
1	—	—	—	—	—	—	—	—	—	—
2	—	—	—	—	—	—	—	—	—	—
3	—	—	—	—	—	—	—	—	—	—
4	0,03	0,03	44,08	14,17	1	8 377	—	—	—	—
5	0,04	0,04	45,00	58,86	1	3 988	0,00	0,00	—	—
6	0,06	0,06	40,87	19,00	2	9 830	35,36	14,37	0	103
7	0,08	0,08	44,71	25,58	3	8 506	45,00	21,94	0	9
8	0,11	0,12	44,34	33,48	5	8 863	43,06	25,15	0	40
9	0,16	0,17	43,53	37,87	9	12 898	43,57	32,85	0	123
10	0,22	0,22	41,58	42,86	9	9 328	43,52	37,58	1	1 424
11	0,32	0,31	42,59	52,99	18	11 911	43,95	45,23	2	1 685
12	0,45	0,46	44,26	65,57	24	11 640	41,39	49,73	4	2 163
13	0,62	0,62	43,30	73,36	23	8 530	43,93	62,04	4	1 442
14	0,92	0,92	43,13	85,87	51	12 943	41,82	67,76	8	2 015
15	1,26	1,26	43,34	86,38	48	9 662	39,48	70,55	12	2 567
16	1,90	1,86	43,67	109,25	95	11 669	43,45	87,52	11	1 361
17	2,57	2,50	43,83	95,94	148	13 572	43,28	95,09	17	1 548
18	3,54	3,61	43,76	131,32	77	4 897	40,98	98,89	26	1 686
19	5,00	5,23	44,04	149,09	67	2 905	44,22	117,63	21	931
20	7,01	7,61	43,99	172,19	85	2 465	40,15	119,08	23	812
21	10,01	10,05	44,73	192,30	25	563	43,86	150,24	7	171
22	13,86	14,30	43,23	211,45	49	773	37,89	147,74	31	600
23	20,62	19,88	44,91	236,60	30	333	43,66	191,06	20	226
24	29,53	29,94	39,91	220,51	94	782	44,25	206,86	26	195
25	37,17	38,59	44,95	240,56	41	233	44,66	208,57	12	70
Default	100,00	100,00	15,34	11,56	411	4 874	14,17	12,10	460	2 040
	3,36	4,02	42,54	66,58	1 316	159 542	39,39	72,02	685	21 211

2010											
Specialised lending – income producing real estate				Specialised lending – project finance				Public sector entities			
LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm
39,35	60,53	11	2 500	45,00	94,36	15	2 171	41,76	42,03	19	14 322
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
35,66	15,60	0	39	—	—	—	—	—	—	—	—
36,05	18,96	0	0	—	—	—	—	42,91	26,41	1	1 831
44,68	31,42	0	231	45,00	32,46	0	336	40,95	29,15	3	5 834
42,08	33,12	0	162	—	—	—	—	45,00	41,68	1	1 673
37,76	38,47	0	125	—	—	—	—	45,00	46,70	0	98
43,92	53,21	1	544	45,00	52,49	0	114	38,76	45,22	3	3 035
35,76	48,30	0	297	45,00	65,62	0	113	45,00	69,78	2	710
35,00	59,05	0	80	45,00	76,35	1	207	0,00	0,00	—	—
35,67	63,32	1	256	45,00	92,18	0	6	45,00	89,00	1	300
38,13	79,23	2	528	45,00	102,89	1	85	45,00	105,45	1	163
35,32	74,04	0	11	45,00	111,95	7	860	45,00	107,21	3	407
35,00	92,46	0	0	45,00	119,54	0	23	45,00	122,36	3	214
35,55	88,96	2	124	45,00	132,17	6	427	45,00	136,90	0	4
0,00	0,00	—	—	—	—	—	—	45,00	153,79	1	53
35,03	117,53	1	31	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
37,16	162,91	4	72	—	—	—	—	—	—	—	—
0,00	0,00	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
39,35	60,53	11	2 500	45,00	94,36	15	2 171	41,76	42,03	19	14 322

Credit risk

PDs, EADs and LGDs by risk grade under the FIRB approach as at 31 December – Table 36:

	Local governments and municipalities				Sovereign				Banks			
Risk grade	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm
Non-default	45,00	40,45	10	7 325	23,41	16,80	1	1 026	43,69	17,58	9	31 427
1	—	—	—	—	—	—	—	—	—	—	—	—
2	—	—	—	—	—	—	—	—	—	—	—	—
3	—	—	—	—	—	—	—	—	—	—	—	—
4	45,00	14,44	0	0	13,55	4,37	0	704	43,44	13,75	4	26 149
5	45,00	17,01	0	11	45,00	15,60	0	10	—	—	—	—
6	45,00	19,65	0	2 008	0,00	0,00	—	—	45,00	2,14	0	172
7	45,00	25,14	0	34	—	—	—	—	—	—	—	—
8	45,00	33,85	1	1 783	45,00	33,51	0	260	45,00	29,81	2	2 838
9	44,95	37,75	1	409	45,00	39,48	0	0	44,76	40,59	1	1 456
10	45,00	47,03	1	606	—	—	—	—	45,00	42,82	0	446
11	45,00	50,28	3	1 550	—	—	—	—	45,00	54,08	0	49
12	45,00	68,98	2	687	—	—	—	—	45,00	63,26	0	125
13	45,00	74,80	0	72	45,00	75,94	0	2	45,00	77,04	0	8
14	45,00	91,87	0	2	45,00	90,65	0	29	45,00	92,01	1	162
15	45,00	98,72	0	20	—	—	—	—	—	—	—	—
16	45,00	109,77	0	23	45,00	117,19	0	1	45,00	112,34	0	10
17	45,00	122,61	1	94	45,00	122,36	1	20	45,00	125,12	0	0
18	45,00	133,57	0	12	0,00	0,00	—	—	45,00	141,79	0	1
19	45,00	145,12	0	1	45,00	149,86	0	0	45,00	153,89	0	5
20	45,00	174,31	0	3	—	—	—	—	45,00	175,80	0	0
21	45,00	202,77	0	0	—	—	—	—	45,00	196,18	0	0
22	45,00	216,57	0	2	—	—	—	—	—	—	—	—
23	45,00	238,23	0	2	—	—	—	—	—	—	—	—
24	—	—	—		—	—	—	—	—	—	—	—
25	45,00	239,65	1	6	—	—	—	—	45,00	244,25	1	6
Default	—	—	—		—	—	—	—	—	—	—	—
	45,00	40,45	10	7 325	23,41	16,80	1	1 026	43,69	17,58	9	31 427

2010												
SME retail				Securities firms				Total				
LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	EAD Rm
45,00	76,57	0	14	45,00	14,92	0	1 902	43,18	59,36	1 195	234 526	242 516
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	45,00	14,44	0	1 888	43,10	13,70	5	37 118	52 134
—	—	—	—	—	—	—	—	45,00	58,63	1	4 009	1 892
—	—	—	—	—	—	—	—	41,55	18,82	2	12 152	14 925
—	—	—	—	—	—	—	—	44,40	25,72	4	10 380	16 466
45,00	34,64	—	0	—	—	—	—	44,53	31,69	11	20 185	31 639
—	—	—	—	45,00	42,50	—	0	43,53	38,40	12	16 721	16 716
45,00	47,33	0	1	45,00	43,89	0	0	42,10	42,43	11	12 028	9 745
45,00	54,99	0	3	—	—	—	—	42,36	50,83	27	18 891	13 811
45,00	66,32	0	3	—	—	—	—	43,78	63,39	32	15 738	10 522
45,00	72,65	0	0	—	—	—	—	43,37	71,74	28	10 341	8 507
45,00	90,24	0	6	45,00	80,48	0	12	42,90	83,32	62	15 731	25 283
45,00	102,89	0	1	45,00	105,80	0	1	42,40	83,34	64	13 027	12 148
—	—	—	—	—	—	—	—	43,76	107,27	116	14 342	10 491
—	—	—	—	45,00	119,14	0	1	43,80	96,45	170	15 472	5 144
45,00	136,90	0	0	—	—	—	—	43,04	123,00	111	7 151	6 294
—	—	—	—	—	—	—	—	44,10	141,64	89	3 895	2 013
—	—	—	—	—	—	—	—	42,97	158,66	109	3 311	992
—	—	—	—	—	—	—	—	44,53	182,50	32	734	1 563
—	—	—	—	—	—	—	—	40,71	182,61	84	1 447	1 861
—	—	—	—	—	—	—	—	44,41	218,25	50	561	119
—	—	—	—	—	—	—	—	40,78	217,79	120	977	247
—	—	—	—	—	—	—	—	44,89	233,53	55	315	4
—	—	—	—	45,00	562,50	—	1	15,00	11,76	871	6 915	8 199
45,00	76,57	0	14	45,00	15,09	0	1 903	42,37	58,00	2 066	241 441	250 715

Credit risk

PDs, EADs and LGDs by risk grade under the AIRB approach as at 31 December – Table 37:

2009			Mortgages					SME retail			
Risk grade	Average PD %	Average PD %	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm
Non-default	4,43	3,26	13,96	25,14	989	244 094	50,06	50,26	403	21 530
1	—	—	—	—	—	—	—	—	—	—
2	—	—	—	—	—	—	—	—	—	—
3	—	—	—	—	—	—	—	—	—	—
4	0,03	—	—	—	—	—	—	—	—	—
5	0,05	0,03	11,46	0,98	0	12 534	86,14	1,78	0	755
6	0,06	0,05	11,35	1,62	1	10 987	35,37	6,12	0	215
7	0,08	0,08	—	—	—	—	39,44	7,64	0	2
8	0,12	0,11	11,77	3,07	0	1 206	73,72	8,99	0	21
9	0,16	0,16	13,93	4,93	1	6 041	44,62	14,23	0	17
10	0,23	0,24	14,43	6,51	3	9 908	43,33	18,91	0	132
11	0,33	0,32	13,05	7,34	12	28 604	68,64	19,54	1	535
12	0,44	0,45	13,36	9,64	7	10 672	40,31	23,62	4	2 123
13	0,65	0,66	14,12	13,37	19	19 797	61,77	32,30	3	770
14	0,95	0,89	14,41	16,69	17	13 247	40,86	37,31	6	1 667
15	1,29	1,25	14,32	20,80	69	38 350	55,25	41,61	27	4 036
16	1,80	1,80	14,15	25,69	47	18 650	55,52	51,93	14	1 370
17	2,57	2,57	14,33	32,81	50	13 356	50,49	58,04	29	2 162
18	3,58	3,81	14,22	39,05	62	12 088	46,17	58,90	39	2 260
19	5,34	5,67	14,69	49,07	96	12 708	52,43	73,42	28	1 015
20	7,29	7,48	15,02	59,63	248	22 406	38,23	61,04	71	2 318
21	10,65	9,50	15,47	68,43	91	6 238	60,06	100,12	33	578
22	13,34	15,09	15,45	80,13	54	2 415	46,83	94,80	61	897
23	19,69	21,07	16,26	92,18	85	2 459	50,80	118,66	17	171
24	27,88	29,04	15,42	89,82	54	1 212	72,61	199,70	17	87
25	40,54	38,99	15,75	88,91	73	1 216	32,30	87,07	53	399
Default	100,00	100,00	22,59	67,20	4 898	28 173	34,22	119,72	398	1 070
	11,23	11,59	14,85	29,49	5 887	272 267	49,31	53,54	801	22 600

2010												
Retail – revolving credit				Retail – other				Total				
LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	EAD Rm
74,36	44,10	806	41 169	52,64	67,74	1 720	68 704	29,73	36,45	3 918	375 497	411 774
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	19
88,67	2,06	1	3 114	61,34	5,28	0	654	30,78	1,38	1	17 057	1
88,71	3,79	0	12	0,00	0,00	—	—	11,89	1,71	1	11 214	839
88,62	4,02	0	227	62,50	12,75	0	795	68,24	10,81	0	1 024	1 281
69,04	4,51	7	8 886	48,99	14,66	1	1 557	60,46	5,72	8	11 670	2 884
67,30	5,83	4	3 784	72,03	26,21	0	109	34,91	5,52	5	9 951	6 701
88,67	9,44	1	382	84,53	34,61	0	6	17,56	6,79	4	10 428	9 960
83,79	14,25	2	805	67,53	36,47	2	1 025	17,66	8,69	17	30 969	13 830
82,92	16,76	0	101	39,97	28,86	8	4 207	23,67	16,14	19	17 103	25 847
88,53	23,25	2	324	65,88	52,02	5	1 278	19,85	16,40	29	22 169	17 170
74,59	25,85	26	3 931	48,35	47,36	14	3 335	32,17	24,48	63	22 180	65 011
80,97	37,52	14	1 295	61,54	68,14	52	6 888	25,73	29,34	162	50 569	49 203
75,88	43,25	17	1 363	43,70	56,21	54	6 714	26,22	35,12	132	28 097	51 402
76,32	55,90	36	1 963	42,87	58,30	113	10 338	32,12	45,88	228	27 819	36 172
72,60	77,65	319	10 652	59,14	85,19	257	11 437	47,37	66,05	677	36 437	30 839
75,38	91,91	58	1 539	60,34	58,21	63	6 485	34,36	55,96	245	21 747	35 120
76,92	118,18	62	1 114	50,51	79,25	144	3 823	23,74	64,47	525	29 661	12 054
78,26	147,37	43	541	52,37	86,62	76	1 532	28,55	78,43	243	8 889	16 302
77,93	175,05	61	546	58,03	115,84	465	5 172	46,74	107,78	641	9 030	20 253
78,24	205,65	43	274	44,92	103,03	87	911	29,11	104,12	232	3 815	3 583
78,94	229,51	25	114	52,88	134,03	196	1 273	37,72	120,26	292	2 686	2 362
78,21	222,26	85	202	42,48	111,98	183	1 165	32,63	106,70	394	2 982	10 941
74,56	115,39	1 775	2 477	70,48	132,11	2 486	3 674	31,55	78,89	9 557	35 394	34 371
74,37	48,15	2 581	43 646	53,55	71,00	4 206	72 378	29,89	40,11	13 475	410 891	446 145

Credit risk

Residual contractual maturity of exposures – Table 38:

	31 December 2010			
	Current to 6 months	6 months to 1 year	More than 5 years	Total
FIRB and AIRB exposures[1]	Rm	Rm	Rm	Rm
Banks	31 421	6	0	31 427
Corporate exposure	114 489	7 824	63 111	185 424
Corporate	103 540	7 187	48 815	159 542
SME corporate	9 521	510	11 180	21 211
Specialised lending – income producing real estate	479	127	1 894	2 500
Specialised lending – project finance	949	—	1 222	2 171
Local governments and municipalities	3 477	1 108	2 740	7 325
Public sector entities	11 837	42	2 443	14 322
Retail	47 768	542	362 595	410 905
Mortgages	128	—	272 139	272 267
Retail – other	6 036	—	66 342	72 378
Retail – revolving credit	36 487	—	7 159	43 646
SME retail	5 117	542	16 955	22 614
Securities firms	1 903	—	—	1 903
Sovereign	991	—	35	1 026
	211 886	9 522	430 924	652 332
Standardised exposures				57 487
				709 819

Note
[1]*Comparatives not available.*

RWA and required capital – Table 39:

	31 December 2010	
FIRB and AIRB[1]	RWAs[2]	Required capital[3]
Banks	5 569	529
Corporate exposure	125 786	11 950
Corporate	106 812	10 147
SME corporate	15 413	1 464
Specialised lending – income producing real estate	1 513	144
Specialised lending – project finance	2 048	195
Local governments and municipalities	3 094	294
Public sector entities	6 019	572
Retail	167 492	15 912
Mortgages	81 900	7 781
Retail – other	52 356	4 974
Retail – revolving credit	21 128	2 007
SME retail	12 108	1 150
Securities firms	287	27
Sovereign	173	16
	308 420	29 300
Standardised	8 547	812
	316 967	30 112

Note
[1]*Comparatives not available.*
[2]*RWAs and required capital include securitisation balances. Refer to table 20 for more detailed analysis of securitisation information.*
[3]*Required capital is calculated at 9,5% of RWAs.*

Credit risk mitigation (CRM) – Table 40:

IRB approach[1]	31 December 2010 Original credit and counter-party exposure Rm	Effects of netting agreements Rm	Net exposure after netting and credit risk mitigation redistribution effects Rm	Eligible financial collateral Rm	Other eligible IRB collateral Rm	Credit risk mitigation affecting LGD estimates Rm	31 December 2009 Credit risk mitigation affecting LGD estimates Rm
Banks	**94 997**	**(38 133)**	**56 864**	**886**	**—**	**886**	17 836
Corporate exposure	**275 760**	**(1 603)**	**274 157**	**2 907**	**100 315**	**103 222**	85 323
Corporate	**245 852**	**(1 603)**	**244 249**	**2 907**	**78 280**	**81 187**	65 081
SME – corporate	**23 863**	**—**	**23 863**	**—**	**18 096**	**18 096**	20 242
Specialised lending – income producing real estate	**3 874**	**—**	**3 874**	**—**	**3 939**	**3 939**	—
Specialised lending – project finance	**2 171**	**—**	**2 171**	**—**	**—**	**—**	—
Local government and municipalities	**8 438**	**—**	**8 438**	**—**	**4**	**4**	—
Public sector entities	**20 752**	**(107)**	**20 645**	**1 003**	**—**	**1 003**	—
Retail	**455 809**	**—**	**455 809**	**49 168**	**578 362**	**627 530**	615 241
Mortgages	**304 280**	**—**	**304 280**	**—**	**555 650**	**555 650**	526 165
Retail – other	**77 171**	**—**	**77 171**	**49 168**	**—**	**49 168**	61 516
Retail – revolving credit	**48 159**	**—**	**48 159**	**—**	**—**	**—**	—
SME retail	**26 199**	**—**	**26 199**	**—**	**22 712**	**22 712**	27 560
Securities firms	**2 578**	**(27)**	**2 551**	**—**	**—**	**—**	8
Sovereign	**1 126**	**—**	**1 126**	**492**	**—**	**492**	—
	859 460	**(39 870)**	**819 590**	**54 456**	**678 681**	**733 137**	718 408

Note

[1]*No benefit of CRM is being utilised or taken into account for the SA.*

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 Group NII)	⇔	**<5%**	<5%
Equity investments in the banking book RWAs (Rm)	⇩	**25 911**	28 657

Introduction

Market risk is the risk that the Group's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. Market risk mainly arises from trading activities and equity investments. The Group is also exposed to market risk through non-traded interest rate risk in its banking book.

This market risk section should be read in conjunction with the insurance risk management section, which addresses life insurance mismatch risk and life and short-term insurance investment risk.

Strategy

The Group's market risk management objectives are:

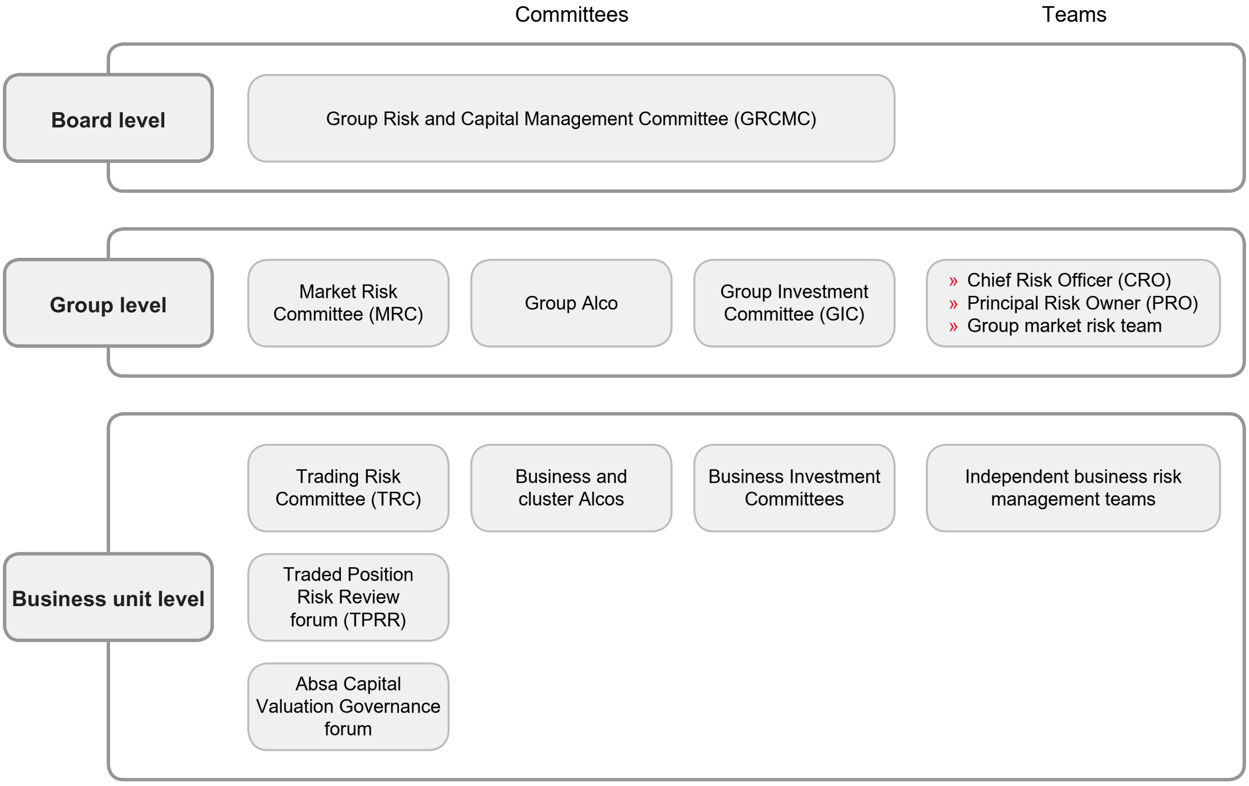
- understanding and controlling market risk through robust measurement, controls and oversight;
- facilitating business growth within a controlled and transparent risk management framework;
- ensuring traded market risk resides primarily in Absa Capital; and
- ensuring a higher degree of interest rate 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 Group'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 Owner (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



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.

Market risk

The Group Treasury and the African subsidiaries' treasuries manage non-traded asset and liability market risks. Each of the African subsidiaries has its own Alco which monitors asset and liability market risks, and reports into the Africa Alco and Group Alco. The Group and Absa Capital market risk teams maintain regular contact with the African subsidiaries' treasuries and risk teams and conduct on-site supervision visits to oversee a comprehensive risk management and reporting framework.

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 Group in accordance with its terms of reference, the new ventures and asset policy framework, the directives of the GCE 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.

2010 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 Group 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 Group remains exposed to interest rate reset risk, arising from the timing difference between predominantly prime linked assets being funded with liabilities with a three month repricing profile after hedging. This timing difference 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 Group 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 with executing large trades. Not all customer trades are hedged instantaneously or completely, giving rise to traded market risk. The Group'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 further on pages 282 to 286.

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 SA.

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 95th 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 Group. 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 Group'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 Group.

The Group'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 Group's interest rate risk exposure within limits. Where possible, hedge accounting is applied to derivatives that are used to hedge interest rate risk in the banking book. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules as stipulated in the Group's accounting policies are followed.

As part of Group Treasury's statement of financial position 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 remains with Group Treasury.

Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Group's equity, and is managed by 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.

Interest rate risk also arises in each of the African subsidiaries' treasuries in the course of managing the balance sheet and facilitating customer activity. The risk is managed by local treasury functions, subject to modest risk limits and other controls.

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 Group'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 Group 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 in respect of Group Treasury, and at least monthly, in respect of African subsidiaries' treasuries.

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.

Market risk

Stress testing

Stress testing is carried out by Group Treasury and the risk functions in African subsidiaries to supplement DVaR and AEaR metrics. The stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books. 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 Group's policy requires such direct option risk to be hedged explicitly.

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 Group 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 Group commits to providing a product at a predetermined price for a period into the future. Customers have the 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 Group is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

Transactional foreign exchange risk

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

Some transactional foreign exchange risk arises within the African subsidiaries' treasuries in the course of foreign currency balance sheet management and facilitation of customer activity. This risk is minimised in accordance with modest transactional open position and DVaR limits, as approved by the MRC. Foreign exchange risk is monitored daily against these limits. Average foreign exchange DVaR amounted to R0,3 million for 2010 (2009: R0,2 million) on an undiversified basis across these treasuries.

In accordance with the Group's policy there were no significant net open currency positions outside the Absa Capital trading book at either 31 December 2009 or 2010 that would give 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 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, branches and associated undertakings 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 Group's translational foreign exchange risk arises primarily from its investments in foreign subsidiaries and 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 Group'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 Group aims to maintain an appropriate foreign currency capital structure by maintaining the ratio of foreign currency Core Tier 1, Tier 1 and total capital resources to foreign currency RWAs in line with the Group's capital ratios. This is primarily achieved by subsidiaries issuing capital or holding retained earnings in local currencies, but could also be achieved through Group issuance of debt capital in non-ZAR currencies.

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 47.

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 Group's policy that businesses monitor and report this risk and regularly assess potential hedging strategies. This exposure currently arises mainly within Absa Financial Services. 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 Group strategically for future markets/benefits;
- achieving BU growth objectives;
- improving internal efficiencies in a cost effective way; and/or
- improving the Group's asset or customer base.

Market risk

The Group'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.

The majority of the Group'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. Equity and other investments held by insurance entities of the Group are addressed in the insurance risk management section of this report.

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 Group'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 Group 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 Group'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 Group has adopted the market-based simple risk weight approach to calculate RWAs and regulatory capital for equity risk in the banking book. According to this approach, RWAs is calculated by using weighting 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 Group 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 Group 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 44 of the Group'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 Group'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 41 (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.*

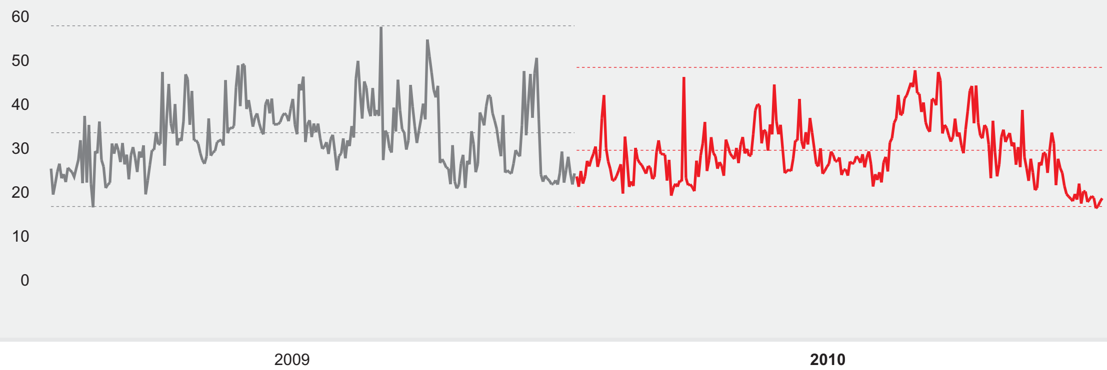
[2] *Credit spread risk remains small and is reported together with interest rate risk.*

[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 Group's market risk governance framework.

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

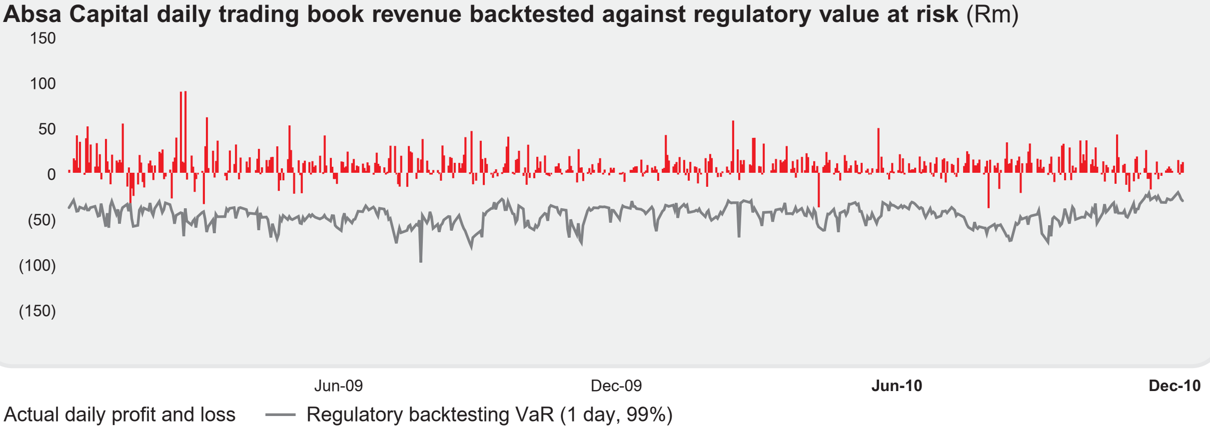


Comparison of value at risk estimates with trading revenues

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)

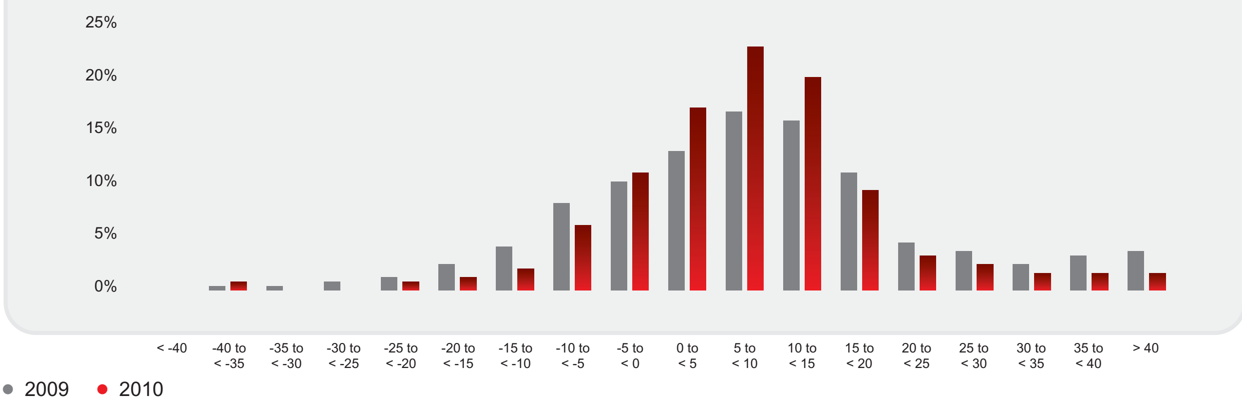


Analysis of trading revenue

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 Group'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 Group's general position risk across interest rate, foreign exchange, commodity, equity and traded credit products. A description of the Group's internal model and controls may be found on page 272.

» Trading book positions which have not yet met SARB or the Group'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 Group'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 RWAs) for traded market risk – Table 42:

	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
Foreign exchange risk, including gold	**—**	—
Commodity risk	**—**	—
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 Group'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 Group's domestic, Africa subsidiary and consolidated banking books shows that the consolidated banking book remains asset sensitive, or positively gapped, as interest-earning assets reprice sooner than interest-paying liabilities before and after derivative hedging activities. 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 43 (audited):

	As at 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 Absa Bank Limited's total assets (%)	**1,1**	**0,9**	**0,6**	**5,1**
Foreign subsidiaries' bank books[3]				
Interest rate sensitivity gap	**435**	**(394)**	**(591)**	**410**
Derivatives[2]	**122**	**0**	**0**	**(121)**
Net interest rate sensitivity gap	**557**	**(394)**	**(591)**	**289**
Cumulative interest rate gap	**557**	**163**	**(428)**	**(139)**
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	**6,0**	**1,8**	**(4,6)**	**(1,5)**
Total				
Cumulative interest rate gap	**8 150**	**6 297**	**3 659**	**34 565**
Cumulative gap as a percentage of the Group's total assets (%)	**1,1**	**0,9**	**0,5**	**4,8**

	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 Absa Bank Limited's total assets (%)	3,8	3,0	1,4	4,4
Foreign subsidiaries' bank books[3]				
Interest rate sensitivity gap	514	(395)	(607)	355
Derivatives[2]	88	0	0	(88)
Net interest rate sensitivity gap	602	(395)	(607)	267
Cumulative interest rate gap	602	207	(400)	(133)
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	6,2	2,1	(4,2)	(1,4)
Total				
Cumulative interest rate gap	26 179	20 249	8 969	29 519
Cumulative gap as a percentage of the Group's total assets (%)	3,7	2,8	1,3	4,2

Notes

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

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

[3]*Includes NBC and BBM.*

Market risk

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 Group's banking books. 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 R389 million. A similar increase would result in an increase in projected 12-month net interest income of R341 million. AEaR therefore remains low, at well below 5% of the Group's net interest income, for a 200 bps rate shock.

A sensitivity analysis by major currency market interest rates indicates that earnings sensitivity to ZAR market interest rates constitutes 96% of the total earnings at risk as reported for 31 December 2010 (31 December 2009: 98%), therefore indicating that the Group 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 44 (audited):

	Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
As at 31 December 2010				
Domestic bank book[1] (Rm)	**(376)**	**(176)**	**157**	**328**
Foreign subsidiaries' bank books[2] (Rm)	**(13)**	**(7)**	**7**	**13**
Total (Rm)	**(389)**	**(183)**	**164**	**341**
Percentage of the Group's net interest income (%)	**(1,7)**	**(0,8)**	**0,7**	**1,5**
Percentage of the Group's equity (%)	**(0,6)**	**(0,3)**	**0,3**	**0,5**
As at 31 December 2009				
Domestic bank book[1] (Rm)	(736)	(367)	395	805
Foreign subsidiaries' bank books[2] (Rm)	(16)	(8)	8	16
Total (Rm)	(752)	(375)	403	821
Percentage of the Group's net interest income (%)	(3,4)	(1,7)	1,8	3,8
Percentage of the Group's equity (%)	(1,3)	(0,7)	0,7	1,5

Notes

[1]*Includes Absa Bank Limited's domestic banking book, which includes exposures held in the Absa Capital banking book.*

[2]*Includes NBC and BBM. African subsidiaries' interest rate sensitivities are shown on a 100% (rather than actual) shareholding basis.*

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 hedging 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 45 (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 Group equity at 31 December (%)	**(4,1)**	**(4,3)**	**(3,6)**	(3,6)	(3,6)	(3,1)
– 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 Group equity at 31 December (%)	**4,1**	**4,3**	**3,6**	3,6	3,6	3,1

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.*

Market risk

Interest rate sensitivity analysis – return on average balances

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

Interest return on average balances – Table 46:

	Group					
	2010			2009		
	Average balance (audited) Rm	Average rate[1] %	Interest income/ (expense) Rm	Average balance (audited) Rm	Average rate %	Interest income/ (expense) Rm
Assets						
Cash, cash balances and balances with central banks	1 741	5,92	103	1 741	9,19	160
Statutory liquid asset portfolio	35 331	8,44	2 983	30 409	5,86	1 783
Loans and advances to banks and customers	530 502	9,34	49 550	537 655	11,50	61 844
Investment securities	14 157	3,50	495	14 256	3,88	553
Other interest[2]	—	—	1 110	—	—	907
Interest earning assets	581 731	9,32	54 241	584 061	11,17	65 247
Non-interest earning assets	138 123	—	—	165 431	—	—
Total assets	719 854	7,53	54 241	749 492	8,71	65 247
Liabilities						
Deposits due to customers and from banks	364 244	(4,80)	(17 477)	412 749	(6,31)	(26 065)
Debt securities in issue	166 417	(7,68)	(12 786)	174 622	(9,33)	(16 293)
Borrowed funds	13 198	(12,02)	(1 586)	12 069	(8,46)	(1 021)
Other interest[2]	—	—	948	—	—	(14)
Interest bearing liabilities	543 859	(5,68)	(30 901)	599 440	(7,24)	(43 393)
Non-interest bearing liabilities	116 774	—	—	85 667	—	—
Total liabilities	660 633	(4,68)	(30 901)	685 107	(6,33)	(43 393)
Equity						
Capital and reserves						
Attributable to ordinary equity holders of the Group:						
Share capital	1 433	—	—	1 280	—	—
Share premium	4 728	—	—	3 314	—	—
Other reserves	1 890	—	—	2 163	—	—
Retained earnings	45 169	—	—	51 774	—	—
	53 220	—	—	58 531	—	—
Non-controlling interest – ordinary shares	1 357	—	—	1 210	—	—
Non-controlling interest – preference shares	4 644	—	—	4 644	—	—
Total equity	59 221	—	—	64 385	—	—
Total equity and liabilities	719 854	(4,29)	(30 901)	749 492	(5,79)	(43 393)
Net interest margin on average interest earning assets		4,01			3,74	
Net interest margin on average assets		3,24			2,92	

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.*

Foreign currency translation risk in the banking book

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

The Group's total foreign currency net investment exposure remains low and decreased by 6% from the previous year. The increase in Mozambican Metical exposure is mainly as a result of recapitalisation of BBM during the year under review.

Foreign currency translation sensitivity analysis – Table 47 (audited):

Functional foreign currency	Sterling Rm	Tanzanian shilling Rm	Mozambican metical Rm	Euro Rm	Total Rm
As at 31 December 2010					
Foreign currency net investments	**1 481**	**276**	**477**	**0**	**2 234**
Impact on equity from a 5% currency translation shock	**74**	**14**	**24**	**0**	**112**
As at 31 December 2009					
Foreign currency net investments	1 795	445	125	1	2 366
Impact on equity from a 5% currency translation shock	90	22	6	0	118

As at the reporting date the Group has 3,86% (2009: 4,90%) of its capital in foreign currency entities, against 2,96% (2009: 3,96%) of its RWAs. A 5% adverse change in the exchange rate between ZAR and each of the relevant functional foreign currencies would impact the Group's total statutory capital adequacy ratio minimally by between one and two bps.

Equity investment risk

Equity investment risk in the banking book (regulatory definition)

The equity portfolio subject to regulatory and economic capitalisation under equity risk in the banking book rules of the Banks Act, excludes third-party equity investments under management for which the Group does not bear the risk, selected associates treated under the pro rata consolidation methodology, and equity investments held by insurance entities (as these entities are regulated separately, and addressed in the insurance risk management section of this report).

The size, composition, RWAs and economic capital requirement of the Group's equity investments in the banking book are reflected in the following table after recognition of guarantees. As at the reporting date, the statement of financial position value of such investments amounted to R6 757 million (2009: R7 688 million). Of the R6 757 million investment exposure as at the reporting date, R6 539 million is held for capital gains purposes and the remainder for strategic and other purposes.

The decrease in the statement of financial position values from the prior year was mainly driven by negative revaluations on Visa Incorporated shares and the orderly build down of non-core portfolios.

Market risk

Equity investments in the banking book – Table 48:

	As at 31 December 2010 Rm	As at 31 December 2009 Rm
Statement of financial position	**6 757**	7 688
Exchange traded investments, associates and joint ventures[1]	**1 025**	1 763
Privately held investments, associates and joint ventures[2]	**5 732**	5 925
Fair value of exchange traded investments, associates and joint ventures[3]	**1 039**	1 852
Risk-weighted assets	**25 911**	28 657
Exchange traded investments, associates and joint ventures[1]	**3 074**	5 032
Privately held investments, associates and joint ventures[2]	**22 837**	23 625
Economic capital	**4 036**	4 701
Exchange traded investments, associates and joint ventures[1]	**399**	1 352
Privately held investments, associates and joint ventures[2]	**3 637**	3 349

Notes

[1]*Includes significant minority financial investments deducted from net qualifying regulatory capital, amounting to Rnil as at 31 December 2010 (31 December 2009: R86 million).*

[2]*Includes significant minority financial investments deducted from net qualifying regulatory capital, which amounted to R23 million as at 31 December 2010 (31 December 2009: R19 million).*

[3]*To address specific SARB Pillar 3 requirements for equity risk in the banking book relating to the value of investments, it should be noted that the difference between the statement of financial position value and fair value of associates and joint ventures amounts to R14 million as at 31 December 2010 (31 December 2009: R89 million). The differences relate to conservative impairments applied on the listed associates, which followed a prudent and considered assessment by the board, therefore resulting in the fair value of the said investments being higher than the statement of financial position values. Additionally, there are no differences between the fair value and market value of exchange traded investments, associates and joint ventures.*

Realised and unrealised gains/(losses) for equity investments in the banking book as per specific SARB Pillar 3 disclosure requirements are reflected in the following table:

Realised and unrealised gains/(losses) on equity investments – Table 49:

	Year to date 31 December 2010 Rm	Year to date 31 December 2009 Rm
Cumulative realised gains/(losses) arising from sales and liquidations	**117**	230
Total unrealised gains/(losses) recognised directly in the statement of financial position	**(19)**	(19)

To address the specific SARB Pillar 3 disclosure requirements for equity risk in the banking book relating to unrealised gains/(losses), it should be noted that:

» the Group does not have any latent revaluation gains/(losses), i.e. unrealised gains/(losses) which are not recognised in the statement of financial position or statement of comprehensive income; and

» the Group does not have unrealised gains/(losses) that are recognised in primary or secondary capital and reserve funds without being recognised in the statement of comprehensive income. This is due to an IFRS principle adopted by the Group, i.e. all unrealised gains/(losses) that are not recognised in the statement of comprehensive income cannot be recognised in primary or secondary capital and reserve funds.

Equity sensitivity analysis of Group's investments, including insurance activities' investments

Note 11 of the Group's 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. Compared to the preceding analysis, this analysis additionally includes equity investments held by insurance entities and excludes all associates and joint ventures.

With respect to insurance activities' investments:

- For the policyholder portfolio it is policy, where possible, to follow a matched investment strategy in terms of assets backing non-linked policyholder liabilities.
- The shareholders' investments are susceptible to market fluctuations. To manage the equity risk, equity hedge structures have been implemented in terms of which protection is obtained to ensure that the possibility of negative returns is reduced for the financial year.
- This analysis should be read in conjunction with the insurance risk management section, which addresses life insurance mismatch risk and life and short term insurance investment risk, including also investment exposures other than equity investments.

Equity sensitivity analysis – impact on pretax profit and loss and equity after the effect of hedges – Table 50 (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
Insurance activities' listed and unlisted equity investments[1, 2, 3, 4]	**(48)**	**0**	**1 210**	**48**	**0**	(59)	0	1 334	59	0
Listed equity investments	**(38)**	**0**	**817**	**38**	**0**	(41)	0	828	41	0
Unlisted equity investments	**(10)**	**0**	**393**	**10**	**0**	(18)	0	506	18	0
Group listed and unlisted equity investments, excluding insurance activities' investments[1, 4, 5]	**(326)**	**(10)**	**6 724**	**326**	**10**	(385)	(12)	7 940	385	12
Listed equity investments	**(47)**	**(3)**	**985**	**47**	**3**	(79)	(4)	1 664	79	4
Unlisted equity investments	**(279)**	**(7)**	**5 739**	**279**	**7**	(306)	(8)	6 276	306	8
Total Group equity investments[1]	**(374)**	**(10)**	**7 934**	**374**	**10**	(444)	(12)	9 274	444	12

Notes

[1] *Excludes debt instruments.*

[2] *The above sensitivities were only calculated on shareholder and policyholder assets (for unit linked policyholder liabilities there is no impact on the sensitivity analysis due to the fact that the asset and liability is 100% matched) and exclude all assets linked to investment and unit linked contracts due to the fact that the asset and liability is 100% matched.*

[3] *Equity hedge structures are in place for the shareholders' equity investment portfolio. This assists to hedge downside risk on equities if market values decrease with more than 6% (2009: 15%) and will result in counterparties sharing in positive returns if market values increase with between 2% and 4% (2009: between 16% and 25%).*

[4] *The reclassification of 2009 figures relates to equity investment balances previously reflected against Group excluding insurance activities, now reflected under insurance activities. The total Group equity investments figure was not impacted. As a result of the reclassification the sensitivities have been adjusted accordingly to reflect these changes.*

[5] *The figures exclude all associates and joint ventures, which account for the differences in fair value compared to that shown in the table titled 'Equity investments in the banking book'.*

Market risk

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 Group's trading risk regulatory charge. In order to achieve readiness for these requirements, model development and testing began in 2010, 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

Introduction

Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the 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 Group to ensure that:

» normal banking operations continue uninterrupted;

» the interests of all stakeholders in the Group are protected;

» financial market confidence is maintained at all times; and

» liquidity risk is managed in line with regulatory liquidity requirements at all times.

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]	**91,9**	95,9

Notes

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

[2] *The ratio reflected here is in respect of Absa Group Limited. For further details, see funding structure section.*

Liquidity risk

Strategy

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

» growing and diversifying the funding base to support asset growth and other strategic initiatives;

» further lengthening the Group's funding profile in order to continue improving key liquidity metrics and reducing the Group's liquidity risk exposure;

» continuing to build surplus liquid asset holdings in view 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 Group. 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 Group. The GRCMC, under delegated authority from the board, reviews and approves the control framework and policy for liquidity risk management.

2010 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 Group, 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 4,0% 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 Group'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.

Business-as-usual liquidity management

Business-as-usual liquidity risk management refers to the management of the cash flows experienced by a bank in the course of conducting business. The business-as-usual environment tends to display fairly high probability, low severity liquidity events and requires the balancing of the Group's day-to-day cash needs. Group Treasury's approach to managing business-as-usual liquidity focuses on a number of key areas, including:

» continuous management of net anticipated cash flows (between assets and liabilities) within approved cash outflow limits;

- active daily management of the funding and liquidity profile taking cognisance of the board-approved liquidity risk metrics designed to achieve the Group's business-as-usual liquidity risk tolerance and to position the bank to deal with stress liquidity events;
- maintaining of a portfolio of highly liquid assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- active participation in local money and capital markets to support day-to-day funding needed to refinance maturities, meet customer withdrawals and support growth in advances;
- monitoring and managing of liquidity costs; and
- constantly assessing and evaluating various funding sources so as to grow and diversify the Group's funding base in order to achieve an optimal funding profile and sound liquidity risk management.

Stress liquidity risk management

Stress liquidity risk management refers to the management of liquidity risk during times of unexpected outflows arising from Group specific or systemic stress events. Group Treasury regularly performs liquidity scenario analysis and stress testing to assess the adequacy of the Group's stress funding sources, liquidity buffers and contingency funding strategies to deal with such events. Scenario analysis and stress testing encompasses a range of realistic adverse events, that although the possibility is remote could have a material impact on the liquidity of the Group's operations.

Through scenario analysis and stress testing the Group aims to manage and mitigate liquidity risk by:

- determining, evaluating and testing the impact of adverse liquidity scenarios;
- identifying opportunities for rapid and effective responses to a crisis situation;
- aiding management in planning for crisis avoidance or reducing the severity of a crisis; and

Key risk metrics used in business-as-usual liquidity risk management

Risk metric	Purpose of metric
Short-, medium- and long-term funding ratios	Provides a measure of the contractual term of the funding used. For example, the long-term funding ratio shows the proportion of total funding that has a remaining contractual term in excess of six months.
Interbank funding ratio	Provides an indication of the extent to which reliance is placed on funding from other banks.
Short-term maturity cash flow mismatches (at a contractual and behavioural level)	Provides a measure of the extent to which cash flow mismatches occur in the short term (i.e. less than one month).
Cash outflow limits	Measures expected cash outflows against predetermined limits.
Concentration of deposits	Provides a measure of the extent to which reliance is placed on funding from certain customers or market sectors.

Liquidity risk

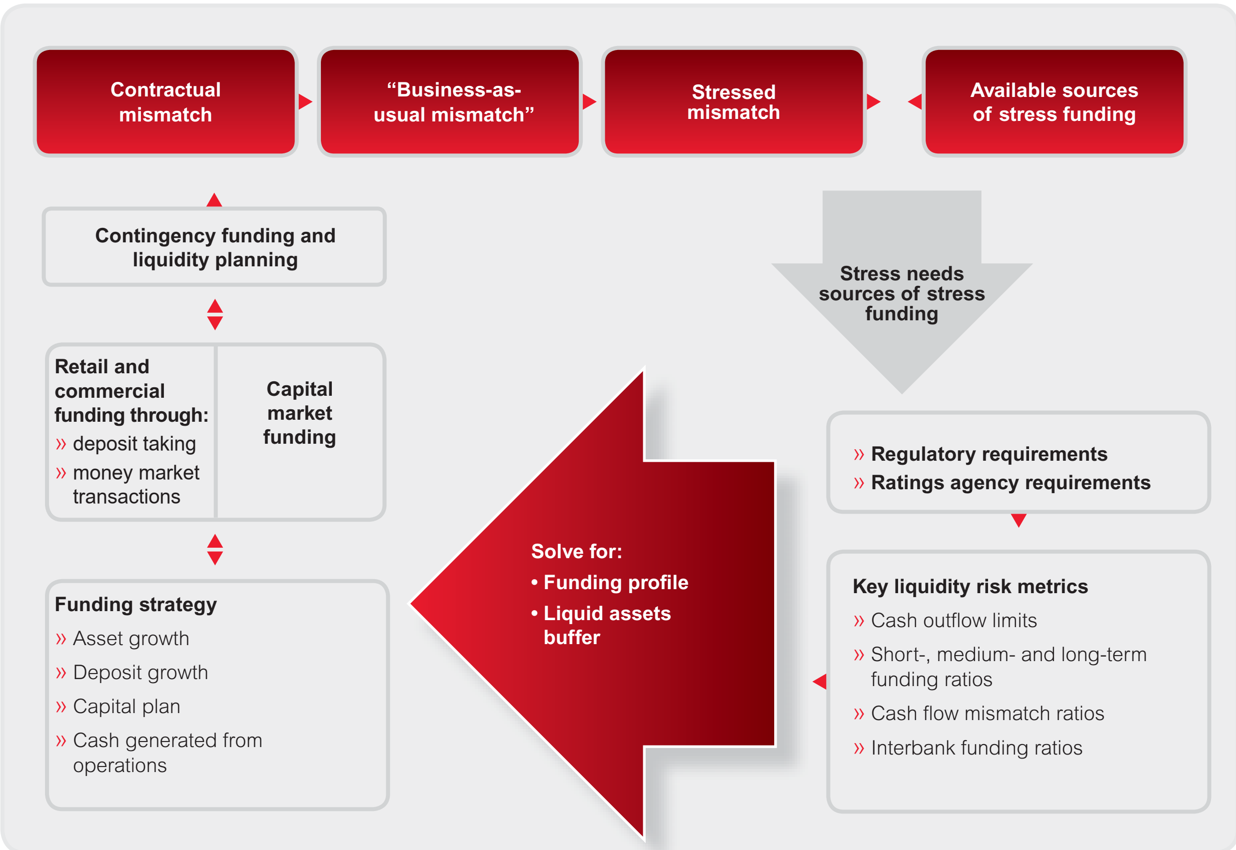
Key risk metric used in stress liquidity risk management

Risk metric	Purpose of metric
Survival horizon	Provides a measure of the adequacy of the bank's liquidity resources during times of stress, measured as the number of days that the bank is expected to survive a defined liquidity scenario.

- setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk. Group Treasury's overall objective is to ensure that, under a moderate to high liquidity stress event, the Group's stress funding sources and liquidity buffers exceed the estimated stress funding requirements for a period of at least 30 days. Stress testing and scenario analysis is used to evaluate the efficiency of identified sources of stress funding along a continuum of risk scenarios and to formulate and test contingency plans.

A detailed Contingent Funding and Liquidity Plan (CFLP) has been designed to protect depositors, creditors and shareholders under adverse liquidity conditions. The CFLP considers early warning indicators and sets out the crisis response strategy addressing sources of stress funding, strategies for crisis avoidance/minimisation and the internal and external communication strategy with key stakeholders. Liquidity simulation exercises are performed regularly to test the robustness of the CFLP and to ensure that key stakeholders remain up to date.

The liquidity risk management approach of Absa is summarised in the diagram



2010 liquidity disclosures

Regulatory changes in 2010

The Group's management devoted a significant amount of time in understanding the potential implications of the proposed Basel liquidity framework for the Group. 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. the 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.

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 Group 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 Absa Bank Limited (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 Absa Bank Limited, an increase of R13 billion on the amount held at the previous reporting date, as reflected in the graph below.

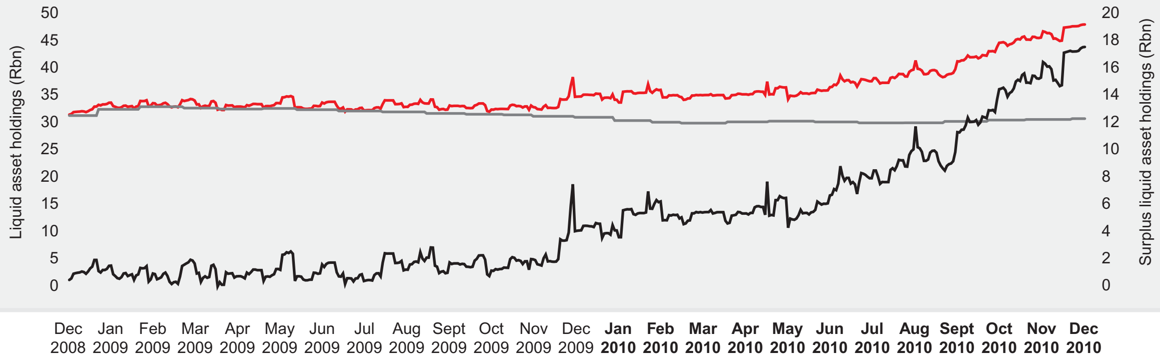
Notes

[1]*See Consultative Document – International framework for liquidity risk measurement, standards and monitoring, available at http://www.bis.org/publ/bcbs165.pdf.*

[2]*See Basel III: International framework for liquidity risk measurement, standards and monitoring, available at http://www.bis.org/publ/bcbs188.pdf.*

Liquidity risk

Summary of liquid asset holdings held by Absa Bank Limited over period 31 December 2008 to 31 December 2010 (Rbn)

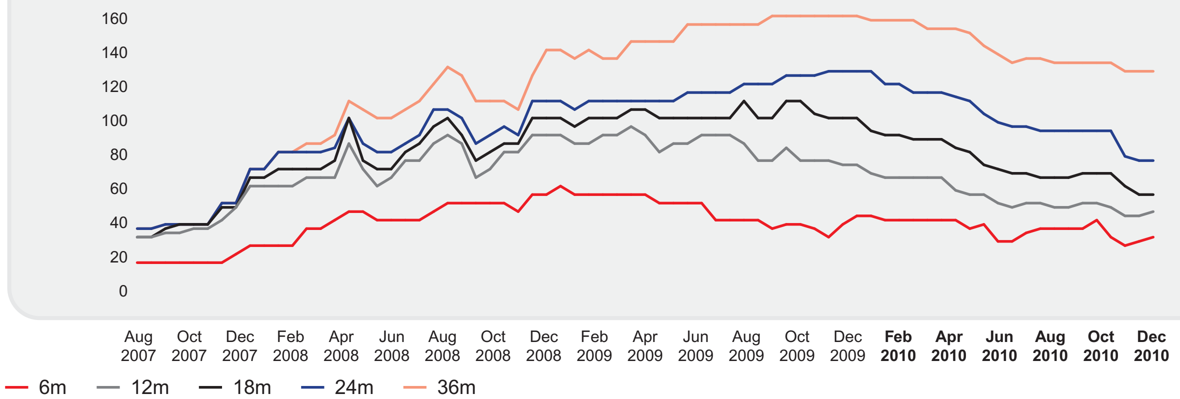


The cost of maintaining the liquidity pool of Absa Bank Limited (consisting of liquid assets held to comply with regulatory requirements, plus surplus liquid assets held over and above the minimum regulatory requirements) is a function of the cost of funding used to purchase the liquid assets compared with 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. The graph below indicates that 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.

Liquidity premiums (bps)

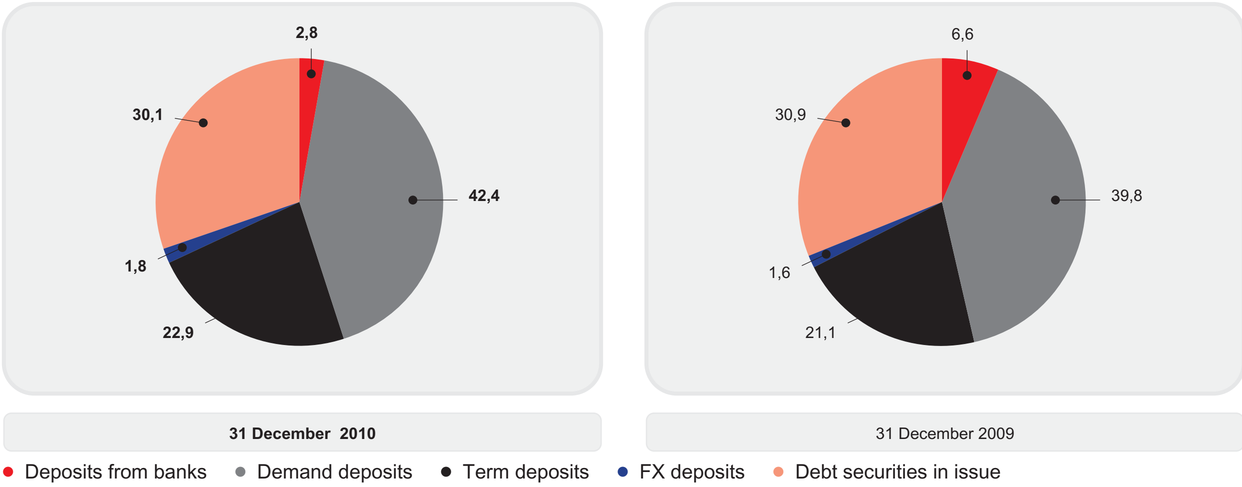


Funding structure

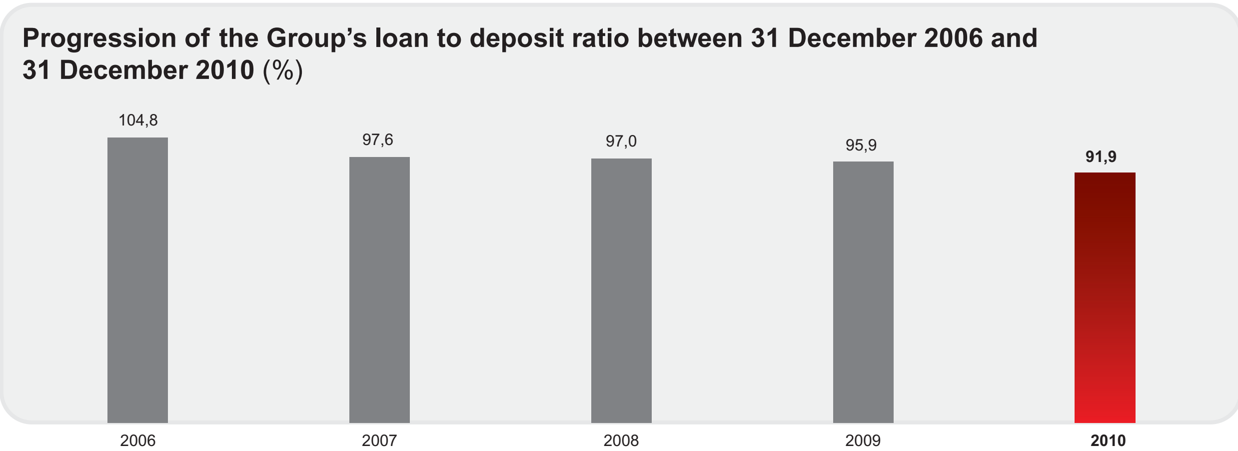
The funding position of the Group has remained broadly unchanged during 2010. Retail Banking remains partly funded by retail deposits, whereas ABB was in a self-funded position as at the reporting date. The Group places reliance on wholesale funding markets for the balance of funding required, and Absa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

Summary of funding composition (%)



The progression of the loan to deposit ratio of the Group is summarised in the graph below. The ratio has improved by 3,9% during 2010, as a result of continued focus on asset quality and prudent liquidity risk management practices.



Liquidity risk

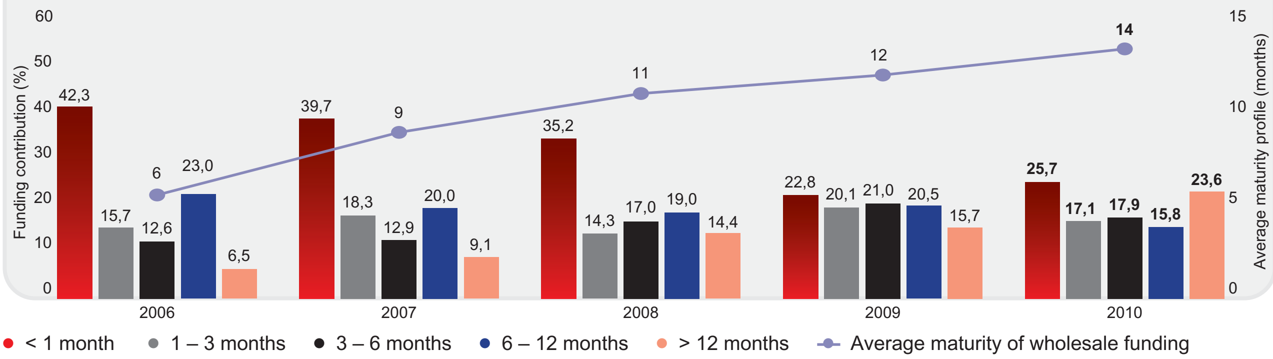
A more detailed breakdown of the loan to deposit ratio for the Group is provided in the table below:

Loan to deposit ratio breakdown of assets and deposits – Table 51:

	2010 Rm	2009 Rm
Advances		
Loans and advances to customers (note 8)	**498 635**	506 163
Deposits		
Deposits due to customers (note 21)	**378 111**	356 365
Debt securities in issue (note 22)	**164 545**	171 376
	542 656	527 741
Ratio	**91,9%**	95,9%

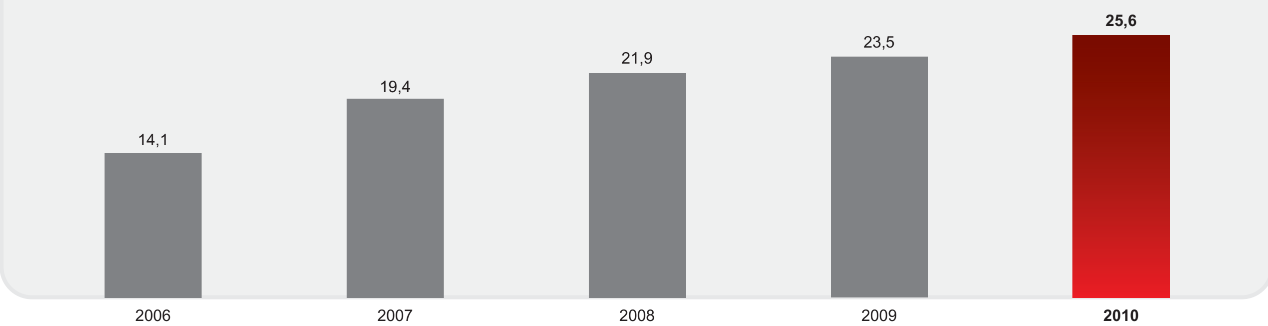
Lengthening the funding profile of the Group's funding base is a key strategic aim. Despite structural constraints in the South African economy which limit the extent to which South African banks are able to lengthen their funding profiles, the Group continued to take steps during 2010 to further lengthen the funding profile within these constraints. The graph below summarises the extent to which Absa Bank Limited has been able to extend its wholesale funding profile since 31 December 2006. 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.

Progression in wholesale funding composition of Absa Bank Limited as at 31 December
(% and months)



A key metric used to track the funding structure of Absa Bank Limited is the long-term funding ratio, which reflects the proportion of total funding which has an outstanding term in excess of six months. The progression in Absa Bank Limited's long-term funding ratio is shown below. From this analysis a marked improvement in funding structure is evident.

Average long-term funding ratio for Absa Bank Limited as at 31 December (%)



Liquidity risk

Capital markets funding is used as a further tool for the extension of the funding term of the Group. In respect of 2010, R7,9 billion of term funding was issued by the Group as outlined in the table to the right.

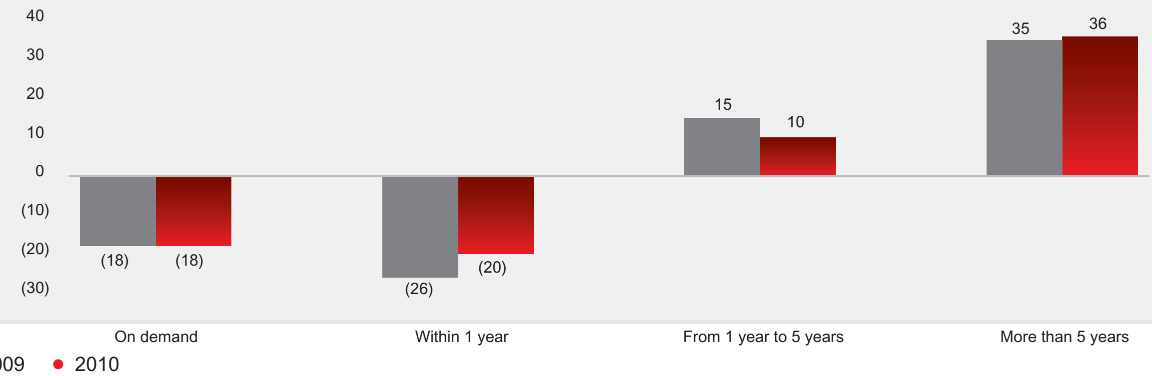
Contractual and behavioural liquidity mismatch positions

The graph below summarises the contractual mismatch position in respect of the Group. 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.

Summary of capital markets issuance in respect of the 2010 funding target by Absa Bank Limited (funding raised between December 2009 and December 2010).

Category	Nominal amount (Rm)
Absa Senior Bonds	3 000
Absa Subordinated Bonds	2 500
Absa Securitisation	2 358
Total	7 858

Cumulative contractual mismatch position of the Group as at the the reporting date, expressed as a percentage of total assets (%)



A more detailed breakdown of the contractual mismatch position is provided in the tables that follow:

Liquidity risk measurement – discounted – Table 52 (audited):

	Group				
	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	19 123	2 415	2 823	—	24 361
Statutory liquid asset portfolio	3	17 479	10 142	20 591	48 215
Loans and advances to banks	14 719	7 150	1 084	1 924	24 877
Trading portfolio assets	61 393	—	—	—	61 393
Hedging portfolio assets	4 662	—	—	—	4 662
Other financial assets	5 034	1 817	6 601	54	13 506
Loans and advances to customers	68 834	62 847	114 642	252 312	498 635
Reinsurance assets	—	236	474	150	860
Investment securities	353	3 988	8 528	10 957	23 826
Financial assets	174 121	95 932	144 294	285 988	700 335
Non-financial assets					16 135
Total assets					716 470
Liabilities					
Deposits from banks	7 555	4 108	3 164	579	15 406
Trading portfolio liabilities	47 454	—	—	—	47 454
Hedging portfolio liabilities	1 881	—	—	—	1 881
Other financial liabilities	5 786	2 543	432	327	9 088
Deposits due to customers	243 267	111 413	8 237	15 194	378 111
Debt securities in issue	—	115 295	42 985	6 265	164 545
Liabilities under investment contracts	150	2 273	7 367	4 174	13 964
Policyholder liabilities under insurance contracts	—	2 029	1 103	(131)	3 001
Borrowed funds	123	722	10 304	2 500	13 649
Financial liabilities	306 216	238 383	73 592	28 908	647 099
Non-financial liabilities					7 222
Total liabilities					654 321
Equity					62 149
Total equity and liabilities					716 470
Net liquidity position of financial instruments	(132 095)	(142 451)	70 702	257 080	53 236

Liquidity risk

Liquidity risk measurement – discounted – Table 52 (audited) *(continued):*

	Group 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	17 251	3 513	(167)	—	20 597
Statutory liquid asset portfolio	—	8 442	13 807	11 694	33 943
Loans and advances to banks	10 063	3 849	19 490	2 630	36 032
Trading portfolio assets	51 671	—	—	—	51 671
Hedging portfolio assets	2 558	—	—	—	2 558
Other financial assets	1 704	9 451	4 581	(116)	15 620
Loans and advances to customers	85 618	68 149	95 857	256 539	506 163
Reinsurance assets	50	431	187	51	719
Investment securities	2 003	9 477	14 448	3 636	29 564
Financial assets	170 918	103 312	148 203	274 434	696 867
Non-financial assets	—	—	—	—	13 929
Total assets					710 796
Liabilities					
Deposits from banks	6 974	30 783	(2 018)	802	36 541
Trading portfolio liabilities	44 245	—	—	—	44 245
Hedging portfolio liabilities	565	—	—	—	565
Other financial liabilities	8 453	1 872	(218)	314	10 421
Deposits due to customers	230 480	106 073	4 124	15 688	356 365
Debt securities in issue	4 412	143 345	18 172	5 447	171 376
Liabilities under investment contracts	23	2 493	9 423	507	12 446
Policyholder liabilities under insurance contracts	238	1 463	2 608	(1 173)	3 136
Borrowed funds	—	2 082	8 082	3 366	13 530
Financial liabilities	295 390	288 111	40 173	24 951	648 625
Non-financial liabilities	—	—	—	—	5 681
Total liabilities					654 306
Equity					56 490
Total equity and liabilities					710 796
Net liquidity position of financial instruments	(124 472)	(184 799)	108 030	249 483	48 242

Note

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

Liquidity risk measurement – undiscounted – Table 53 (audited):

	Group					
	2010					
	On demand Rm	**Within 1 year Rm**	**From 1 year to 5 years Rm**	**More than 5 years Rm**	**Discount effect Rm**	**Total Rm**
Liabilities						
On-statement of financial position						
Deposits from banks	**8 517**	**3 198**	**4 082**	**3**	**(394)**	**15 406**
Trading portfolio liabilities	**47 454**	**—**	**—**	**—**	**—**	**47 454**
Hedging portfolio liabilities	**—**	**1 492**	**2 280**	**1 207**	**(3 098)**	**1 881**
Other financial liabilities	**5 786**	**2 543**	**432**	**327**	**—**	**9 088**
Deposits due to customers	**244 874**	**114 160**	**13 954**	**20 734**	**(15 611)**	**378 111**
Debt securities in issue	**881**	**117 814**	**52 630**	**11 354**	**(18 134)**	**164 545**
Liabilities under investment contracts	**150**	**2 347**	**9 834**	**6 295**	**(4 662)**	**13 964**
Policyholder liabilities under insurance contracts	**243**	**1 771**	**1 600**	**(131)**	**(482)**	**3 001**
Borrowed funds	**123**	**1 840**	**13 491**	**5 304**	**(7 109)**	**13 649**
Total liabilities	**308 028**	**245 165**	**98 303**	**45 093**	**(49 490)**	**647 099**
Off-statement of financial position						
Financial guarantee contracts	**599**	**—**	**—**	**—**	**—**	**599**
Loan commitments[1]	**46 074**	**—**	**1 171**	**—**	**—**	**47 245**

	2009[2]					
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Deposits from banks	3 467	29 669	2 904	807	(306)	36 541
Trading portfolio liabilities	44 245	—	—	—	—	44 245
Hedging portfolio liabilities	—	176	389	451	(451)	565
Other financial liabilities	8 767	1 872	(218)	—	—	10 421
Deposits due to customers	226 868	112 105	10 038	23 438	(16 084)	356 365
Debt securities in issue	411	147 417	33 700	11 032	(21 184)	171 376
Liabilities under investment contracts	—	2 883	10 558	1 716	(2 711)	12 446
Policyholder liabilities under insurance contracts	239	1 539	3 775	(1 173)	(1 244)	3 136
Borrowed funds	—	3 775	12 012	6 764	(9 021)	13 530
Total liabilities	283 997	299 436	73 158	43 035	(51 001)	648 625
Off-statement of financial position						
Financial guarantee contracts	1 007	—	—	—	—	1 007
Loan commitments	50 659	—	3 858	—	—	54 517

Notes

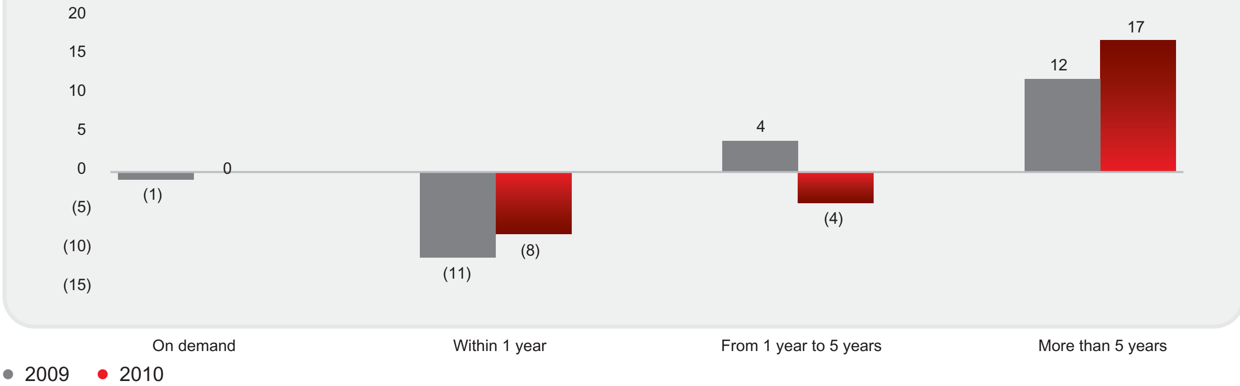
[1] *Includes both irrevocable debt and equity facilities granted.*

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

Liquidity risk

The Group manages its behavioural (business-as-usual) mismatches within board-approved limits. The behavioural mismatch position has shown significant improvements in over 2010, despite the challenging economic environment.

Cumulative behavioural mismatch position of Absa Bank Limited as at 31 December expressed as a percentage of total liabilities to the public (%)

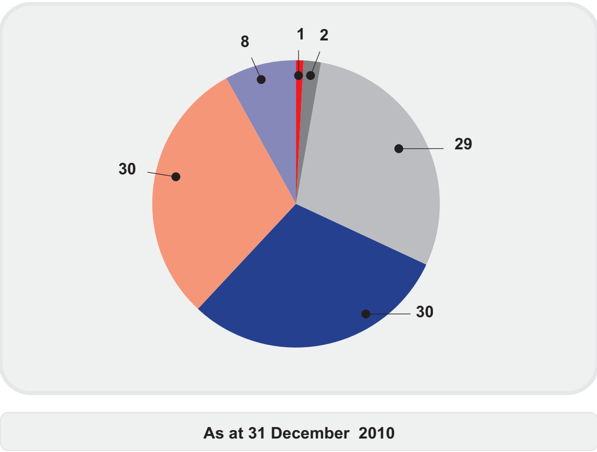


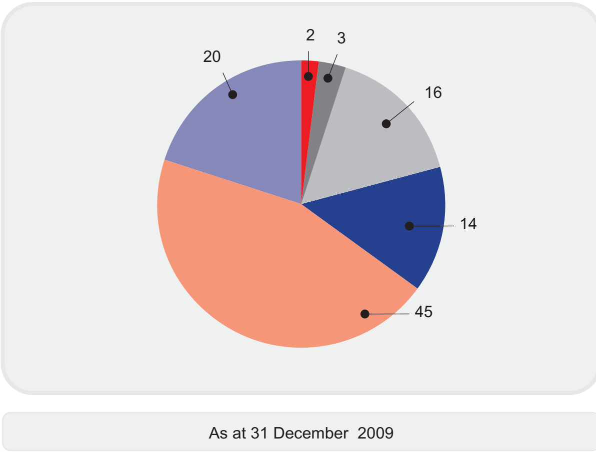
Stress and scenario testing

As at 31 December 2010, Absa's survival horizon was well in excess of internal limits, with sources of stress funding exceeding funding required. During 2010, steps were taken to reduce reliance on unsecured funding sources and to increase surplus liquid assets held. The graphs below show Absa's sources of stress funding as at 31 December 2009 and 31 December 2010. Note that the graph only shows the composition of liquidity resources over and above statutory liquidity requirements.

**Represents the surplus liquid securities held over and above regulatory requirements.*

Summary of sources of stress funding in respect of Absa Bank Limited (%)





Investment securities · Unencumbered trading securities · Surplus prudential liquid securities* · Unlisted interbank funding · Unsecured funding lines · Price sensitive overnight loans

Strategic focus for the year ahead

Liquidity risk measurement and management will continue to receive emphasis globally and it is expected that best practices will continue to evolve at pace. This area will remain a key focus area of the Group and a significant amount of further development work is expected to be performed by the Group 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 Group will continue to take steps in 2011 and beyond to ensure compliance within the required timeframes.

Operational risk

Introduction

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human error or external events.

Strategy

Operational risk is managed under the operational risk management framework adopted by the Group, which is an ancillary framework of the Group's overall risk management framework. Absa applies the AMA to operational risk throughout most of the Group, with the exception of Absa's African operations and certain small entities.

The objective of the operational risk management framework is to ensure that the Group manages operational risks in an optimal and consistent manner making certain that these risks are measured accurately and that the Group is adequately capitalised.

Governance

Operational risk is governed through a clear hierarchy of committees throughout the organisation. These governance committees include business unit, segment and Group level operational risk committees, segment and Group level GCC's as well as the GRCMC at board level. The operational risk processes also forms an inherent part of the internal audit process.

2010 review

The focus on the control environment in the Group over the recent years was evident in 2010, as losses remained fairly stable (with a slight downward trend). Large losses remained well under control, with a clear improvement seen during 2010.

Highlights

- » The Group measures operational risk through the Advanced Measurement Approach (AMA).
- » Control enhancements implemented with specific emphasis on financial and violent crime, anti-money laundering, technology controls and business continuity.

Key performance indicators

	Change from prior year	
Indicator	**2010**	2009
Total number of events	⇩	⇩
Total loss value	⇩	⇧

Operational risk

The Group implemented control improvements during the year under review as part of the continuing focus on control enhancements. Some of these improvements were as follows:

- reviewing and enhancing technology related controls;
- introducing a fraud oversight process that combines ongoing investigations with lessons learnt;
- enhancing the Group's Africa operations' control environment, specifically with regard to crime and technology; and
- catering for all critical processes and systems in the event of a disaster or other forced break in normal operations.

Financial crime remained one of the Group's primary risks. The risk of failure in the execution of processes remained a secondary risk. An integrated approach to these risks was adopted in 2010, which will continue during 2011. People risk was also a major focus area during 2010. The tough economic climate, combined with other pressures on people such as increased complexity in the work environment, lack of skills and increasing regulation, resulted in the Group facing higher risks than normal.

Approach to operational risk

The Group manages operational risk through the PRP, which consists of clearly defined individual frameworks.

Basel II measurement elected

The Group has elected to measure operational risk by using the AMA. The AMA approach is applied to the majority of the business units in the Group. A few small entities are still measured using the SA and Basic Indicator Approach (BIA).

Capital modelling

The model used to determine the Group's operational risk capital was rigorously reviewed, validated and approved in accordance with the Group's model risk governance processes. Operational risk capital is allocated on a risk-sensitive basis to segments and business units in the form of EC charges, thereby improving controls and the management of these risks within appetite levels.

The AMA capital model methodology has been used consistently since 2008. The AMA model follows a key risk scenario-based approach that uses internal and external loss data.

Key risk scenarios (KRSs) are the main drivers of the model. The Group believes this is currently the most effective way to measure unexpected losses. KRSs also provide a forward-looking view of operational risk.

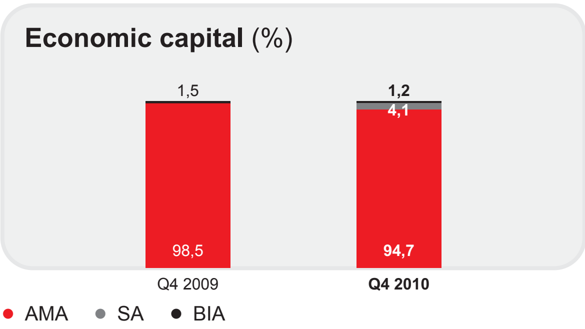
Coverage of the AMA framework

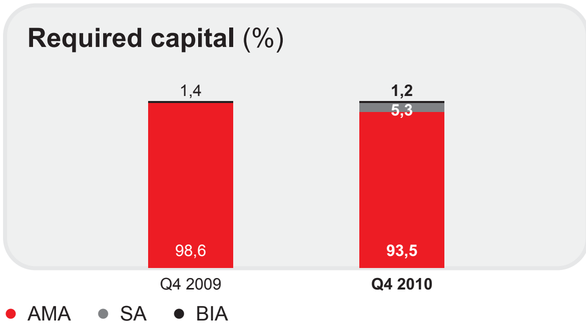
The AMA model is used Group-wide to calculate EC and RC. The exceptions to this approach include:

- joint ventures and non-controlling interests where the Group is unable to dictate the operational risk framework or capital methodology;
- any cross-border legal entities where local regulatory policy/requirements either do not permit the use, or do not support the practical implementation of an AMA framework; and
- certain subsidiaries where partial AMA (SA/BIA) is applied.

As it is deemed appropriate, the Group will strive towards maximum coverage using the AMA framework as it implies excellence in the management of operational risk.

Operational risk capital measurement





Insurance mitigation

Insurance is used as a mechanism to mitigate operational risks. The Group's Short-Term Insurance Committee (STIC) is responsible for insurance design and for managing the principal insurance programmes that mitigate key aspects of the Group's operational risk. The STIC ensures that these policies are current and remain applicable to the Group's operating environment. The STIC also oversees more specific insurance cover purchased at Group or segment level to discharge statutory and regulatory duties, or to meet counterparty commitments and stakeholder expectations.

The primary insurance policies purchased by the Group are:

- comprehensive crime and electronic crime;
- directors' and officers' liability;
- professional indemnity; and
- various asset policies.

Operational risk

Reporting of Pillar 3 and IFRS requirements in relation to operational risk

The Group recognises the significance of operational risk and is committed to enhancing the measurement and management thereof. Within the Group's operational risk framework, qualitative and quantitative methodologies and tools are applied Group-wide to identify and assess operational risks and to provide management information for determining appropriate mitigating measures.

Focus for 2011

Operational risk remains a key focus area for the Group. In the coming year the following will receive specific attention:

» minimising financial crime through enhanced automation of key controls to minimise and reduce activities that lead to losses;

» enhancing business enablement through automation to make sure that the Group keeps pace with the latest technology developments;

» minimising the impact of changes in the regulatory landscape to ensure compliance; and

» enhancing talent retention and recruitment practices by launching various innovative retention and training strategies.

The board and senior management will continue to place the necessary emphasis on the management of operational risk by consistently implementing and monitoring policies, processes and systems in all material products, services and activities and keeping them consistent with an approved risk appetite and tolerance.

Insurance risk

Introduction

Insurance is a promise of compensation for specific potential future losses in exchange for a periodic payment. Insurance is designed to protect the financial well-being of an individual company or other entity in the case of unexpected loss. The risk allocated with insurance is the risk that the actual insurance compensation is greater that the original estimate of compensation.

There are four types of insurance risk:

- short-term insurance underwriting risk;
- life insurance underwriting risk;
- life insurance mismatch risk; and
- life and short-term insurance investment risk (including interest rate, foreign exchange and equity investment risk).

Within the Group, life insurance underwriting activities are undertaken by Absa Life and Woolworths Financial Services (Proprietary) Limited. Short-term insurance underwriting activities are undertaken by Absa Insurance Company Limited, Absa Insurance Risk Management Services, Absa *idirect* Limited and Absa Manx Insurance Company Limited (Absa Manx).

Strategy

The insurance entities listed above actively pursue profitable growth opportunities that support the diversification of underlying risks. In particular:

- there is a focus on seeking sources of business that complement the traditional bancassurance products by providing diversification benefits;
- agricultural insurance provides a diversification benefit in relation to property insurance as weather patterns have different impacts on claim rates of the different business lines; and
- risk exposures in the rest of Africa may have a low or potentially negative correlation versus corresponding South African risks.

There is a high level of focus on enhanced risk management to ensure that the insurance businesses understand and manage existing risks, and that appropriate consideration is given to the risks related to potential new business lines.

The continued internal focus on enhanced risk management will ensure the insurance entities are prepared for the developing solvency assessment and management legislative environment.

Highlights

- Underwriting discipline and controls in the short-term insurance environment have been reviewed and enhanced.
- An asset liability modelling exercise has been conducted for life insurance to enhance understanding of life insurance mismatch risk and the investment strategies to best manage this risk.
- Developments in solvency legislation are being monitored closely, and progress has been made with the development of a capital model for short-term insurance.

Key performance indicators

	2010 %	2009 %
Short-term loss ratio	**69,9**	68,5
Value of life new business margin	**6,6**	9,5
Return on shareholders' assets versus benchmark	**13,8 vs. 10,7**	14,0 vs. 14,0

Insurance risk

Governance

The boards of directors of the insurance entities, together with management, take primary responsibility for the management of short-term insurance underwriting risk, life insurance underwriting risk, life insurance mismatch risk and investment risk.

In terms of the principal risk control framework, management identify, assess, control, manage and report on all risks related to insurance underwriting, mismatch and investments. Within the bancassurance cluster, the Absa Financial Services Governance and Control Committee and the Capital and Investment Risk Committee, as well as the Actuarial Review Committees and Capital and Investment Committees, are responsible for monitoring risk management, control effectiveness and principal risk reporting across all insurance entities.

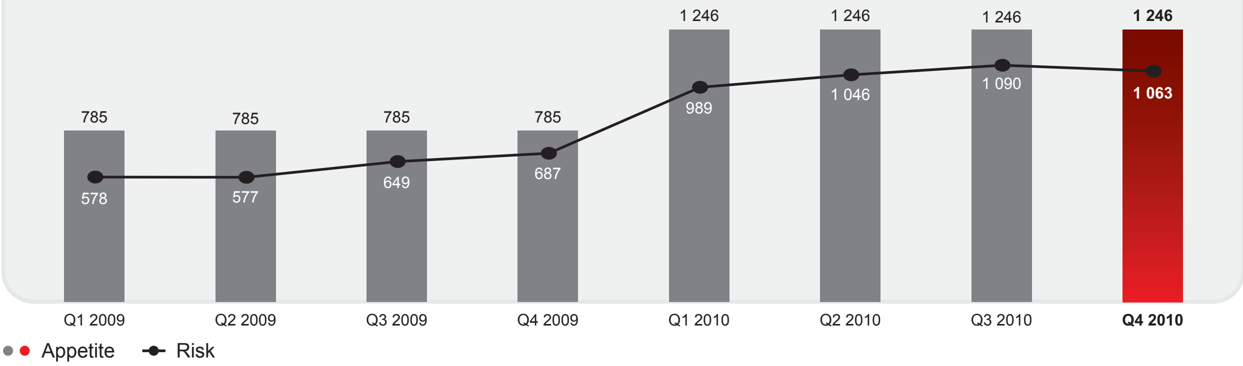
2010 review

The bancassurance sector was impacted by the subdued economic growth and slower than expected recovery in 2010. The insurance landscape was characterised by varying factors across the risks managed by these BUs.

Underwriting risk

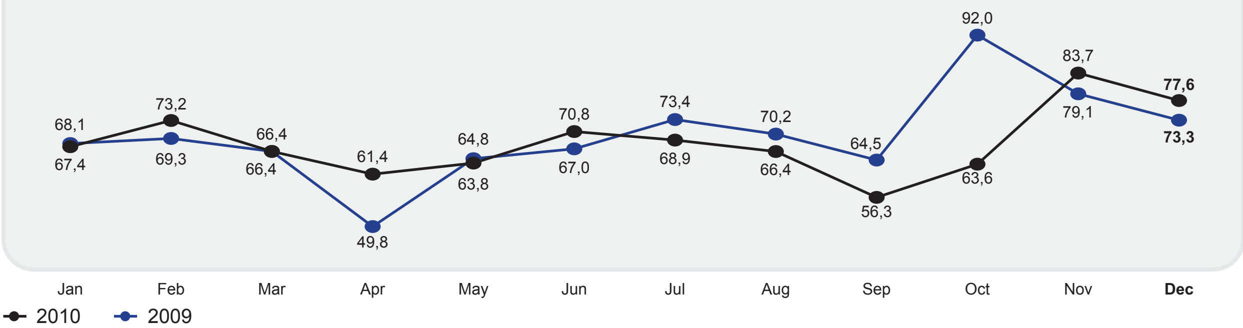
Risk appetite and utilisation was set and monitored for short-term and life insurance underwriting risk based on a percentage of net written premiums for the former, and the fluctuation, assumption and expense risk components of the Actual Society of South Africa (ASSA) Professional Guidance Note (PGN) 104 capital adequacy requirement for the latter. Both short-term and life insurance underwriting risk remained within the risk appetite for the year. The utilisation was monitored on a quarterly basis and utilisation varied as expected in line with underlying business growth.

Insurance underwriting risk (Rm)



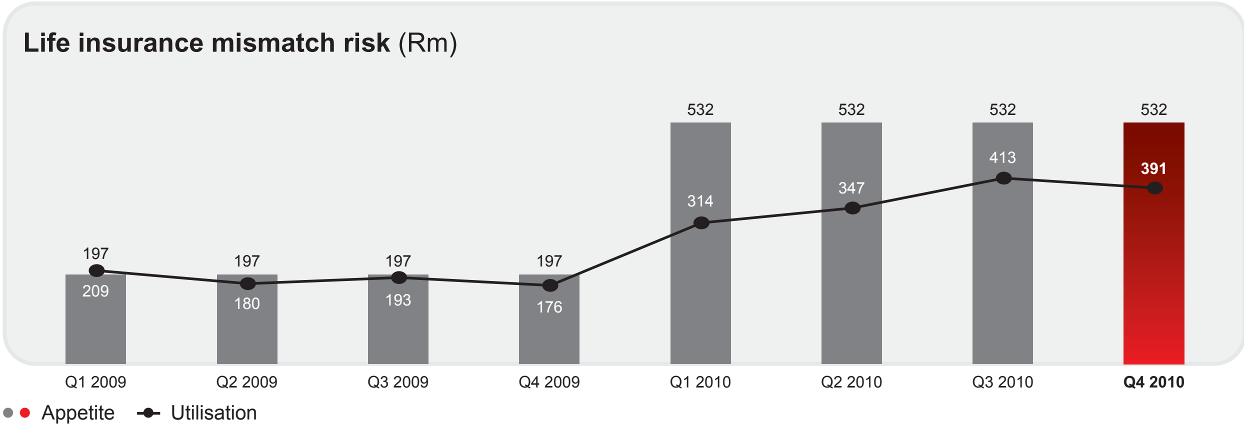
Short-term insurance loss ratios were in line with expectations during the year, although higher levels were experienced in November and December due to the effects of adverse weather conditions.

Short-term loss ratios (excluding Absa Manx) (%)



Life insurance mismatch risk

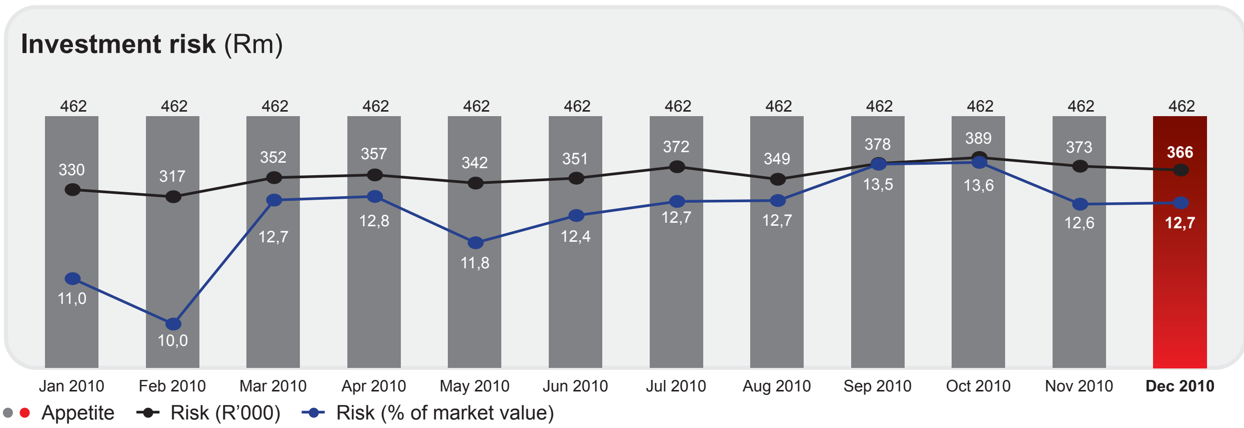
Risk appetite and utilisation was set and monitored for life insurance mismatch risk based on the resilience risk component of the ASSA PGN 104 capital adequacy requirement, which measures the extent to which assets fall by more than the liabilities when market conditions change.



Life insurance mismatch risk appetite was higher than in the previous year to allow for additional product exposure and the recalibration of the model for increased implied long-term volatilities and a need to take potential economic cycle impacts into account rather than only expected conditions for the year. The results of the bi-annual asset liability modelling exercises undertaken have improved management's ability to manage mismatch risk and will continue to do so going forward.

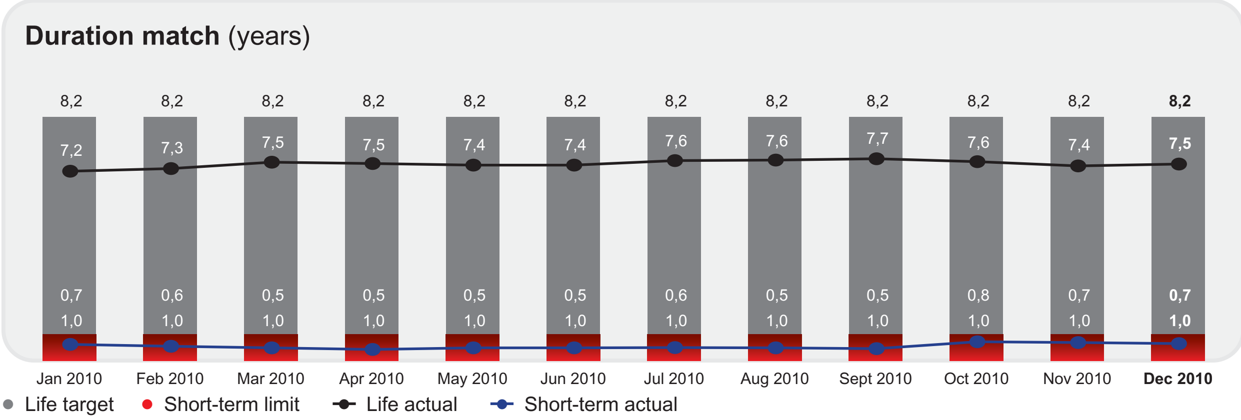
Investment risk

Risk appetite and utilisation was set and monitored for investment risk based on actual asset holdings multiplied by investment risk capital percentages calculated using the variability of published indices. Investment risk increased in line with underlying business growth, offset by disinvestment from an unlisted equity holding. Volatility of returns on life insurance assets was limited through hedging of equity holdings. The hedges were rolled over and/or rebalanced quarterly to take account of the movement in underlying equity values.



Insurance risk

The duration of the interest-earning assets backing policyholder liabilities increased in line with target for life insurance assets, and remained within limit for short-term insurance assets.



Approach to insurance risk (audited):

Underwriting risk, life insurance mismatch risk and investment risk are core to the business of the insurance entities. The successful management of these risks will determine the success of the insurance entities.

Short-term insurance underwriting risk is managed through underwriting authority mandates and by referral to an Underwriting Review Committee, when required. Risk governance is monitored through the entity and Absa Financial Services Governance and Control Committees, the Actuarial Review Committee and Principal Risk reporting.

An Underwriting Risk Forum monitors **life insurance underwriting** performance and quality on a monthly basis to ensure risk taken is in line with risk priced and reserved for. Risk governance is monitored through the entity and Absa Financial Services Governance and Control Committees, the Actuarial Review Committee and Principal Risk reporting.

A monthly Investment Risk Committee meeting monitors **life insurance mismatch risk**. Quarterly review is undertaken through the Absa Financial Services Capital and Investment Risk Committee and the Actuarial Review Committee.

Monthly entity Investment Risk Committee meetings monitor **investment risk** across the insurance entities. A quarterly review is undertaken by the Absa Financial Services Capital and Investment Risk Committee and the Actuarial Review Committees.

2010 Insurance risk disclosures

Underwriting risk (audited):

Underwriting risk is influenced by the type and nature of insurance activities undertaken and is impacted by:

- the risk appetite of the insurance businesses;
- the nature of underwriting exposures underlying the products and services;
- portfolio characteristics; and
- the nature and extent of reinsurance cover.

Underwriting risk is monitored separately for the short-term insurance and life insurance businesses.

Short-term insurance underwriting risk

Short-term insurance underwriting risk describes the risk associated with the underwriting of fixed and/or moveable assets, accidents, guarantees and liabilities.

Monitoring of risks (audited)

Monthly monitoring of loss ratios identifies portions of the business where claims are increasingly compared to underlying rates. If necessary a review of required rate changes or changes to policy conditions takes place. Volumes of business are monitored for increases in volumes out of line with expectations indicating that rates may be low compared to the market requiring review. Extensive claims control measures are in place including assessment of claims, checks of total potential claim compared to the sum insured (averaging) and bulk procurement.

Risk management per product line (audited)

Homeowners' comprehensive insurance	Multiple, similar claims make claim rates more predictable in normal circumstances. Assessment and adjustment of potential claims is undertaken. Cover is included in the catastrophe reinsurance purchase.
Personal lines, accident and travel insurance	Scientific pricing using multiple risk factors is used in risk selection and to charge premiums matched to underlying risk. Assessment and adjustment of potential claims is undertaken. Cover is included in the catastrophe reinsurance purchase.
Commercial insurance for small, medium and large companies	In underwriting these risks, significant focus is placed on the quality of fire protection and other risk measures. Assessment and adjustment of potential claims is undertaken. Catastrophe reinsurance is purchased to protect against natural catastrophes, in particular earthquakes, and against large individual losses.
Agricultural insurance	Diversification is sought across crops, seasons and geographical regions. Stop loss reinsurance is in place to protect against excessive claims. Risks are individually underwritten before being taken on. Constant assessment of crop development and then adjustment of potential claims is undertaken.
Specialist lines	Risks underwritten by underwriting management agencies are only undertaken with specialists in their respective areas who have track records of underwriting and claims control. Reinsurance for relevant risks is included in the main or specific reinsurance treaties.

Reinsurance (unaudited)

The impact of large individual claims is limited through low retention levels per risk with the balance being protected through reinsurance. The accumulation of net exposures due to multiple claims is limited through the purchase of catastrophe reinsurance. Catastrophe reinsurance, particularly related to earthquake risk, is purchased to cover losses up to R2,8 billion (2009: R2 billion).

Reinsurer credit risk (audited)

Credit risk in respect of reinsurance partners is managed by transacting with a wide range of reinsurers with good credit ratings. The creditworthiness of reinsurers is considered on an annual and ongoing basis. In order to qualify, reinsurers must be assigned a minimum 'A' rating by S&P's (or equivalent rating by Moody's or A.M. Best). Management must approve any exceptions to this rating with notification to the boards of directors of the respective insurance entities. The current reinsurer exposure by credit rating is as follows:

	% of premium income (unaudited)
AAA	1,3% (2009: 0,9%)
AA	10,9% (2009: 4,3%)
A	87,8% (2009: 94,8%)

Insurance risk

Concentration risk (audited)

The main concentration risk arises from exposure to personal and commercial business in Pretoria, Johannesburg and the East Rand. Approximately 12% (2009: 9%) of the total gross sums insured are situated in Pretoria with 15% (2009: 13%) in Johannesburg and 12% (2009: 8%) in the East Rand. These exposures are reduced significantly through reinsurance protection. The maximum expected loss for a one in 250-year event is a loss of R2,8 billion (2009: R2 billion).

Outstanding claims reserves (OCR) (audited)

A case-by-case method is used to quantify the OCR. Individual estimates are obtained from claims assessors and reviewed as and when new information regarding a claim becomes available. The claims provision includes the expected claim cost and associated handling costs, with a maximum of the maximum loss payable under the terms of the policy. Claims development patterns are monitored to assess trends and the appropriate level of reserving.

Incurred but not reported (IBNR) provision (audited)

The IBNR provision includes an amount for incurred but not sufficient reported claims (i.e. where the OCR is insufficient). A stochastic reserving model is used to calculate the IBNR for the majority of products. For 83% of the business by premium volume where detailed data is available, the IBNR is calculated at a 75% (2009: 75%) sufficiency. Where detailed data is not available, the IBNR is based on the solvency assessment and management discussion document 6: 'Interim Measures Relating to Technical Provisions and Capital Requirements for Short-Term Insurers'. In particular, 4% was used for motor and extended cover business, 9% for engineering and 6% for miscellaneous business.

Changes in assumptions (audited)

The IBNR and OCR provision calculations take into account past data, trends and recent experience in claims processing and loss ratios. These calculations, together with changes in the underlying risk profile of the business, impact the determination of the final balances.

Sensitivity analysis (audited)

The IBNR provision is determined by taking into account various factors per class of business underwritten, including:

» the actual and expected claims experience;

» the actual and expected reporting patterns; and

» premium volumes.

These factors affect the sensitivity of the IBNR and to ensure provision adequacy, a minimum sufficiency level of 75% is maintained.

Life insurance underwriting risk (audited)

Life insurance underwriting risk describes the risk associated with insuring the lives and/or health of individuals or groups of individuals.

Monitoring of risks (audited)

The number of risks falling outside of mandates is reviewed to determine whether underwriting rules need to be tightened or risk parameters reviewed. Annual experience studies and analysis of surplus enable the actual experience to be investigated. The non-economic pricing and reserving bases (i.e. mortality, morbidity, persistency and expense assumptions) are revised for any changes in trends that are considered to be sustainable in future.

Risk management per product line (audited)

Mortgage protection and complex underwritten life business	The main risks are mortality and morbidity. This is the only business that is individually underwritten. Premium rates differentiate by gender, age, smoker status, socio-economic class and occupation. Sub-standard risks generally receive additional premium loadings or are declined. Correct pricing and effective underwriting control the mortality and morbidity risks. Exposure in excess of a retention limit for each policy is reinsured to reduce the variability of the claims experience and the exposure to a single life. Most policies have premium guarantee terms that vary from one year (for yearly renewable business) to 25 years (for products that have an investment component attached). For products with an investment component, the overall premium rate is guaranteed; the investment portion is not guaranteed and could be reduced at the discretion of Absa Life. However, it is a policy when products are priced to have no intention to increase premium rates over the policy term. Experience is monitored to confirm that actual experience is in line with pricing assumptions.
Funeral business	The main risk is mortality increased by high Aids rates experienced in the target market. The risk is exacerbated by premium rates that are the same irrespective of the age of policyholders since significant changes in the age profile of customers could impact on experience. Limitation of cover for certain pre-existing conditions for defined time periods (generally two years), applies. Strict experience monitoring limits the risk, combined with the contractual right to increase premiums with a three-month notice period. The intention is not to exercise this right, but the Group does have the option to do so. Reinsurance is not utilised as sums assured per individual life are minor.
Credit life business	The main risks are retrenchment and mortality. Treaty reinsurance arrangements are in place whereby risk is shared with external business partners. The right to change premiums with a 30-day notice period is retained. Premiums generally do not differentiate on the basis of gender, age or smoker status and demographic shifts could introduce additional insurance risk.
Group life business	The main risk is mortality risk. Treaty reinsurance arrangements are in place whereby risk is shared with external business partners. Contracts and premium rates are reviewed annually. Additional catastrophe reinsurance cover will be considered for an accumulation of losses that may occur due to the geographical concentration of a group.

Reinsurance (audited)

A formal reinsurance policy has been approved by Absa Life's board of directors. Reinsurance is used for large individual risks, for risks where Absa Life needs to build knowledge and experience, and to obtain technical assistance. Catastrophe reinsurance is used for protection against a large number of dependent losses.

Reinsurer credit risk (audited)

Reinsurer credit risk is managed by transacting solely with reinsurers that have good credit ratings, and by holding additional capital in line with regulatory requirements. The following table shows the credit rating of reinsurance assets at the reporting date, excluding credit life reinsurance.

Insurance risk

Credit rating of reinsurance assets – Table 54 (audited):

	S&P's rating	Description	Parental guarantee
Treaty and facultative reinsurer, 35,4% (2009: 42,4%) of business ceded	A+	Strong	No
Treaty and facultative reinsurer, 22,3% (2009: 20,8%) of business ceded	AA+	Extremely strong	Yes
Treaty and facultative reinsurer, 8,9% (2009: 1,92%) of business ceded	A+	Strong	No
Treaty and facultative reinsurer, 29,9% (2009: 20,8%) of business ceded	AA-	Very strong	No

Although a parental guarantee is not in place for all companies, they are all 100% subsidiaries of their international parent companies and operate under the same name. Reinsurers' ratings, notified disputes and collection experience are used to determine if any reinsurance assets should be impaired. As at the reporting date the reinsurance assets were unimpaired as none of the reinsurance amounts receivable were past due.

Concentration risk (audited)

A small concentration of insurance risk exists in respect of individual lives, and liability exposure is well spread geographically. The concentration in terms of size of individual policies is low and retention limits are in place with excess reinsurance to cover large individual exposures. The table below shows the concentration of benefits across three bands of benefits per life assured.

Concentration of benefits band per life assured – Table 55 (audited):

	Gross of reinsurance		Net of reinsurance	
Benefit band per life assured	**Total benefits assured Rm**	**%**	**Total benefits assured Rm**	**%**
2010				
0 – 250	**54 193**	**58**	**51 696**	**65**
250 – 500	**8 608**	**9**	**4 979**	**6**
500+	**30 919**	**33**	**22 671**	**29**
	93 720	**100**	**79 346**	**100**
2009				
0 – 250	41 956	55	38 363	61
250 – 500	6 477	8	4 160	6
500+	28 667	37	20 626	33
	77 100	100	63 149	100

In the case of the Group life business, a geographical concentration of risk potentially exists. In addition to comprehensive quota share reinsurance, catastrophe reinsurance is used to provide protection against an accumulation of losses in respect of retained risks.

Mortality and morbidity risk (audited)

Applications for risk cover in excess of specified limits are reviewed by experienced underwriters and evaluated against established standards. Testing for HIV is carried out in all cases where the applications for risk cover exceed specified limits. Cover in excess of specified monetary or impairment limits is reinsured. Mortality and morbidity risks are managed per product line based on underwriting criteria, pricing, reinsurance and experience monitoring.

HIV and Aids risk (audited)

Absa Life is exposed to the risk of including insufficient allowance for Aids in the pricing and valuation bases. To manage this risk for business that is medically underwritten, HIV tests are performed as part of the normal underwriting process and cover is not provided for lives for whom mortality risk is uncertain or too high. For other lines of business such as funeral and credit life, general pre-existing condition clauses are included in the contract to protect against anti-selection e.g. a claim is not valid if it occurs as a result of a condition existing when the policy was incepted or within a certain period (generally 24 months) from inception.

Aids mortality investigations are performed periodically with the most recent investigation performed during the last quarter of 2010. The results of these investigations assist in setting the premium and mortality basis. Margins are included in the valuation basis to allow for a worse than expected Aids risk experience.

Lapse risk (audited)

For regular premium policies where significant expenses are incurred at the outset of a policy in the form of commission and/or underwriting costs, a loss is incurred if a policy lapses before the costs have been recouped. In some cases this risk is managed by entering into 'claw-back' arrangements with financial advisers. Annual investigations are conducted into lapse experience to ensure that pricing and valuation assumptions are appropriate, relevant and in line with experience.

Expense risk (audited)

An allowance for future maintenance and claim expenses is included in liability calculations based on the current level of maintenance and claim expenses per policy, inflated at the assumed expense inflation rate. There is the risk that the per policy expense assumptions or assumed future inflation are too low. This risk is managed by:

» conducting annual expense investigations based on the most recent operating expenditure incurred;

» monitoring unit costs on a monthly basis to ensure they remain within anticipated levels and identifying trends at an early stage; and

» basing the assumed future inflation rate on observable, actual economic indicators.

Model risk (audited)

Where expected future cash flows from the in-force book of business are modelled, modelling techniques or methodologies might be incorrect or inappropriate for certain classes of business, leading to incorrect projected cash flows and insufficient liabilities. This risk is managed by putting the models through rigorous checking procedures to ensure the cash flows projected by the models are reasonable. External consultants are used to assist with these checks. Modelling methodologies used are in line with any guidance issued by ASSA or, in the absence of such guidance, with generally accepted actuarial methods.

Data risk (audited)

There is a risk that the policy data used to model the liabilities is incorrect or incomplete. This risk is managed by performing reasonability checks on the data and reconciling the data with both the previous valuation data (i.e. a movement analysis) and with the financial statements.

Assumption risk: Change and effect of assumptions since previous valuation (audited)

Best estimate assumptions are derived from annual investigations into the demographic experience of the business. Economic assumptions are based on observable, actual economic indicators and are internally consistent. Margins are added to best estimate assumptions to allow for variability. These margins include compulsory margins according to ASSA's PGN 104 and further discretionary margins where the statutory actuary deems it necessary. The effect of changes in assumptions from the previous reporting period is shown in the table that follows:

Insurance risk

Changes in assumptions from previous reporting periods – Table 56 (audited):

	Increase/(decrease) on insurance liabilities	
	2010 Rm	2009 Rm
Economic basis[1]	**37**	(86)
Expense assumptions[2]	**4**	48
Mortality and Aids assumptions[3]	**(47)**	(16)
Morbidity assumptions[4]	**(25)**	—
Lapse assumptions	**2**	12
Change in accounting estimate[5]	**(117)**	(162)
	(146)	(204)

Notes

[1] *The economic basis was changed in line with market movements. The assumptions about the future investment return on assets and future inflation were adjusted to reflect the change in gilt yields, resulting in a 1,5% per annum lower investment return assumption compared to the previous year.*

[2] *The expense assumptions were changed to reflect the result of the most recent expense investigation, increasing the liability by R4,25 million (2009: R48 million increase).*

[3] *The Aids mortality assumptions have been updated since 2009 following the results of the experience investigation conducted in 2010.*

[4] *Disability and dread disease assumptions have been updated since 2009 to bring them in line with the results of experience investigations conducted in 2010.*

[5] *The change in accounting estimate relates to a decision to take full account of future management charges expected to be received on the unit linked business.*

Assumptions (audited)

The risk discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from that assumed. The economic assumptions used are as follows (gross of tax where applicable):

Economic assumptions – Table 57 (audited):

	2010 %	2009 %
Risk-free rate return	**8,00**	9,50
Equity return	**11,50**	13,00
Cash return	**6,00**	7,50
Overall investment return	**7,90**	9,40
Risk discount rate	**11,25**	12,50
Expense inflation	**4,50**	6,00

Margins are incorporated into the liabilities in order to mitigate assumption risk. The compulsory margins prescribed by ASSA in PGN 104 and which have been applied in the valuation of liabilities are summarised in the table below:

Compulsory margins – Table 58 (audited):

Assumption	**Margin**
Mortality	7,5% (increase for assurance) (2009: 7,5%)
Morbidity	10% (2009: 10%)
Lapse	25% (e.g. if the best estimate is 10%, the margin is 2,5%) (2009: 25%)
Surrenders	10% (increase or decrease, depending on which alternative increases liabilities) (2009: 10%)
Expenses	10% (2009: 10%)
Expense inflation	10% (of estimated escalation rate) (2009:10%)
Charge against investment return	25 bps in the management fee or an equivalent asset-based or investment performance-based margin

Sensitivity analysis (audited)

The results of the sensitivities in the table below show that the assumptions regarding future mortality and morbidity experience have a major impact on the size of the actuarial liability. This is in line with expectations given that the nature of the business is risk insurance. Future developments in mortality and morbidity experience, whether positive or negative, will impact on profits in future years, and in particular, where areas are influenced by Aids. A further important factor is the impact of investment returns. Although a significant portion of the book such as credit life, is short term, the mortgage protection business increases the duration of the business and therefore the importance of future investment returns. The business is relatively well protected from changes in other assumptions.

Sensitivity analysis – Table 59 (audited):

	2010		2009	
	Insurance liability Rm	Change % Rm	Insurance liability Rm	Change % Rm
Central value (as published)	**1 391**	**—**	1 361	—
Mortality and morbidity +10%	**1 523**	**9,5**	1 519	11,6
Lapse rate +10%	**1 350**	**(3,0)**	1 318	(3,1)
Renewal and termination expense +10%	**1 415**	**1,8**	1 397	2,7
Expense inflation +1%	**1 409**	**1,3**	1 389	2,1
Investment return -1%	**1 466**	**5,4**	1 438	5,7

Life insurance mismatch risk (audited)

Life insurance mismatch risk describes the risk that the profile of assets held to back Absa Life's policyholder liabilities is inappropriate to match the profile of those liabilities.

Nature of risk (audited)

Mismatch risk is mainly driven by guarantees offered on unit linked products where specified amounts are guaranteed on death or on survival to end of the policy term. Mismatch risk arises to the extent that underlying assets do not grow sufficiently to match these specified amounts. The reserves required for the guaranteed death benefits are referred to as rand reserves, while reserves for guaranteed survival benefits are referred to as guaranteed maturity value (GMV) reserves. The mismatch risk in respect of GMV reserves is managed on a basis consistent with ASSA's PGN 110.

Interest rate risk (audited)

Interest rate risk is managed by setting and monitoring asset durations in comparison with targeted levels for the interest-earning investments backing the rand reserves. Monthly meetings are held with the asset manager to monitor these asset durations and targeted levels.

Life and short-term investment risk

Life and short-term investment risk describes the risk associated with changes in asset values and includes interest rate, foreign exchange and equity investment risk.

Nature of risk

Investment risk relates to variability in the value of both shareholder assets and assets backing policyholder liabilities in respect of short-term insurance, and life insurance shareholder assets. Investment risk is mitigated through diversified asset allocations, investment mandates and the hedging of equity risks.

Insurance risk

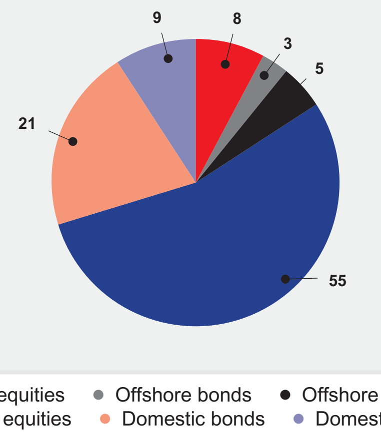
Short-term insurance investment risk

A single investment strategy is maintained for short-term insurance shareholder assets and for assets backing short-term insurance policyholder liabilities. Assets are invested in short dated interest-earning assets and preference shares. The duration of interest-earning assets is monitored against a maximum effective duration.

Life insurance investment risk

The Absa Life insurance shareholders' funds are invested in a balanced portfolio with the current mandated asset allocation as follows:

Life insurance investment risk (%)



Revised asset allocations will be implemented in 2011 following a review of the retained capital asset allocation conducted in the last quarter of 2010. Domestic assets have a limit on active equity exposures. Hedging strategies are followed in respect of domestic equities.

Counterparty credit risk

Counterparty credit risk in respect of investments is managed by investing with a spread of issuers with good credit ratings. Counterparty credit risk in respect of equity hedging instruments is managed by transacting only with counterparties with good credit ratings.

Liquidity risk

The short-term insurance businesses invest in short dated interest-earning assets, with limits on investments in less liquid assets such as preference shares and corporate bonds. The life insurance businesses are less exposed to liquidity risks due to low risk of large cumulative claims. Liquidity risk is managed through close management of potential cash outflow in discussion with the asset manager.

Strategic focus for the year ahead

In managing insurance risk in 2011, key focus areas will continue to be the enhancement of short-term insurance underwriting discipline and business growth opportunities that support the diversification of underlying risks.

The development of the short-term insurance capital model and broader risk utilisation methodologies will continue, with the aim of enhancing the monitoring of risk appetite and capital requirements across the insurance businesses.

Representatives of the insurance entities will continue to keep abreast of developments through representation on the three pillars of the solvency assessment and management project. Deadlines will be met in respect of preparation for potential approval of the short-term insurance internal model, and submission of quantitative impact study results.

Assets will be aligned to the investment strategies agreed after completion of the asset liability modelling exercise for Absa Life.

Financial performance

Contents

Financial performance

Pages 323 – 508

Full disclosure of the Group's financial performance.

Group Financial Director's review

David Hodnett
Group Financial Director

Highlights

- Headline earnings per share (HEPS) increased by 2% to 1 122,6 cents.
- Diluted HEPS increased by 4% to 1 115,7 cents.
- Total dividend of 455 cents per share, up 2% year-on-year.
- Net interest margin on average interest-bearing assets improved to 4,01% from 3,74%.
- Impairment losses on loans and advances fell by 33% to R6 005 million, resulting in a 1,20% impairment losses ratio.
- Cost-to-income ratio increased to 56,2%.
- Return on average equity (RoE) of 15,1%.
- Return on risk-weighted assets (RoRWAs) improved to 1,99%.
- Net asset value (NAV) per share grew by 11% to 7 838 cents.
- Core Tier 1 capital adequacy ratio for the Group of 11,7%, well above regulatory requirements.

Group Financial Director's review

Introduction

Absa's 2010 financial performance was resilient, considering the challenging operating environment following the global financial meltdown and the local recession. The Group delivered headline earnings of R8 041 million, an increase of 6% from 2009. Our return on economic capital and return on risk-weighted assets improved to 19,7% (2009: 18,2%) and 1,99% (2009: 1,97%) respectively.

2010 review

Absa's 2010 performance largely reflects a 36% reduction in retail credit impairments to R4 820 million (2009: R7 547 million) following sustainable improvements in most products' arrears profiles and a 7% growth in net interest income to R23 340 million (2009: R21 854 million). The latter benefited from Absa's interest rate hedging programme. These earnings drivers outweighed the 15% growth in operating expenses to R24 070 million (2009: R20 857 million), as investments were made to take advantage of anticipated growth prospects, and a higher but more sustainable effective tax rate of 27,5% (2009: 23,8%). Following a reduction in total expenses in 2009, the five-year compound annual growth in costs was 11%. Although non-interest income growth remained lacklustre, the stabilising private equity valuations and the lower reliance on income from the sale of investments and the mark-to-market of the Visa position were notable features.

Despite lower gearing, an improved return on average assets (RoA) kept the Group's RoE above its 14,0% CoE. Absa's RoE has exceeded its CoE throughout this turbulent period. The Group has also grown its net asset value per share by 15% compounded over the past five years.

The Group continued to manage liquidity prudently in view of current market conditions and in anticipation of ongoing regulatory developments. Highlights in 2010 included growing the proportion of long-term funding and significantly increasing surplus liquid assets held. Absa held R17 billion in surplus liquid assets at 31 December 2010, an increase of R13 billion on 2009. Despite a 9% growth in risk-weighted assets (RWAs) following a review and recalibration of existing credit models, the Group maintains a very strong capital position, with a total ratio of 15,5% (2009: 15,6%) and a Core Tier 1 ratio of 11,7% (2009: 11,5%). The Group also grew its deposits by 6% to R378,1 billion (2009: R356,4 billion) during the year.

Focus in 2011

Delivering on our One Absa strategy will position the Group to participate in growth opportunities as the economy gradually improves. Nonetheless, overall revenue growth is expected to remain subdued in 2011, particularly given moderate credit growth. However, we expect stronger non-interest income growth this year, particularly in key target areas. Credit impairments should continue to improve, albeit at a slower pace than they did last year. Owing to the uncertainty surrounding income growth, containing cost growth will receive specific attention during 2011.

It remains Absa's policy to hedge its margin against changes in interest rates as far as possible. This approach improves margin stability by protecting it in a declining interest rate environment, but involves losing some upside as interest rates rise. However, with rates at historic lows, the Group is delaying the replacement of hedges as they roll off to avoid locking in very low fixed rates that would reduce future margins.

The future structure of the balance sheet, including RWAs, capital ratios and liquidity reserves, will depend on the outcome of the multiple regulatory reviews underway and on national regulator discretion. Owing to the challenging requirements, especially in the area of liquidity, our intention is to continue engaging positively with the regulator and to remain conservatively positioned while changes are finalised.

Financial analysis

The financial analysis, containing a detailed review of the Group's financial performance for the year ended 31 December 2010 can be found on the pages to follow.

David Hodnett

Group Financial Director
9 March 2011

Financial analysis

Introduction

Absa recorded a 6% growth in headline earnings to R8 041 million for the year ended 31 December 2010. Attributable earnings increased by 19% from R6 840 million to R8 118 million. HEPS increased by 2% from 1 099,4 cents per share to 1 122,6 cents per share and fully diluted HEPS increased by 4% from 1 072,0 cents per share to 1 115,7 cents per share.

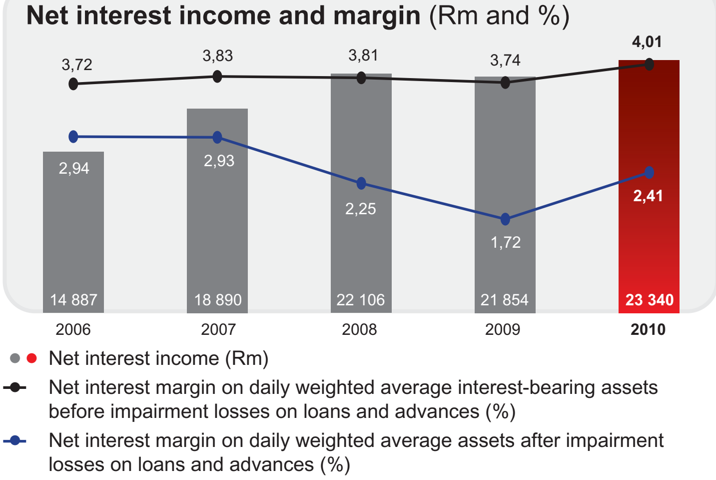
The Group showed a strong improvement in RoA to 1,12% (2009: 1,02%), but a lower leverage ratio in 2010 resulted in RoE declining to 15,1% (2009: 15,5%).

Statement of comprehensive income

Net interest income and net interest margin

Net interest income increased by 7% to R23 340 million (2009: R21 854 million) despite negative loan growth and 1,97% lower average prime interest rates during the year. This increase is largely attributable to Absa's effective hedging strategy, but also reflects better new business pricing for credit risk and a change in the loan mix towards higher margin products. These outweighed the material negative endowment effect and funding pressure on wholesale deposits. The Group's net interest margin on average interest-bearing assets improved noticeably to 4,01% from 3,74%.

Net interest income and margin (Rm and %)



Financial highlights

	2010	2009	Change %
Net interest income (Rm)	**23 340**	21 854	7
Non-interest income (Rm)	**19 474**	20 232	(4)
Impairment losses on loans and advances (Rm)	**(6 005)**	(8 967)	33
Operating expenses (Rm)	**(24 070)**	(20 857)	(15)
Attributable earnings (Rm)	**8 118**	6 840	19
Headline earnings (Rm)	**8 041**	7 621	6
Diluted HEPS (cents)	**1 115,7**	1 072,0	4
Loans and advances to customers (Rm)	**498 635**	506 163	(1)
Deposits due to customers (Rm)	**378 111**	356 365	6
Risk-weighted assets (Rm)	**422 713**	386 264	9
Total capital adequacy ratio (%)	**15,5**	15,6	
Market capitalisation (Rbn)	**100,5**	92,3	9

Key performance indicators

	2010	2009
Revenue growth (%)	**2**	(2)
Return on average equity (%)	**15,1**	15,5
Return on average assets (%)	**1,12**	1,02
Net interest margin on average interest-bearing assets (%)	**4,01**	3,74
Impairment losses ratio (%)	**1,20**	1,74
Cost-to-income ratio (%)	**56,2**	49,6
Effective tax rate (%)	**27,5**	23,8
Dividend cover (times)	**2,5**	2,5
Return on risk-weighted assets (%)	**1,99**	1,97
Return on economic capital (%)	**19,7**	18,2
Tier 1 capital adequacy ratio (%)	**12,8**	12,7
Loans-to-deposits ratio (%)	**91,9**	95,9
Leverage (times)	**13,5**	15,2

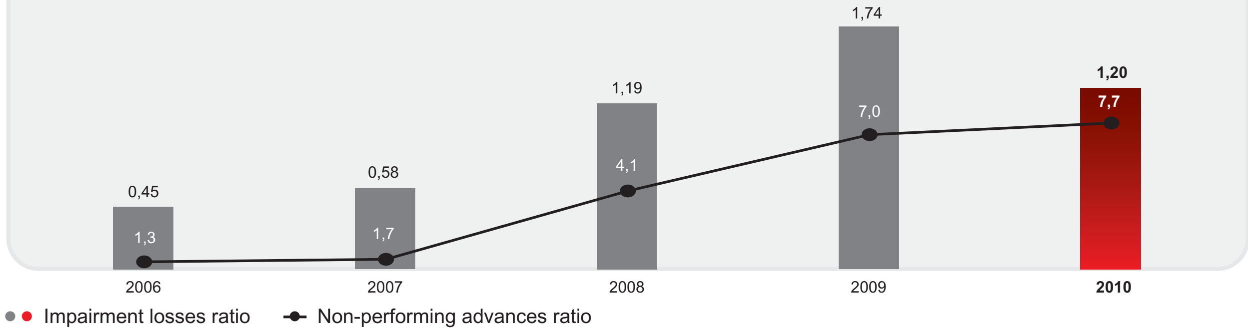
Financial analysis

Impairment losses on loans and advances

After almost quadrupling between 2007 and 2009, Absa's impairment losses on loans and advances improved by 33% to R6 005 million (2009: R8 967 million). Retail Banking, where impairments on loans and advances fell 36% to R4 820 million from R7 547 million, was responsible for most of the reduction. Early cycle delinquencies improved as lower rates helped consumers to recover and the benefits of effective collections management and a sound credit policy became evident. ABB's credit impairments declined by 3% to R1 075 million.

The Group's impairment losses ratio improved more than expected to 1,20% from the 1,74% recorded for 2009 and the 1,50% for the six months ended 30 June 2010. This is well below the peak of 1,86% recorded 18 months ago. Despite far smaller inflows, non-performing loans remain elevated. Non-performing loans as a percentage of average loans and advances were 7,7% for the year ended 31 December 2010, having remained in line with the 7,6% recorded for the six months ended 30 June 2010 and increased from the 7,0% recorded for the year ended 31 December 2009. Absa's loans subject to debt counselling declined to R7,0 billion from R9,6 billion at 30 June 2010, owing to strong collection efforts. The Group's non-performing loan coverage ratio improved from 2009.

Impairment losses and non-performing advances ratios (%)



Non-interest income

Absa's non-interest income declined by 4% to R19 474 million (2009: R20 232 million), largely because of a revaluation loss of R128 million on its Visa stake (2009: R272 million profit) and non-recurrence of gains from selling holdings in MasterCard and NuPay (2009: R271 million). Net fee and commission income grew a modest 1% to R14 391 million (2009: R14 289 million), because of sluggish transaction volumes and the absence of a price increase in Retail Banking. Electronic banking fees and ABB's fee and commission income increased by 9% and 7% respectively. Absa Capital's Markets revenue fell by 7%, which is considered a solid performance in a difficult operating environment with reduced client activity. Revaluations in Private Equity resulted in a R48 million profit (2009: R623 million loss). Income from realisations of R40 million (2009: nil) is also included in non-interest income.

Non-interest income breakdown

	2010 Rm	2009 Rm	Change %
Retail Banking net fee and commission income	**9 925**	9 803	1
Absa Business Bank net fee and commission income	**3 852**	3 598	7
Absa Capital's Markets net trading results	**2 117**	2 340	(10)
Absa Capital's Private Equity revaluations	**48**	(623)	>100
Absa Business Bank's commercial property finance revaluations	**116**	152	(24)
Financial Services	**3 594**	3 372	7
Shareholder funds	**332**	317	5
Insurance income	**3 262**	3 055	7
Other investment income	**(24)**	677	>(100)
Revaluation of investment in Visa Incorporated	**(128)**	272	>(100)
Disposal of investment in MasterCard Incorporated	**—**	217	>(100)
Other	**104**	188	(45)
Other income[1]	**(154)**	913	>(100)
	19 474	20 232	(4)

Note

[1]*Includes inter-segment eliminations.*

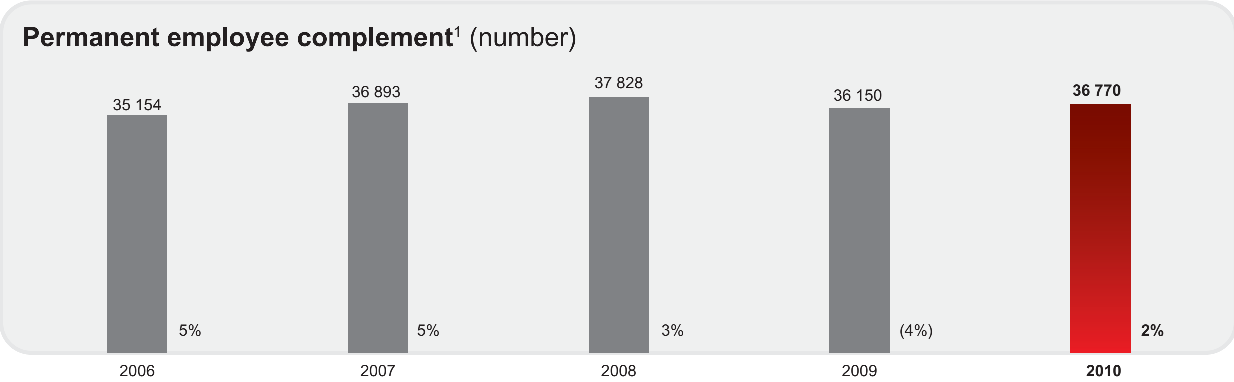
Operating expenses

Absa's operating expenses grew by 15% to R24 070 million (2009: R20 857 million) as the Group continued to invest for future growth. This included a 19% growth in information technology costs from the previous year. Staff costs, the largest component, increased by 16% to R12 537 million (2009: R10 816 million), reflecting wage settlements and higher incentives. The compound annual growth rate in costs over five years was well controlled at 11%. As expected given modest revenue growth, the Group's cost-to-income ratio rose to 56,2% (2009: 49,6%).

Operating expenses breakdown

	2010 Rm	2009 Rm	Change %
Cash transportation	**729**	467	56
Communication costs	**1 092**	1 120	(3)
Depreciation and amortisation of intangible assets	**1 312**	1 245	5
Information technology	**2 085**	1 753	19
Marketing costs	**1 070**	875	22
Operating lease expenses on properties	**978**	910	7
Professional fees	**1 096**	897	22
Staff costs	**12 537**	10 816	16
Other	**3 171**	2 774	14
	24 070	20 857	15

Financial analysis



Employee expenses

	2010 Rm	2009 Rm	Change %
Fixed remuneration	**9 707**	8 872	9
Variable remuneration	**1 101**	644	71
Training and skills spend	**269**	195	38
Other	**1 460**	1 105	32
	12 537	10 816	16

Permanent employees

	2010	2009	Change %
Retail Banking	**19 752**	20 135	(2)
Absa Business Bank	**3 938**	4 033	(2)
Absa Capital	**1 478**	1 426	4
Financial Services	**2 885**	2 569	12
African operations	**2 430**	2 334	4
Head office and other	**6 287**	5 653	11
	36 770	36 150	2

Total IT spend

	2010 Rm	2009 Rm	Change %
Depreciation and amortisation of intangible assets	**833**	777	7
Information technology	**2 085**	1 753	19
Staff costs	**1 013**	835	21
Other	**1 114**	1 054	6
	5 045	4 419	14

Taxation

The Group's taxation increased by 39% to R3 262 million from R2 340 million for 2009, as its effective tax rate increased to 27,5% from 23,8%. The higher rate was mainly owing to a lower proportion of exempt income.

Notes

[1] *The employee complement figures exclude contract workers.*

[2] *The Group employed 6 469 non-permanent employees at 31 December 2010 (2009: 6 646).*

Segmental performance

Retail Banking

Headline earnings increased by 85% to R3 232 million (2009: R1 749 million), largely because of lower impairment losses on loans and advances. Attributable earnings grew by 72% to R3 353 million (2009: R1 945 million). Retail Banking's impairment losses ratio fell to 1,49% from 2,30%, owing to improving early stage delinquencies and a successful collections strategy. Revenue grew by 1%, reflecting limited transaction volume and loan growth, plus funding margin pressure. Operating expenses grew by 9%, resulting in a higher cost-to-income ratio of 57,1% (2009: 53,2%). Headline earnings from Card, Home Loans and Personal Loans improved significantly. However, those from Retail Bank declined by 50% owing to higher impairment losses on loans and advances. Retail Banking's return on regulatory capital improved to 20,7%.

Absa Business Bank

Headline earnings dropped by 11% to R2 848 million (2009: R3 206 million), as loans and advances declined by 1% and commercial property finance equity portfolio values fell. ABB experienced a 3% decrease in impairments on loans and advances. Net interest income rose by 2%, reflecting solid deposit growth, which partially offset lower customer advances and pressure on deposit margins from lower interest rates. Fee income increased by 7%, driven by ABB's enhanced transactional capabilities. Operating expenses grew by 14% to R6 397 million (2009: R5 624 million), as the business continued to invest in growth initiatives. Nonetheless, ABB's return on regulatory capital remained a credible 22,8%.

Absa Capital

Headline earnings increased by 20% to R1 527 million (2009: R1 272 million) and attributable earnings increased to R1 480 million (2009: R288 million). The large growth in attributable earnings is due to single stock futures impairments from the previous year. Private Equity revenue rose significantly in the prior year as a result of an improved performance in the investment portfolio and reduced funding costs. Markets revenue held up relatively well, considering the reduced client flows. With client activity below 2009 levels, investment banking revenue declined by 22%. Absa Wealth's net revenue grew by 12% owing to improved banking and credit margins. Absa Capital continued to expand into Africa and attributable income from the rest of Africa grew by 14% to R219 million. Further investment in systems, infrastructure and talent contributed to the 23% rise in operating expenses and a 54,3% cost-to-income ratio. Absa Capital's return on regulatory capital was 16,0%.

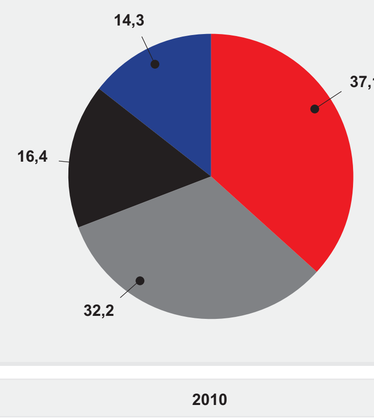
Further reading

Segmental reporting 463

Headline earnings per segment

	2010 Rm	2009[1] Rm	Change %
Retail Banking	3 232	1 749	85
Absa Business Bank	2 848	3 206	(11)
Absa Capital	1 527	1 272	20
Financial Services	1 291	1 300	(1)
Head office, inter-segment eliminations and other	(857)	94	>(100)
Total	8 041	7 621	6

Attributable earnings[2] (%)



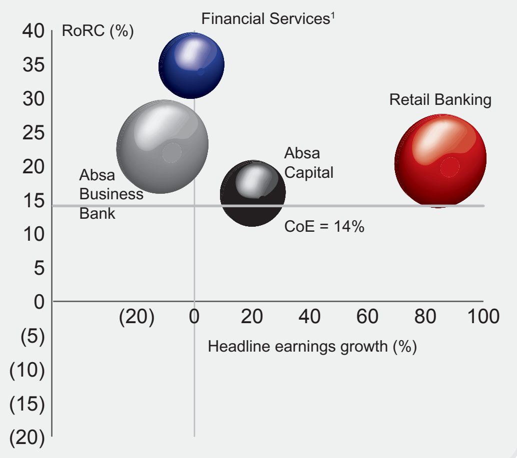
Note

[1] *Comparatives have been reclassified.*

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

Financial analysis

Segmental earnings relative to returns (%)

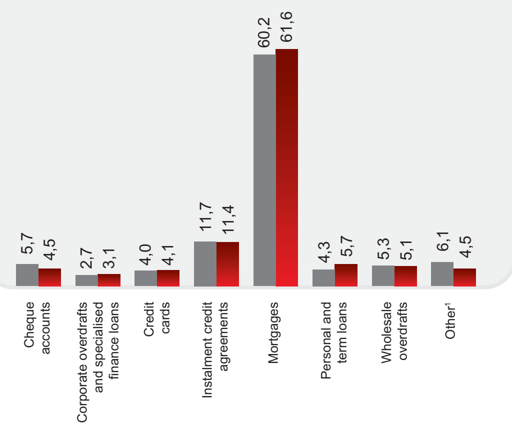


- Retail Banking
- Absa Business Bank
- Absa Capital
- Financial Services

Note

[1] *RoE*

Loans and advances to customers composition (%)



- 2009
- 2010

Note

[1] *Includes the impairment of loans and advances.*

Further reading

Loans-to-deposits ratio 44

Financial Services

Headline earnings declined marginally to R1 291 million (2009: R1 300 million) in a tough operating environment. Financial Services' attributable earnings remained relatively unchanged at R1 290 million (2009: R1 284 million). Nonetheless, it achieved a 34,8% RoE (2009: 37,9%). The life and short-term insurance companies delivered strong premium growth of 25% and 12% respectively. Absa Life's embedded value of new business grew by 58% year-on-year to R465 million and its return on embedded value was 39,8%. Assets under management increased by 12% to R163 billion. Short-term insurance claims remained high relative to historical trends, at 68,5%, although they were slightly below 2009's 69,9%. Investments in distribution channels and technology, as well as spending relating to growth in business volumes and new mandates secured, increased operating costs by 16% year-on-year.

Statement of financial position

The Group's total assets of R716,5 billion as at 31 December 2010 increased by 1% from 31 December 2009, but declined marginally from 30 June 2010. Substantial growth of 42% in Absa's statutory liquid asset portfolio, to strengthen its liquidity, offset lower investment securities and loans and advances to banks.

Loans and advances to customers

Absa's loans and advances to customers declined by 1% from 31 December 2009 to R498,6 billion, but were flat from 30 June 2010. Retail Banking's loans and advances increased by 1%, reflecting lower customer demand and a sustained focus on risk appetite and pricing. Mortgages, which constituted 60% of total gross Group loans and advances, grew by 1% year-on-year as two small books were acquired. However, growth in credit cards and instalment credit agreements improved in the second half of 2010 and personal and term loans grew 31% year-on-year.

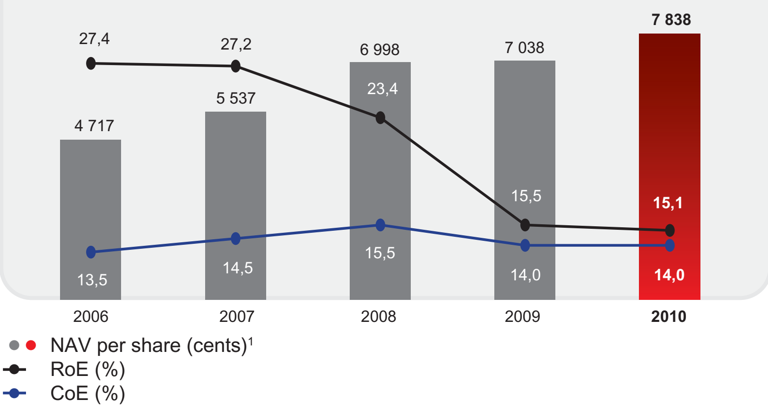
Deposits due to customers

Deposits due to customers increased by 6% to R378,1 billion from 31 December 2009, with solid growth in targeted areas. Retail Banking achieved 4% growth, spread across most of its products, which further entrenched its leading market share in retail deposits. ABB's deposits grew by 7% from 31 December 2009, with cheque accounts performing well. ABB's strategy of lengthening its funding saw it increase fixed deposits by 6%.

Net asset value

Net asset value (NAV) grew by 11% to R56,3 billion during the year. Retained earnings of R4,9 billion was generated from net profits after paying ordinary dividends. Cash flow hedging increased other reserves by 96% to R2,3 billion. Absa's NAV per share rose by 11% year-on-year to 7 838 cents (2009: 7 038 cents) and has grown by 15% compounded over the past five years.

Net asset value, RoE and CoE (cents and %)



Capital, liquidity and funding

Despite a 9% growth in risk-weighted assets caused by recalibrating credit models to reflect the recent downturn, Absa maintained its healthy capital levels. These remain well above regulatory requirements. As at 31 December 2010, Absa Group's Core Tier 1 and Tier 1 capital adequacy ratios were 11,7% (2009: 11,5%) and 12,8% (2009: 12,7%) respectively. The Group's total capital ratio declined slightly to 15,5% (2009: 15,6%). Absa Bank's Tier 1 ratio improved marginally to 11,9% (2009: 11,6%) and its total ratio was 14,8% as at 31 December 2010 (2009: 14,7%).

Absa's overall funding position remained broadly unchanged and its key liquidity risk indicators remained at acceptable levels for business-as-usual market conditions. Internal stress testing sources are sufficient to meet a moderate to high 'name in market' stress funding requirement. Work is constantly conducted to enhance the formulation of Absa's liquidity risk appetite, which will remain a key management tool for decisions relating to liquidity risk management.

The Group continues to manage liquidity prudently in the light of market conditions and in anticipation of ongoing regulatory developments. Key 2010 developments were further extending funding tenor, with the average long-term funding ratio increasing over 2010 and a significant increase in surplus assets held. As at 31 December 2010, Absa held R17 billion in surplus liquid assets, an increase of R13 billion on 2009. Muted loan growth meant that Absa's loans-to-deposits ratio improved to 91,9% from 95,9%.

Further reading

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Nine-year summary

For the year ended 31 December/March

	Five year CAGR[1] %	December 2010 Rm	December 2009[2] Rm	December 2008 Rm
Statement of comprehensive income				
Interest and similar income	13	**54 241**	65 247	76 260
Interest expense and similar charges	(12)	**(30 901)**	(43 393)	(54 154)
Net interest income	15	**23 340**	21 854	22 106
Impairment losses on loans and advances	(47)	**(6 005)**	(8 967)	(5 839)
Net interest income after impairment losses on loans and advances	10	**17 335**	12 887	16 267
Non-interest income	7	**19 474**	20 232	20 821
Operating profit before operating expenditure	8	**36 809**	33 119	37 088
Operating expenses	(11)	**(24 070)**	(20 857)	(21 114)
Other impairments	(10)	**(108)**	(1 457)	(18)
Indirect taxation	4	**(771)**	(913)	(724)
Share of post-tax results of associates and joint ventures	>(100)	**(9)**	(50)	73
Operating profit before income tax	5	**11 851**	9 842	15 305
Taxation expense	(3)	**(3 262)**	(2 340)	(3 988)
Profit for the year	6	**8 589**	7 502	11 317
Non-controlling interest – ordinary shares	(12)	**(151)**	(241)	(194)
Non-controlling interest – preference shares	>(100)	**(320)**	(421)	(457)
Profit attributable to ordinary equity holders of the Group	5	**8 118**	6 840	10 666
Headline earnings adjustments	>(100)	**(77)**	781	(701)
Headline earnings	5	**8 041**	7 621	9 965

	Five year CAGR[1] %	December 2010 Rm	December 2009[2] Rm	December 2008[2] Rm
Consolidated statement of financial position				
Assets				
Loans and advances to customers and banks	10	**523 512**	542 195	577 712
Total assets	12	**716 470**	710 796	773 316
Equity and liabilities				
Capital and reserves attributable to ordinary equity holders of the Group	17	**56 290**	50 547	47 607
Non-controlling interest – ordinary shares	38	**1 215**	1 299	1 042
Non-controlling interest – preference shares	>100	**4 644**	4 644	4 644
Total equity	19	**62 149**	56 490	53 293
Liabilities				
Deposits due to customers and banks	4	**393 517**	392 906	437 820
Total liabilities	12	**654 321**	654 306	720 023
Total equity and liabilities	12	**716 470**	710 796	773 316
Loans-to-deposits ratio (%)		**91,9**	95,9	97,0

Notes

[1]*Compound annual growth rate.*
[2]*Comparatives have been reclassified.*
[3]*For the 12-months ended 31 December 2005.*
[4]*Not disclosed previously.*

December 2007 Rm	December 2006 Rm	December 2005[3] Rm	March 2005 Rm	March 2004 Rm	March 2003 Rm
55 123	37 569	29 377	26 937	28 901	30 299
(36 233)	(22 682)	(17 567)	(16 506)	(19 183)	(21 467)
18 890	14 887	11 810	10 431	9 718	8 832
(2 433)	(1 573)	(875)	(1 284)	(1 900)	(1 957)
16 457	13 314	10 935	9 147	7 818	6 875
16 756	15 019	13 780	12 168	10 753	9 127
33 213	28 333	24 715	21 315	18 571	16 002
(18 442)	(16 089)	(14 598)	(12 785)	(11 679)	(10 731)
(58)	(75)	(68)	(118)	(116)	(103)
(709)	(865)	(949)	(805)	(672)	(695)
73	113	112	59	119	92
14 077	11 417	9 212	7 666	6 223	4 565
(4 052)	(3 151)	(2 875)	(2 172)	(1 627)	(1 104)
10 025	8 266	6 337	5 494	4 596	3 461
(117)	(88)	(85)	(75)	(91)	(70)
(313)	(73)	—	—	—	—
9 595	8 105	6 252	5 419	4 505	3 391
(182)	(233)	30	(25)	(58)	50
9 413	7 872	6 282	5 394	4 447	3 441

December 2007 Rm	December 2006 Rm	December 2005 Rm	March 2005 Rm	March 2004 Rm	March 2003 Rm
509 983	395 624	327 661	271 768	222 395	199 297
641 014	495 112	404 561	347 161	306 848	269 064
37 638	31 693	25 755	23 273	19 350	16 866
341	236	246	232	171	241
4 644	2 992	—	—	—	—
42 623	34 921	26 001	23 505	19 521	17 107
368 545	304 665	329 690	276 354	234 380	222 056
598 349	460 191	378 560	323 656	287 327	251 957
641 014	495 112	404 561	347 161	306 848	269 064
97,6	104,8	[4]	[4]	[4]	[4]

Nine-year summary

For the year ended 31 December/March

	Five-year CAGR[1]	December 2010 Rm	December 2009[2] Rm	December 2008[2] Rm
Financial performance (%)				
Return on average equity[4]		**15,1**	15,5	23,4
Return on average assets[4]		**1,12**	1,02	1,38
Return on risk-weighted assets		**1,99**	1,97	2,62
Operating performance (%)				
Net interest margin on average interest-bearing assets		**4,01**	3,74	3,81
Impairment losses on loans and advances as a % of average loans and advances to customers		**1,20**	1,74	1,19
Non-performing advances as % of loans and advances to customers		**7,7**	7,0	4,1
Non-interest income as a % of total operating income		**45,5**	48,1	48,5
Cost-to-income ratio		**56,2**	49,6	49,2
Effective tax rate, excluding indirect taxation		**27,5**	23,8	26,1
Capital adequacy (%)[5]				
Absa Group		**15,5**	15,6	14,1
Absa Bank		**14,8**	14,7	14,0
Share statistics per ordinary share (cents)				
Basic earnings		**1 133,3**	986,7	1 578,5
Headline earnings		**1 122,6**	1 099,4	1 474,8
Dividends per ordinary share relating to income for the year		**455**	445	595
Dividend cover (times)[6]		**2,5**	2,5	2,5
Net asset value	15	**7 838**	7 038	6 998
Share statistics				
Number of ordinary shares in issue (million):				
» Weighted average		**716,3**	693,2	675,7
» Weighted average diluted		**720,7**	711,5	702,8
» End of the year		**718,2**	718,2	680,3
Dividend yield (%)		**3,2**	3,5	5,5
Earnings yield (%)		**8,1**	8,6	13,6
Price-to-earnings ratio (times)		**12,5**	11,7	7,3
Share price (cents per share):				
» High		**14 295**	13 075	11 999
» Low		**12 000**	7 690	7 900
» Closing		**14 000**	12 850	10 815
Closing price/net asset value per share		**1,79**	1,83	1,55
Volume of shares traded (millions)		**363,3**	545,3	551,4
Value of shares traded (Rm)		**48 266,8**	59 151,4	54 635,7
Market capitalisation (Rm)	8	**100 549,4**	92 290,0	73 572,1
Employee statistics				
Number of total permanent employees	2	**36 770**	36 150	37 828

Notes

[1]*Compound annual growth rate.*
[2]*December 2009 and 2008 comparatives have been restated.*
[3]*For the 12 months ended 31 December 2005.*
[4]*Ratios calculated using headline earnings.*
[5]*Only December 2008, 2009 and 2010 reflects Basel II.*
[6]*Dividend cover is calculated using the headline earnings per share and dividends per share.*
[7]*Not disclosed previously.*

December 2007 Rm	December 2006 Rm	December 2005[3] Rm	March 2005 Rm	March 2004 Rm	March 2003 Rm
27,2	27,4	25,6	25,3	24,6	21,4
1,68	1,74	1,72	1,65	1,55	1,35
2,41	2,50	[7]	[7]	[7]	[7]
3,83	3,72	3,65	3,70	3,87	3,80
0,58	0,45	0,31	0,52	0,90	1,02
1,7	1,3	1,8	2,2	3,8	5,1
47,0	50,2	53,8	53,8	52,5	50,8
51,7	53,8	57,0	56,6	57,1	60,0
28,8	27,6	31,2	28,3	26,1	24,2
13,1	13,1	11,3	12,0	13,0	12,5
12,5	12,3	10,7	11,4	12,3	11,5
1 428,9	1 216,8	950,3	831,0	697,5	520,5
1 401,9	1 181,8	954,8	827,2	688,5	528,1
560	473	295	295	182	145
2,5	2,5	2,5	2,8	3,8	3,8
5 537	4 717	3 862	3 569	2 996	2 589
671,5	666,1	658,0	652,1	645,9	651,5
716,4	703,2	684,0	677,3	651,3	[7]
678,6	672,0	666,9	655,1	651,1	651,5
5,0	3,8	2,9	3,9	3,9	4,9
12,6	9,4	9,5	11,0	14,8	17,7
7,9	10,6	10,6	9,1	6,8	5,6
14 830	12 615	10 320	8 150	4 700	3 651
10 832	9 650	7 125	4 320	3 000	2 500
11 100	12 510	10 100	7 540	4 664	2 940
2,00	2,65	2,62	2,11	1,56	1,14
343,7	332,3	391,6	455,5	459,9	439,9
45 370,6	35 925,7	33 492,4	27 892,2	17 491,1	13 894,4
75 321,6	84 061,6	67 352,4	49 391,2	30 365,2	19 155,5
36 893	35 154	33 543	32 515	31 658	32 356

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 Group Limited and its subsidiaries (the Group) and of the Company at the end of the financial year and the net income and cash flows for the year, and other information contained in this report.

To enable the directors to meet these responsibilities:

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

» The board set 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 Group 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 Group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the Group Audit and Compliance Committee (GACC), appraises, evaluates and, when necessary, recommends improvements 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 Group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

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

The directors have no reason to believe that the Group and the Company will not be going concerns in the year ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on 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 Group and Company is set out on page 337 of this report.

The directors' report on pages 338 to 345 and the financial statements of the Group and the Company, which appear on pages 346 to 508, were approved by the board of directors and are signed by:

G Griffin

Group Chairman

M Ramos

Group Chief Executive (GCE)

Johannesburg
14 February 2011

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

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

Report on the financial statements

We have audited the Group and Company financial statements of Absa Group 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 338 to 495 and pages 498 to 508, and those sections marked as audited in the risk management report, but excludes the sections marked as 'unaudited' in notes 57.2, 57.3 and 57.6.

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 Group 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.
Director – Ernest van Rooyen
Registered Auditor
Chartered Accountant (SA)

Wanderers Office Park, 52 Corlett Drive, Illovo
Johannesburg
14 February 2011

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

2 Eglin Road, Sunninghill

Directors' report

General information and nature of activities

The Group, which has a primary listing on the JSE Limited (JSE), is incorporated and domiciled in South Africa and provides retail, commercial, corporate and investment banking, financial services and wealth management products and services. The Group operates primarily in South Africa and employs over 36 000 people. The address of the Group's registered office is 3rd Floor, Absa Towers East, 170 Main Street, Johannesburg, 2001.

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

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

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

The Group interacts with its customers through a combination of physical and electronic channels, offering a comprehensive range of banking services (from basic products and services for the low-income personal market, to customised solutions for the commercial and corporate markets), financial services 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 Group and the Company for the year ended 31 December 2010.

Group results

Main business and operations

The Group recorded an increase of 6% in headline earnings to R8 041 million for the year ended 31 December 2010 (2009: R7 621 million). Headline earnings per share (HEPS) increased by 2% to 1 122,6 cents per share (2009: 1 099,4 cents per share) and fully diluted HEPS increased by 4% to 1 115,7 cents per share (2009: 1 072,0 cents per share).

Headline earnings were derived from the following activities:

	2010 Rm	2009[1] Rm
Banking operations		
Retail Banking	**3 353**	1 945
Home Loans	**196**	(1 299)
Vehicle and Asset Finance	**280**	265
Card	**1 346**	811
Personal Loans[2]	**515**	20
Retail Bank[2]	**1 016**	2 148
Absa Business Bank	**2 903**	3 235
Absa Capital	**1 480**	288
Underlying performance	**1 518**	1 275
Single stock futures impairment	**(38)**	(987)
Corporate centre	**(396)**	544
Capital and funding centre[3]	**(192)**	(35)
Non-controlling interest – preference shares	**(320)**	(421)
Total banking	**6 828**	5 556
Financial Services	**1 290**	1 284
Profit attributable to ordinary equity holders of the Group	**8 118**	6 840
Headline earnings adjustments (refer to note 43)	**(77)**	781
Headline earnings	**8 041**	7 621

Notes

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

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

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

Directors

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

G Griffin[1, 2] (Group Chairman) (appointed as Group Chairman on 1 October 2010)
D C Brink[1, 2] (former Group Chairman) (resigned as Group Chairman and as a director on 30 September 2010)
M Ramos[3] (Group Chief Executive)
L L von Zeuner[3] (Deputy Group Chief Executive)
D C Arnold[2]
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]
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.*

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

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

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

The directors who retire in terms of the above arrangement at the 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 has not offered herself for re-election. The board recommends the re-election of the other directors.

Directors' report

Directors' interest in Absa Group Limited ordinary shares

The directors' interests in the issued shares of the Company as at the date of the statement of financial position are disclosed in the tables to follow. Non-executive directors are required to hold a minimum shareholding of 1 000 Absa Group Limited ordinary shares as required by a past directors' resolution. These shares have to be paid in full. The share awards held by executive directors are disclosed separately in the Group remuneration report.

	Direct number of shares			
	Beneficial		Non-beneficial	
	2010	2009	**2010**	2009
Present directors				
L L von Zeuner (Deputy Group Chief Executive)[1]	**226 061**	226 061	**—**	—
D C Arnold	**2 000**	2 000	**—**	—
C Beggs[2]	**2 000**	n/a	**—**	n/a
B P Connellan	**1 000**	1 000	**—**	—
Y Z Cuba	**1 000**	1 000	**—**	—
B C M M de Vitry d'Avaucourt[3]	**1 000**	1 000	**—**	—
S A Fakie	**1 000**	1 000	**—**	—
M W Hlahla	**1 000**	1 000	**—**	—
M J Husain	**1 000**	1 000	**—**	—
A P Jenkins[4]	**1 000**	1 000	**—**	—
R Le Blanc[4]	**1 000**	1 000	**—**	—
T M Mokgosi-Mwantembe	**1 000**	1 000	**—**	—
E C Mondlane, Jr[5]	**1 000**	1 000	**—**	—
T S Munday	**1 000**	1 000	**—**	—
S G Pretorius	**1 000**	1 000	**—**	—
Past directors				
J H Schindehütte[1, 6]	**n/a**	338 280	**n/a**	—
	242 061	578 341	**—**	—

	Indirect number of shares			
	Beneficial		Non-beneficial	
	2010	2009	**2010**	2009
Present directors				
G Griffin (Group Chairman)[7]	**8 000**	8 000	**—**	—
T S Munday	**2 000**	2 000	**—**	—
B J Willemse	**1 000**	1 000	**—**	—
Past directors				
D C Brink (former Group Chairman)[8]	**n/a**	25 000	**n/a**	10 000
J H Schindehütte[1, 6]	**n/a**	—	**n/a**	13 600
	11 000	36 000	**—**	23 600

Notes

[1]*Executive director.*
[2]*Appointed as a director on 23 June 2010.*
[3]*French.*
[4]*British.*
[5]*Mozambican.*
[6]*Resigned as a director on 28 February 2010.*
[7]*Appointed as Group Chairman on 1 October 2010.*
[8]*Resigned as a director on 30 September 2010.*

	Total direct and indirect number of shares			
	Beneficial		Non-beneficial	
	2010	2009	**2010**	2009
Present directors				
G Griffin (Group Chairman)[1]	**8 000**	8 000	**—**	—
L L von Zeuner (Deputy Group Chief Executive)[2]	**226 061**	226 061	**—**	—
D C Arnold	**2 000**	2 000	**—**	—
C Beggs[3]	**2 000**	n/a	**—**	n/a
B P Connellan	**1 000**	1 000	**—**	—
Y Z Cuba	**1 000**	1 000	**—**	—
B C M M de Vitry d'Avaucourt[4]	**1 000**	1 000	**—**	—
S A Fakie	**1 000**	1 000	**—**	—
M W Hlahla	**1 000**	1 000	**—**	—
M J Husain	**1 000**	1 000	**—**	—
A Jenkins[5]	**1 000**	1 000	**—**	—
R Le Blanc[5]	**1 000**	1 000	**—**	—
T M Mokgosi-Mwantembe	**1 000**	1 000	**—**	—
E C Mondlane, Jr[6]	**1 000**	1 000	**—**	—
T S Munday	**3 000**	3 000	**—**	—
S G Pretorius	**1 000**	1 000	**—**	—
B J Willemse	**1 000**	1 000	**—**	—
Past directors				
D C Brink (former Group Chairman)[7]	**n/a**	25 000	**n/a**	10 000
J H Schindehütte[2, 8]	**n/a**	338 280	**n/a**	13 600
	253 061	614 341	**—**	23 600

Notes

[1]*Appointed as Group Chairman on 1 October 2010.*
[2]*Executive director.*
[3]*Appointed as a director on 23 June 2010.*
[4]*French.*
[5]*British.*
[6]*Mozambican.*
[7]*Resigned as a director on 30 September 2010.*
[8]*Resigned as a director on 28 February 2010.*

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

As at the reporting date, the following directors held Absa Group Limited ordinary shares indirectly through their direct or indirect holdings of ordinary shares in Batho Bonke Capital (Proprietary) Limited:

	Number of shares	
	2010	2009
Present directors		
Y Z Cuba	**91 600**	91 600
S A Fakie	**40 000**	40 000
M W Hlahla	**50 000**	50 000
M J Husain	**40 000**	40 000
T M Mokgosi-Mwantembe	**40 000**	40 000
	261 600	261 600

Directors' report

Directors' interest in Absa Bank Limited preference shares

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

	Number of shares			
	2010		2009	
	Direct	**Indirect**	Direct	Indirect
Present directors				
G Griffin (Group Chairman)[1]	**—**	**1 680**	—	—
L L von Zeuner (Deputy Group 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 Group Chairman on 1 October 2010.*

[s]*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 Group. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group. The emoluments and services of executive directors are determined by the Group Remuneration and Human 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 48.2 of the consolidated financial statements.

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 48 to the consolidated financial statements.

Acquisitions

The following interests were acquired during the year under review:

Equity-accounted associates and/or joint ventures

During the year, Absa Insurance Risk Management Services Limited (AIRMS) and Absa Insurance Company Limited (AIC) entered into a shareholders' agreement with One Commercial Investment Holdings (Proprietary) Limited (1Com) to create a cell captive insurance structure for 1Com. AIRMS will be entitled to 49% of the profits generated by the 1Com cell captive structure and consequently the results of the 1Com cell captive structure has been equity accounted by AIRMS as an associate.

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

During the year, the Group acquired a 50% stake in Amrichprop 49 Properties (Proprietary) Limited (Amrich). Amrich is jointly controlled by the Group and Equity Estates (Proprietary) Limited. Its main business is to provide property management services to Abseq Properties (Proprietary) Limited, a subsidiary of the Group. 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 Group. 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 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 Group 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 Group and Sanlam Life Insurance Limited (Sanlam) had joint control over SHL. On 1 August 2010, the Group acquired the remaining 50% of the ordinary shares in SHL, which resulted in the Group controlling and consolidating SHL. The agreement was structured as follows:

» the Group acquired the outstanding shareholders' loans from Sanlam for an amount of R593 million;

» the Group 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 Group recognising a R71 million gain on bargain purchase in the profit and loss component of the statement of comprehensive income.

The Group subscribed for additional shares in Barclays Bank Mozambique S.A. (BBM) at a total consideration of R268 million in terms of a rights issue on 7 July 2010. The 12 016 200 additional shares acquired increased the effective interest held from 80% to 95,85% as none of the minority shareholders exercised their rights in terms of the rights issue. The minority shareholders have an option until 18 June 2011 to acquire 2 403 240 shares from the Group at the original subscription price plus interest accrued thereon at a fixed market rate applicable in Mozambique.

Directors' report

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 Group held between 75% and 93% of the units and were thereby exposed to the majority of risk in the Fund. During September 2010 the Group disposed of some of the units available, decreasing its interest to 15%. As the Group 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 Group's results.

» During the year under review, the Group 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 Group 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 Group 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 Group 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 Group 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 the statement of comprehensive income following the finalisation of the fair value of the assets and liabilities acquired.

Refer to notes 12 and 55 for additional information on the above acquisitions and disposals.

Special resolutions

The following special resolution was passed by Absa Group Limited's ordinary shareholders at the 2010 AGM:

» To provide the directors with flexibility to repurchase ordinary shares in terms of section 85 of the Companies Act, No 61 of 1973 (as amended) of South Africa, as and when suitable situations arise.

During the reporting period no ordinary shares were repurchased by the directors in terms of the special resolution.

Secretary

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

7th Floor, Absa Towers West
15 Troye Street
Johannesburg, 2001

Telephone: 011 350 4828

Fax: 011 350 4009

Email: sarita.martin@absa.co.za

Authorised and issued share capital

Authorised

The authorised share capital of the Company of R1 760 935 000 (2009: R1 760 935 000) consists of 880 467 500 (2009: 880 467 500) ordinary shares of R2,00 each.

Issued

There were no shares issued during the current year.

The total issued share capital as at the reporting date, was made up as follows:

- 718 210 043 (2009: 718 210 043) ordinary shares of R2,00 each.

No preference shares are in issue by the Company.

Dividends

- On 16 February 2010, a dividend of 220 cents per ordinary share was announced to ordinary shareholders registered on 12 March 2010.
- On 4 August 2010, a dividend of 225 cents per ordinary share was announced to ordinary shareholders registered on 27 August 2010.
- On 14 February 2011, a dividend of 230 cents per ordinary share has been approved. The dividend will be announced on 15 February 2011 to ordinary shareholders registered on 11 March 2011. This dividend is payable on 14 March 2011.

Auditors

PricewaterhouseCoopers Inc. and Ernst & Young Inc. continued in office as auditors of Absa Group 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 Group 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

	Note	Group 2010 Rm	2009[1] Rm	2008[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**24 361**	20 597	24 828
Statutory liquid asset portfolio	3	**48 215**	33 943	33 043
Loans and advances to banks	4	**24 877**	36 032	44 893
Trading portfolio assets	5	**62 047**	52 302	77 132
Hedging portfolio assets	5	**4 662**	2 558	3 139
Other assets	6	**16 131**	17 777	16 925
Current tax assets	7	**196**	234	23
Non-current assets held for sale		**—**	—	2 495
Loans and advances to customers	8	**498 635**	506 163	532 819
Reinsurance assets	10	**860**	719	903
Investment securities	11	**23 826**	29 564	26 980
Investments in associates and joint ventures	12	**416**	487	2 144
Goodwill and intangible assets	13	**1 794**	1 245	963
Investment properties	14	**2 523**	2 195	661
Property and equipment	15	**7 493**	6 606	6 127
Deferred tax assets	16	**434**	374	241
Total assets		**716 470**	710 796	773 316
Liabilities				
Deposits from banks	17	**15 406**	36 541	54 616
Trading portfolio liabilities	18	**47 454**	44 245	70 990
Hedging portfolio liabilities	18	**1 881**	565	1 080
Other liabilities	19	**11 239**	12 212	12 618
Provisions	20	**1 808**	1 684	2 113
Current tax liabilities	7	**965**	59	385
Non-current liabilities held for sale		**—**	—	408
Deposits due to customers	21	**378 111**	356 365	383 204
Debt securities in issue	22	**164 545**	171 376	165 900
Liabilities under investment contracts	23	**13 964**	12 446	10 377
Policyholder liabilities under insurance contracts	24	**3 001**	3 136	3 076
Borrowed funds	25	**13 649**	13 530	12 296
Deferred tax liabilities	16	**2 298**	2 147	2 960
Total liabilities		**654 321**	654 306	720 023
Equity				
Capital and reserves				
Attributable to ordinary equity holders of the Group:				
Share capital	26	**1 433**	1 432	1 354
Share premium	26	**4 590**	4 784	2 251
Other reserves	27	**2 309**	1 178	3 010
Retained earnings		**47 958**	43 153	40 992
		56 290	50 547	47 607
Non-controlling interest – ordinary shares		**1 215**	1 299	1 042
Non-controlling interest – preference shares	28	**4 644**	4 644	4 644
Total equity		**62 149**	56 490	53 293
Total equity and liabilities		**716 470**	710 796	773 316

Note

[1]*Comparatives have been reclassified, refer to note 1.26.*

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	Group 2010 Rm	Group 2009 Rm
Net interest income		**23 340**	21 854
Interest and similar income	29	**54 241**	65 247
Interest expense and similar charges	30	**(30 901)**	(43 393)
Impairment losses on loans and advances	9.1	**(6 005)**	(8 967)
Net interest income after impairment losses on loans and advances		**17 335**	12 887
Non-interest income		**19 474**	20 232
Net fee and commission income		**14 391**	14 289
Fee and commission income	31	**16 454**	16 301
Fee and commission expense	31	**(2 063)**	(2 012)
Net insurance premium income	32	**4 602**	3 787
Net insurance claims and benefits paid	33	**(2 405)**	(2 215)
Changes in investment and insurance liabilities	34	**(1 059)**	(560)
Gains and losses from banking and trading activities	35	**2 349**	2 575
Gains and losses from investment activities	36	**884**	1 464
Other operating income	37	**712**	892
Operating profit before operating expenditure		**36 809**	33 119
Operating expenditure		**(24 949)**	(23 227)
Operating expenses	38	**(24 070)**	(20 857)
Other impairments	39	**(108)**	(1 457)
Indirect taxation	40	**(771)**	(913)
Share of post-tax results of associates and joint ventures	12.1	**(9)**	(50)
Operating profit before income tax		**11 851**	9 842
Taxation expense	41	**(3 262)**	(2 340)
Profit for the year		**8 589**	7 502
Other comprehensive income			
Exchange differences on translation of foreign operations		**(371)**	(668)
Movement in cash flow hedging reserve		**1 152**	(665)
Fair value gains/(losses) arising during the year		**3 421**	(148)
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)**	259
Movement in available-for-sale reserve		**166**	(326)
Fair value gains/(losses) arising during the year		**146**	(306)
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 and liabilities		**21**	52
Increase in retirement benefit surplus		**27**	104
Decrease/(increase) in retirement benefit deficit		**2**	(33)
Deferred tax	16	**(8)**	(19)
Total comprehensive income for the year		**9 557**	5 895
Profit attributable to:			
Ordinary equity holders of the Group		**8 118**	6 840
Non-controlling interest – ordinary shares		**151**	241
Non-controlling interest – preference shares		**320**	421
		8 589	7 502
Total comprehensive income attributable to:			
Ordinary equity holders of the Group		**9 138**	5 238
Non-controlling interest – ordinary shares		**99**	236
Non-controlling interest – preference shares		**320**	421
		9 557	5 895
Earnings per share:			
Basic earnings per share (cents)	42.1	**1 133,3**	986,7
Diluted earnings per share (cents)	42.2	**1 126,4**	962,2

Consolidated statement of changes in equity

For the year ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	General credit risk reserve Rm
Balance at the beginning of the year	**715 823**	**1 432**	**4 784**	**24**
Total comprehensive income	—	—	—	—
Profit for the year	—	—	—	—
Other comprehensive income	—	—	—	—
Dividends paid	—	—	—	—
Share buy-back in respect of Absa Group Limited Share Incentive Trust	—	—	(234)	—
Elimination of the movement in treasury shares held by Absa Group companies	(25)	(0)	(49)	—
Elimination of the movement in treasury shares held by Absa Group Limited Share Incentive Trust – options exercised by employees	792	1	30	—
Movement in share-based payment reserve	—	0	59	—
Transfer from share-based payment reserve	—	0	59	—
Value of employee services	—	—	—	—
Movement in general credit risk reserve	—	—	—	39
Movement in insurance contingency reserve	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—
Disposal of associates and joint ventures – release of reserves	—	—	—	—
Dilution of non-controlling shareholders' interest	—	—	—	—
Increase in the interest of non-controlling equity holders	—	—	—	—
Disposal of businesses	—	—	—	—
Balance at the end of the year	**716 590**	**1 433**	**4 590**	**63**
Notes	26	26	26	27

Note

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

Group

2010

Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Insurance contin-gency reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Retained earnings Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total Rm
(362)	1 106	(321)	250	298	183	43 153	1 299	4 644	56 490
166	1 152	(319)	—	—	—	8 139	99	320	9 557
—	—	—	—	—	—	8 118	151	320	8 589
166	1 152	(319)	—	—	—	21	(52)	—	968
—	—	—	—	—	—	(3 191)	(142)	(320)	(3 653)
—	—	—	—	—	—	—	—	—	(234)
—	—	—	—	—	—	—	—	—	(49)
—	—	—	—	—	—	—	—	—	31
—	—	—	—	(13)	—	2	—	—	48
—	—	—	—	(61)	—	2	—	—	—
—	—	—	—	48	—	—	—	—	48
—	—	—	—	—	—	(39)	—	—	—
—	—	—	55	—	—	(55)	—	—	—
—	—	—	—	—	(9)	9	—	—	—
—	—	—	—	—	60	(60)	—	—	—
—	—	—	—	—	—	0	(0)	—	—
—	—	—	—	—	—	—	37	—	37
—	—	—	—	—	—	—	(78)	—	(78)
(196)	2 258	(640)	305	285	234	47 958	1 215	4 644	62 149
27	27	27	27	27	27			28	

Consolidated statement of changes in equity

For the year ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	General credit risk reserve Rm
Balance at the beginning of the year	676 972	1 354	2 251	47
Total comprehensive income	—	—	—	—
Profit for the year	—	—	—	—
Other comprehensive income	—	—	—	—
Dividends paid	—	—	—	—
Shares issued	37 932	76	2 495	—
Repurchase of preference shares held by Batho Bonke Capital (Proprietary) Limited	—	—	3	—
Costs incurred	—	—	(0)	—
Elimination of the movement in gains from derivative instruments on own shares	—	—	2	—
Share buy-back in respect of Absa Group Limited Share Incentive Trust	—	—	(86)	—
Elimination of the movement in treasury shares held by Absa Group companies	360	1	37	—
Elimination of the movement in treasury shares held by Absa Group Limited Employee Share Ownership Administrative Trust	—	0	0	—
Options exercised by employees	—	0	0	—
Shares issued to the trust	—	—	(0)	—
Elimination of the movement in treasury shares held by Absa Group Limited Share Incentive Trust	559	1	15	—
Options exercised by employees	n/a	3	55	—
Shares issued to the trust	n/a	(2)	(40)	—
Movement in share-based payment reserve	—	0	67	—
Transfer from share-based payment reserve	—	0	67	—
Value of employee services	—	—	—	—
Movement in general credit risk reserve	—	—	—	(23)
Movement in insurance contingency 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	715 823	1 432	4 784	24
Notes	26	26	26	27

Note

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

Group

2009

Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Insurance contin-gency reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Retained earnings Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total Rm
(36)	1 771	342	225	319	342	40 992	1 042	4 644	53 293
(326)	(665)	(663)	—	—	—	6 892	236	421	5 895
—	—	—	—	—	—	6 840	241	421	7 502
(326)	(665)	(663)	—	—	—	52	(5)	—	(1 607)
—	—	—	—	—	—	(3 800)	(51)	(421)	(4 272)
—	—	—	—	—	—	—	—	—	2 571
—	—	—	—	—	—	(1 089)	—	—	(1 086)
—	—	—	—	—	—	—	—	—	(0)
—	—	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	(86)
—	—	—	—	—	—	—	—	—	38
—	—	—	—	—	—	—	—	—	0
—	—	—	—	—	—	—	—	—	0
—	—	—	—	—	—	—	—	—	(0)
—	—	—	—	—	—	—	—	—	16
—	—	—	—	—	—	—	—	—	58
—	—	—	—	—	—	—	—	—	(42)
—	—	—	—	(21)	—	1	—	—	47
—	—	—	—	(68)	—	1	—	—	—
—	—	—	—	47	—	—	—	—	47
—	—	—	—	—	—	23	—	—	—
—	—	—	25	—	—	(25)	—	—	—
—	—	—	—	—	(50)	50	—	—	—
—	—	—	—	—	(109)	109	—	—	—
—	—	—	—	—	—	—	72	—	72
(362)	1 106	(321)	250	298	183	43 153	1 299	4 644	56 490
27	27	27	27	27	27			28	

Consolidated statement of cash flows

For the year ended 31 December

	Note	Group 2010 Rm	2009[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**70 421**	81 261
Interest, fee and commission expense		**(32 606)**	(46 184)
Insurance premiums and claims		**2 178**	1 611
Net trading and other income		**(3 318)**	673
Cash payments to employees and suppliers		**(22 708)**	(19 756)
Dividends received from banking and trading activities		**71**	74
Income taxes paid		**(2 756)**	(3 662)
Cash flow from operating profit before changes in operating assets and liabilities		**11 282**	14 017
Net (increase)/decrease in trading and hedging portfolio assets		**(4 049)**	9 648
Net decrease in loans and advances to customers		**3 803**	16 276
Net (increase)/decrease in other assets		**(5 850)**	11 656
Net increase in insurance and investment contracts		**1 457**	2 090
Net increase/(decrease) in trading and hedging portfolio liabilities		**3 762**	(10 348)
Net increase/(decrease) in amounts due to customers and banks		**3 480**	(28 556)
Net decrease in other liabilities		**(11 683)**	(9 961)
Net cash generated from operating activities		**2 202**	4 822
Cash flow from investing activities			
Purchase of investment properties	14	**(288)**	(145)
Purchase of property and equipment	15	**(2 351)**	(2 170)
Proceeds from sale of property and equipment		**255**	476
Purchase of intangible assets	13	**(718)**	(427)
Proceeds from sale of intangible assets		**—**	65
Acquisition of businesses, net of cash	55.1 & 55.2	**470**	(166)
Disposal of businesses, net of cash	55.3	**(6)**	—
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**	78
Net decrease/(increase) in loans to associates and joint ventures	12.1	**4**	(4)
Net decrease in investment securities		**4 017**	136
Dividends received from investment activities		**117**	189
Net cash generated/(utilised) from investing activities		**1 500**	(2 029)
Cash flow from financing activities			
Issue of ordinary shares		**31**	2 625
Share buy-back		**(283)**	(1 172)
Proceeds from borrowed funds		**1 000**	4 500
Repayment of borrowed funds		**(1 500)**	(3 100)
Dividends paid		**(3 511)**	(4 272)
Net cash utilised from financing activities		**(4 263)**	(1 419)
Net (decrease)/increase in cash and cash equivalents		**(561)**	1 374
Cash and cash equivalents at the beginning of the year		**6 976**	5 600
Effect of exchange rate movements on cash and cash equivalents		**2**	2
Cash and cash equivalents at the end of the year	53	**6 417**	6 976

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 Group as the Group 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 Group (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)

Accounting policies

For the year ended 31 December

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

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).

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 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 Group. 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 Group's accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated and Company financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.2 Use of estimates, assumptions and judgements

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those current estimates reported. The accounting policies that are deemed critical to the Group'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 Group'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 Group 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 Group 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 Group 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

Accounting policies

For the year ended 31 December

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

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.

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 Group's accounting policy for goodwill is described in note 1.14.1.

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 Group'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 Group's accounting policy for determining the fair value of financial instruments is described in note 59.

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 Group'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 Group'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 Group's best estimate of the price the Group would achieve in a sale transaction of the investment.

1.2.6 Deferred tax assets

The Group's accounting policy for the recognition of deferred tax assets is described in note 1.23.2. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which

Accounting policies

For the year ended 31 December

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

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.

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 Group consolidates certain SPEs, which may or may not be directly or indirectly owned subsidiaries. These SPEs are consolidated when they are controlled by the Group. Judgement is required in assessing and determining if the Group 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 44 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 Group'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 the Group'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 54.

1.2.11 Liabilities arising from claims made under short-term insurance contracts

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

» uncertainty as to whether an event has occurred which would give rise to an insured loss;

» uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring; and

» uncertainty as to the extent of policy coverage and limits applicable.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder.

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence of the uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. The Group makes estimates and assumptions to provide appropriate levels of claims provision and provision for unexpired risks. Estimates and judgements are regularly adjusted as changes in facts and experience are identified. For more details on the liability arising from claims made under insurance contracts, refer to note 24.

1.2.12 Liabilities arising from claims made under life insurance contracts

Insurance risk for any one life insurance contract is the possibility that the insured event occurs. For a portfolio of insurance contracts probability is applied to pricing and provisioning and the principal risk that the Group faces is that the actual exposure to mortality, disability and medical payments in respect of policyholder benefits will exceed prudent expectation of the exposure (i.e. the carrying amount of the insurance liabilities). Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The value of the insurance liability is determined using assumptions regarding future mortality, morbidity, discontinuance rates, policyholders' reasonable benefit expectations, guaranteed benefits and expenses which all equal the best estimate assumptions used in determining the liabilities. These assumptions are based on recent experience investigations. The risk discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from that assumed. For more details on the life insurance contract liability, refer to note 24.

1.3 Consolidation

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

1.3.1 Subsidiaries

Subsidiaries are all entities (including SPEs) over which the Group 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group 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 Group. 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 Group 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 Group 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.

Accounting policies

For the year ended 31 December

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

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 Group'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 Group.

1.3.2 Investments in associates and joint ventures

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

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

Investments in associates and joint ventures that are not deemed to be part of the Group's venture capital activities are held at cost plus equity-accounted earnings less any accumulated impairment. The Group's investment 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 Group's year end, these are adjusted in respect of material adjustments between their reporting date and the Group's reporting date. The Group's share of its post-acquisition profits or losses is recognised in the statement of comprehensive income and the Group's interest in the post-acquisition reserves of associates and joint ventures is treated as distributable reserves in the Group's financial statements. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates and joint ventures. The Group determines at each 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 Group 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.

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

Investments in entities that form part of venture capital activities of the Group have been designated at fair value through profit or 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 Group. These are private equity investments. Private equity is medium- to long-term finance that is provided in return for an equity stake in potentially high-growth unquoted entities. The fair value of these investments is determined in accordance with international private equity and venture capital valuation guidelines.

1.3.3 Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. 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 Group 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 Group 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 Group 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 Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. Control exists when the Group has the power to govern the financial and operating policies of entities so as to obtain benefits from its activities.

SPEs controlled by the Group are established under terms that:

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

1.3.5 Business combinations achieved in stages (step acquisitions)

When the Group 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 Group 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 Group. 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 Group Chief Executive (GCE) who makes strategic decisions.

Accounting policies

For the year ended 31 December

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

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

- Absa 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.
- Financial Services: comprises various insurance products, financial advisory services, drafting and safe custody of wills, comprehensive administration, actuarial and consulting services and a variety of investment products.
- 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 Group Limited, as well as income earned by the London branch, Absa Manx Holdings 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 Group'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 microloans) 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 Group's segments report their profit or loss and their assets and liabilities based on the Group's accounting policies. All transactions between the segments are conducted on an arm's length basis. Internal charges and transfer pricing adjustments are reflected in the performance of each business.

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

1.5.2 Foreign currency translations

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

- The assets and liabilities of foreign subsidiary companies are translated at the closing exchange rates ruling at the 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.
- 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 Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

1.7 Financial instruments

Financial instruments are initially measured at fair value and are subsequently measured on the basis as set out below. Transaction costs of instruments carried at fair value through profit or loss are recognised immediately through the 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 Group enters into contractual arrangements with counterparties to purchase or sell the financial instruments.

The Group is required to group financial instruments into classes that are appropriate to the nature of the information disclosed and take into account the characteristics of those financial instruments. Classes of

Accounting policies

For the year ended 31 December

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

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 Group has a positive intention and ability to hold the investments 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 Group fails to keep these instruments to maturity, other than for specific circumstances defined by the Group, it will be required to reclassify the entire class as available-for-sale. The instruments would then have to be measured at fair value and not amortised cost.

The Group does not have a positive intention to hold to maturity a financial asset with a fixed maturity if:

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

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 Group may only designate financial instruments at fair value through profit or loss when the designation results in more relevant information, as follows:

- It eliminates or significantly reduces valuation or recognition inconsistencies that would arise from measuring financial assets or financial liabilities, or recognising gains or losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by the Group are:
  - financial assets backing insurance and investment contracts, because the related liabilities (i.e. the insurance and investment contracts) have cash flows that are contractually based on the performance of the assets or the related liabilities. Fair valuing the assets through profit or loss significantly reduces the recognition inconsistencies that would arise if the financial assets were classified as available-for-sale; and
  - financial assets, loans to customers, financial liabilities and structured notes, where doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost.
- When groups of financial assets, financial liabilities or combinations thereof are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis. Under this criterion, certain private equity and other investments are the main

class of financial instruments so designated. The Group has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks.

» The Group can also designate 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.

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 linked to investment contracts are included in 'Gain and losses from investment activities'. Changes in the fair value of derivatives used to economically hedge the Group'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 Group's right to receive payment is established.

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

» the length of time and the extent to which fair value has been below cost;

» the severity of the reduced fair value;

» the cause of the reduced fair value and the financial condition and near-term prospects of the issuer;

» activity in the market of the issuer which may indicate adverse credit conditions; and

» the Group's ability and intent to hold the 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

Accounting policies

For the year ended 31 December

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

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.

The Group does not separately measure embedded derivatives contained in insurance contracts that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

1.7.6 Financial liabilities

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. The fair value of a financial liability with a demand feature (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 Group and may include the following loss events:

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

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

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the impairment loss is recognised in the 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 Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of the cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

Accounting policies

For the year ended 31 December

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

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

Identified impairment

Impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows of that instrument being assessed are taken into account, for example, the business prospects for the customer, the fair value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the workout process. Subjective judgements are made in this process by management.

Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in revisions to the impairment allowance as individual decisions are taken case by case.

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 Group sets out to prove that a risk condition has taken place that will result in an impairment of assets (based on historic experience), but the losses will only be identifiable at an individual obligor level at a future date.

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

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

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

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

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

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

1.7.8 Renegotiated loans

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would otherwise not consider. These loans are not considered to be past due after renegotiations but are treated as 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 Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; and
- the Group has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all of the risks and rewards of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

1.7.10 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, 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 Group's financial instruments are carried at fair value through profit or loss such as those held for trading, designated by management under the fair value option and non-cash flow hedging derivatives.

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

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

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

(a) 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.

Accounting policies

For the year ended 31 December

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

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

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

Where the Group borrows securities but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the statement of financial position. The Group'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 Group, 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 Group also uses derivative instruments as part of its asset and liability management activities to hedge exposures to interest rate, foreign currency and credit risks. The Group applies either fair value or cash flow hedge accounting when transactions meet the criteria as set out in IAS 39.

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

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

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

1.7.15 Repurchase and reverse repurchase agreements

Where the Group sells financial instruments and agrees to repurchase these at future dates, the risks and rewards of ownership remain with the Group 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 Group's policy relevant to that category of investments.

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

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

Accounting policies

For the year ended 31 December

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

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

1.7.17 Loan commitments

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

1.7.18 Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given. Other than where the fair value option is applied, subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the 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 Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

1.9.1 Net interest income

Interest income and expense for all interest-bearing financial instruments, except for those 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 Group estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate and includes the following:

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

In calculating effective interest, the Group estimates cash flows using projections based on its experience of customer behaviour considering all contractual terms of the financial instrument but excluding future credit losses. 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 Group'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 Group's investment activities is accounted for as 'Gains and losses from investment activities'.

Net income from financial instruments used to economically hedge the Group'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 the Group's banking activities (other than those used to economically hedge the Group'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'.

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

Fee income is accounted for as follows:

- Fee and commission income that is integral to the effective interest rate on a financial instrument is included in the measurement of the effective interest rate.

Accounting policies

For the year ended 31 December

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

- Income earned on the execution of a significant act is recognised as revenue when the act is completed. Loan syndication fees are recognised as revenue when the syndication has been completed or the syndication is probable and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as other participants. The commission on the allotment of shares to a customer is recognised when the shares have been allotted. Placement fees for arranging a loan between a borrower and an investor are recognised when the loan has been arranged.
- Income earned from the provision of services is recognised as revenue as the services are provided.

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. Gains and losses on derivatives linked to investment contracts are recognised in 'Gains and losses from investment 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 Fee income and expenses from investment contracts

Service fees

Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers.

Certain upfront payments received for asset management services (front-end fees) are deferred as a liability and recognised over the life of the contract.

The Group charges its customers for asset management and other related services using the following approaches:

- Front-end fees are charged to the customer on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis.
- Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period.

Commissions paid

The incremental cost directly related to the acquisition of new investment contracts or renewing existing investment contracts are deferred and amortised over the period during which the investment management services are provided.

1.9.8 Sale of assets under construction

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

1.9.9 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 Deferred revenue liability

A deferred revenue liability (DRL) is recognised in respect of fees paid at the inception of an investment management contract by the policyholder, which are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided over the expected duration of the contract, as a constant percentage of expected gross margins (including investment income) arising from the contract.

The pattern of expected future profit margins is based on historical and expected future experience and is updated at the end of each reporting period. The resulting change to the carrying value of the DRL is recognised in revenue.

Changes in the expected duration of the contract or expected future profit margins are treated as a change in accounting estimate.

1.11 Classification of insurance and investment contracts

The Group issues contracts that transfer insurance risk, financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines significant insurance risk as the possibility of having to pay significant benefits on the occurrence of an insured event compared to those benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

1.11.1 Insurance contracts

Short-term insurance contracts

Revenue recognition and measurement

The Group is involved in short-term underwriting of personal and commercial contracts. For the majority of insurance contracts, premiums are recognised as revenue (earned premiums) proportionally over the risk period. The portion of premiums received on in-force contracts that relate to unexpired risks at the reporting date is reported as the unearned premium liability. The unearned premium liability for the majority of the business is calculated using the 365^{ths} method. This method is appropriate when the risk is spread evenly over the period of insurance. Under this method the unearned premiums liability is calculated by multiplying the total premiums received by the ratio of the number of days for which the contract will still be active after the reporting date to the total number of days for which the contract was initially written. Premiums are shown before deduction of commission. The change in the liability is taken to the profit and loss component of the statement of comprehensive income in order that revenue is recognised over the period of the risk.

Claims and loss adjustment

Claims and loss adjustment expenses are charged to income as incurred, based on the estimated liability for compensation owed to contract holders or third parties affected by the contract holders. They include direct claims settlement costs and arise from events that have occurred up to the reporting date, even if they have been incurred but not reported (IBNR) to the Group. The Group does not discount its liabilities for unpaid claims. Claims and loss adjustment liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses including basic chain ladder and boot strapping actuarial techniques for IBNR.

Accounting policies

For the year ended 31 December

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

Liability adequacy test

At each reporting date, the Group reviews its unexpired risks and undertakes a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums. This is done using the current estimates of future cash flows under its contracts after taking into account the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) exceeds the estimated future cash flows, the deficiency is recognised in the profit and loss component of the statement of comprehensive income by setting up a provision in the statement of financial position.

Life insurance contracts

These contracts insure events associated with human life (i.e. death, disability or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before the deduction of commission. Individual life policies, life annuities and single premiums are accounted for in terms of the policy contract. Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liabilities are valued at each reporting date using the financial soundness valuation (FSV) basis described in PGN 104 issued by the ASSA and the liability is reflected as policyholder liabilities under insurance contracts.

Under the FSV basis, a liability is determined as the sum of the current estimate of the expected discounted value of all the benefit payments and the future administration expenses that are directly related to the contract, less the current estimate of the expected discounted value of the contractual premiums.

The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time of valuing the contract at each reporting date. Margins for adverse deviations are included in the assumptions.

In respect of outstanding claims, provision is made for the costs of intimated and unintimated claims.

Withdrawals from, and deposits in investment contracts are excluded from the profit and loss component of the statement of comprehensive income.

Intimated claims represent claims where the incident giving rise to a claim has occurred and has been reported to the insurer for settlement but has not yet been finalised and paid by the insurer. The liability is measured at the value assessed for the claim. Unintimated claims represent claims incurred but not yet reported or paid. The liability is estimated by assuming that future trends in reporting of claims will be similar to the past. The profile of claims run-off (over time) is modelled by using historic data of the Group and chain-ladder techniques. The profile is then applied to actual claims data of recent periods for which the run-off is believed not to be complete.

Valuation methodology

Assumptions used for valuing policy liabilities are based on best estimates of future experience, guided by recent past experience and increased by margins prescribed by the ASSA for prudence and further discretionary margins to ensure that profits are released appropriately over the term of each policy.

Policyholders' reasonable expectations are allowed for by valuing all guaranteed benefits. Maturity guarantee liabilities have been valued in accordance with the requirements of PGN 110 issued by the ASSA. In terms of this guidance, an internationally recognised market-consistent stochastic model is used to perform a range of asset projections from which the maturity guarantee liability is derived. In terms of PGN 110 the projections allow for at least a certain minimum level of market volatility. The liability is equal to the discounted shortfall (of simulated maturity values against minimum guaranteed values) across all projections for the policies concerned.

Liability adequacy test

Liabilities are calculated in terms of the FSV basis as described in PGN 104. Since the FSV basis meets the minimum requirement of the liability adequacy test, it is not necessary to perform additional adequacy tests on the liability component. For the liability relating to potential future claims which have already been incurred on the reporting date, but of which the Group has not yet been informed, tests are performed to ensure that the liability is sufficient to cover historical run-off profiles and growth in the volume of business.

Deferred policy acquisition costs

Acquisition costs comprise commissions and other variable costs directly connected with the acquisition or renewal of short-term insurance contracts. The deferred acquisition costs represent the portion of acquisition costs incurred and revenue received which corresponds to the unearned premium reserve.

Deferred acquisition costs are amortised in line with expected future premiums. The amortisation is recognised in the profit and loss component of the statement of comprehensive income.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

Changes in the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the profit and loss component of the statement of comprehensive income. Deferred acquisition costs are also considered in the liability adequacy test for each reporting period.

Deferred reinsurance acquisition revenue

Acquisition revenues comprise commission directly connected with the acquisition or renewal of short-term reinsurance contracts. The deferred reinsurance acquisitions revenue represent the portion of reinsurance acquisition revenue incurred which corresponds to the reinsurance unearned premium reserve.

Deferred reinsurance acquisition revenues are earned in line with expected future reinsurance premiums.

Reinsurance contracts held

Reinsurance contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group and which meet the classification requirements for insurance contracts, are classified as reinsurance contracts held.

For contracts which do not meet the requirements to be classified as reinsurance, the total asset is recognised under financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance agreement.

The Group's reinsurance assets are assessed for impairment at each reporting date. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the profit and loss component of the statement of comprehensive income. For historic amounts, the impairment is calculated as the total amount due from reinsurers for which there is a significant probability that the amounts due would not be recoverable, less any offsetting amounts. Liabilities are revalued assuming that no reinsurance is ceded.

Receivables and payables related to insurance and investment contracts

Receivables and payables are only recognised when they meet the definitions and recognition criteria of financial assets and/or liabilities. These include amounts due to and from intermediaries and insurance contract holders.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The Group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

The Group does not allow for salvage recoveries or subrogation reimbursements in the measurement of insurance liabilities for claims. Salvage and subrogation reimbursements are recognised when the money is due.

Accounting policies

For the year ended 31 December

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

Philosophy on release of profits on the valuation basis

PGN 104 allows for additional margins if the statutory actuary believes that the compulsory margins are insufficient for prudent reserving and/or to defer the release of profits in line with policy design.

It is the Group's policy that profit margins contained in the premium basis should only be released and added to profits once premiums have been received and the risk cover has been provided.

The following additional (discretionary) margins are incorporated in the liability calculations:

» Minimum liability equal to the surrender value of a policy and elimination of all negative liabilities to ensure that solvency is maintained if policy cancellations increase. It is not the philosophy of the Group to recognise an asset by (prematurely) recognising the expected future profits of a policy.

» Additional margin on mortality, disability and dreaded disease (equal to compulsory margins for most product lines) to take account of the size of the book, uncertainty surrounding future mortality trends (especially the Aids pandemic), lack of catastrophe reinsurance, and the fact that certain classes of business are not underwritten.

» Reduced lapse assumptions on certain product lines due to the fact that lapses are inherently volatile and as it is not deemed prudent to take credit in advance for future lapses that might not arise.

» No recognition of future investment charges on linked business as the Group's profit recognition policy determines that asset-based fees are more appropriately accounted for as and when they are invoiced.

» A percentage of premiums for certain regular premium business is not taken into account when liabilities are valued. The effect is to increase liabilities. This allows for uncertainty as to whether the premiums will actually be received and is in line with the profit recognition policy whereby profit is not recognised in advance.

1.11.2 Investment contracts

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and are valued at fair value. Acquisition costs directly attributable to investment management contracts are capitalised to a deferred acquisition cost asset and amortised to the profit and loss component of the statement of comprehensive income over the term of the contract.

The Group issues investment contracts with fixed and guaranteed terms. Investment contracts with fixed and guaranteed terms are financial liabilities of which the fair value is dependent on the fair value of the financial assets backing the liabilities. These contracts and the corresponding policyholder liabilities are designated to be held at fair value though profit or loss at inception. Subsequent changes to fair value are taken to the profit and loss component of the statement of comprehensive income.

Valuation techniques are used to establish the fair value at inception and at each reporting date. The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked investment contract is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the reporting date. The fair value of fixed interest rate products is determined by discounting the maturity value at market rates of interest.

If the investment contract is subject to a put or surrender option held by the customer, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

1.12 Cell arrangements

There are currently two distinct types of cell captive arrangements being:

» 'First party' where the risks that are being insured relate to the cell owner's operations and that of their subsidiaries. Claims within these cells are limited to the funds available in the cell after providing for solvency.

» 'Third party' where the cell owner has the ability to sell branded insurance products into its own customer base. Claims instituted within third party cells are not limited to the funds provided by the cell owner after providing for solvency.

In respect of third party cells, where insurance contracts are issued to third parties directly in the name of the Group, the cell captive is considered to be the reinsurer, as there is insurance risk transfer. The policyholder liabilities and reinsurance assets in respect of these insurance contracts are recognised in the statement of financial position of the Group, in terms of the reinsurance arrangement with the cell captive. Excess assets over policyholder liabilities in the cell captive belong to the cell owner and are not recognised by the Group.

The financial position and performance of first party cells are not included in the financial statements of the Group as no transfer of risks and rewards of assets and liabilities takes place according to the cell agreements.

Each first party cell owner is responsible for the solvency of each cell and the Group therefore does not carry any risk. However, for third party cells, should the cell owner not be able to meet the obligations within the cell, the Group would be required to meet obligations of the cell. The Group therefore carries a credit risk against each cell owner. This risk is limited through the selection process of reputable cell owners.

Monthly financial accounts are prepared and regular actuarial valuations are performed for each cell captive to monitor the financial soundness of the cell.

1.13 Commodities

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

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

1.14 Intangible assets

1.14.1 Goodwill

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the 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 Group'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 Group's business into as many largely independent income streams as is reasonably practical. The goodwill is then allocated to these independent operating units. The first step of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second step reflects the allocation of the net assets acquired to the operating units and the difference between the consideration paid for those net assets and their fair value. The carrying value of the operating unit, including the allocated goodwill, is compared with the higher of its fair value less cost to sell and its value-in-use to determine whether any impairment exists. Detailed calculations may need to be carried out taking into consideration changes in the market in which a business operates (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 Group'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.

Accounting policies

For the year ended 31 December

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

1.14.2 Computer software, customer lists and other intangible assets

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

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

	Customer lists	Development costs	Other
Useful lives	Finite	Finite	Finite
Amortisation method used	Amortised over the period of the expected future cash flows on a basis that 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 bas is 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

1.15 Property and equipment

1.15.1 Property and equipment not subject to lease agreements

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

Accounting policies

For the year ended 31 December

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

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.

1.15.2 Property and equipment subject to lease agreements

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

Finance leases

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

Operating leases

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Assets leased under operating leases are not recognised on the Group'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.

1.15.3 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 Group'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 Group and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and, when appropriate, counter-notices have been served validly and within the appropriate time.

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

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

1.16 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 Group. The corresponding loans are derecognised when the Group 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'.

1.17 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.

1.18 Non-current assets held for sale

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

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the 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.

1.19 Impairment of property, equipment and intangible assets

At each reporting date, or more frequently where events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount, property, equipment and intangible assets are assessed for impairment. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount, which is the higher of the asset's or the 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.

Accounting policies

For the year ended 31 December

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

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 Group 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.

1.20 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.

1.21 Provisions, contingent liabilities and commitments

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

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

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

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

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

1.22 Employee benefits

1.22.1 Post-retirement benefits

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

Defined contribution structures

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

Contributions to any defined contribution plan are expensed as incurred.

Defined benefit structures

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

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and any unrecognised past-service cost and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high-quality 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 Group, the recognised asset is limited to the net total of any unrecognised past-service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

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

The Group 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 Group'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 Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.22.2 Share-based compensation

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

Employee services settled in equity instruments

The fair value of the employee services received in exchange for the grant of 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

Accounting policies

For the year ended 31 December

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

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 option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

1.23 Taxation

The taxation charge comprises current and deferred tax. Income taxation 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.

1.23.1 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 Group operates, includes estimates based on a judgement of the application of law and practice in certain cases to determine the quantification of any liability arising. In arriving at such estimates, management assesses the relative merits and risks of the tax treatment for similar classes of transactions, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

1.23.2 Deferred 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 Group and it is probable that the difference will not reverse in the foreseeable future.

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

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

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.

1.23.3 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 Group at the same time as the liability to pay the related dividends is recognised. STC credits that arise from dividends received and receivable that exceed dividends paid are accounted for as a deferred tax asset. STC is included in the 'Taxation expense' line in the profit and loss component of the statement of comprehensive income.

1.23.4 Value added tax (VAT)

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

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

1.24 Treasury shares

Where the Company or other members of the consolidated group purchase 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.

Accounting policies

For the year ended 31 December

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

The Group 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.

1.25 Assets under management and administration

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

1.26 Reclassifications

Some items within the statement of comprehensive income and 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 Group has reassessed its counterparty risk for certain scrip lending and other trading activities. This was done due to a change in interpretation of customer agreements as well as a reconsideration of the risk inherent in some of its trading portfolios. This resulted in the Group revisiting the principles of netting down or grossing up some transactions to be in line with the risks inherent to the transactions. It was concluded that the reclassification would better reflect the risk that the Group 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:

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

	31 December 2009 As previously reported Rm	Reclassifi-cations Rm	Reclassified Rm
Assets			
Cash, cash balances and balances with central banks	20 597	—	20 597
Statutory liquid asset portfolio	33 943	—	33 943
Loans and advances to banks	36 032	—	36 032
Trading portfolio assets	61 779	(9 477)	52 302
Hedging portfolio assets	2 558	—	2 558
Other assets	17 777	—	17 777
Current tax assets	234	—	234
Loans and advances to customers	503 630	2 533	506 163
Reinsurance assets	719	—	719
Investment securities	29 564	—	29 564
Investments in associates and joint ventures	487	—	487
Goodwill and intangible assets	1 245	—	1 245
Investment properties	2 195	—	2 195
Property and equipment	6 606	—	6 606
Deferred tax assets	374	—	374
Total assets	717 740	(6 944)	710 796
Liabilities			
Deposits from banks	39 616	(3 075)	36 541
Trading portfolio liabilities	53 722	(9 477)	44 245
Hedging portfolio liabilities	565	—	565
Other liabilities	12 212	—	12 212
Provisions	1 684	—	1 684
Current tax liabilities	59	—	59
Deposits due to customers	350 757	5 608	356 365
Debt securities in issue	171 376	—	171 376
Liabilities under investment contracts	12 446	—	12 446
Policyholder liabilities under insurance contracts	3 136	—	3 136
Borrowed funds	13 530	—	13 530
Deferred tax liabilities	2 147	—	2 147
Total liabilities	661 250	(6 944)	654 306
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Group:			
Share capital	1 432	—	1 432
Share premium	4 784	—	4 784
Other reserves	1 178	—	1 178
Retained earnings	43 153	—	43 153
	50 547	—	50 547
Non-controlling interest – ordinary shares	1 299	—	1 299
Non-controlling interest – preference shares	4 644	—	4 644
Total equity	56 490	—	56 490
Total equity and liabilities	717 740	(6 944)	710 796

Accounting policies

For the year ended 31 December

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

	31 December 2008 As previously reported Rm	Reclassi-fications Rm	Reclassified Rm
Assets			
Cash, cash balances and balances with central banks	24 828	—	24 828
Statutory liquid asset portfolio	33 043	—	33 043
Loans and advances to banks	44 662	231	44 893
Trading portfolio assets	78 879	(1 747)	77 132
Hedging portfolio assets	3 139	—	3 139
Other assets	16 925	—	16 925
Current tax assets	23	—	23
Non-current assets held for sale	2 495	—	2 495
Loans and advances to customers	532 144	675	532 819
Reinsurance assets	903	—	903
Investment securities	26 980	—	26 980
Investments in associates and joint ventures	2 144	—	2 144
Goodwill and intangible assets	963	—	963
Investment properties	661	—	661
Property and equipment	6 127	—	6 127
Deferred tax assets	241	—	241
Total assets	774 157	(841)	773 316
Liabilities			
Deposits from banks	54 633	(17)	54 616
Trading portfolio liabilities	72 737	(1 747)	70 990
Hedging portfolio liabilities	1 080	—	1 080
Other liabilities	12 618	—	12 618
Provisions	2 113	—	2 113
Current tax liabilities	385	—	385
Non-current liabilities held for sale	408	—	408
Deposits due to customers	382 281	923	383 204
Debt securities in issue	165 900	—	165 900
Liabilities under investment contracts	10 377	—	10 377
Policyholder liabilities under insurance contracts	3 076	—	3 076
Borrowed funds	12 296	—	12 296
Deferred tax liabilities	2 960	—	2 960
Total liabilities	720 864	(841)	720 023
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Group:			
Share capital	1 354	—	1 354
Share premium	2 251	—	2 251
Other reserves	3 010	—	3 010
Retained earnings	40 992	—	40 992
	47 607	—	47 607
Non-controlling interest – ordinary shares	1 042	—	1 042
Non-controlling interest – preference shares	4 644	—	4 644
Total equity	53 293	—	53 293
Total equity and liabilities	774 157	(841)	773 316

1.27 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations issued are not yet effective for the year ended 31 December 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 Group as the Group 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 Group's 2011 financial year-end, are not expected to have a material impact on the consolidated financial statements of the Group.

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 Group's 2011 financial year-end, are not expected to have a material impact on the consolidated financial statements of the Group.

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 Group is currently in the process of assessing IFRS 9's full impact and initial indications are that it is likely to affect the Group's accounting for certain types of financial assets. In terms of IFRS 9, the Group'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 a 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 Group'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 Group's 2011 financial year-end, are not expected to have any impact on the Group'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 Group's 2012 financial year-end is not expected to have any impact on the Group's consolidated financial statements.

Accounting policies

For the year ended 31 December

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

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 Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the Group will need to disclose any transactions between its subsidiaries and its associates. The Group 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 Group'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 Group's 2011 financial year-end, are not expected to have any impact on the 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.

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 Group's 2011 financial year-end is not expected to have any impact on the 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 Group's 2011 financial year-end, are not expected to have any impact on the consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December

	Group 2010 Rm	Group 2009 Rm
2. Cash, cash balances and balances with central banks		
Balances with other central banks	**859**	827
Balances with the South African Reserve Bank (SARB)	**12 912**	10 983
Coins and bank notes	**4 939**	5 175
Money market assets	**5 651**	3 612
	24 361	20 597
Portfolio analysis		
Available-for-sale financial assets		
Money market assets	**458**	653
Financial assets designated at fair value through profit or loss		
Money market assets	**3 013**	2 271
Held-to-maturity financial assets		
Money market assets	**556**	688
Loans and receivables	**20 334**	16 985
Balances with other central banks	**859**	827
Balances with the SARB	**12 912**	10 983
Coins and bank notes	**4 939**	5 175
Money market assets	**1 624**	—
	24 361	20 597

Included above are liquid assets which have original maturities of more than three months which are readily convertible to cash. Included above are market assets of R671 million (2009: R491 million) which are linked to investment contracts (refer to note 23.2).

	Group 2010 Rm	Group 2009 Rm
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 46)	**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-instruments 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 (refer to note 46). The related liability for the pledged assets, which is disclosed in 'Deposits from banks', bears interest at the SARB repurchase rate.

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For the year ended 31 December

	Group 2010 Rm	2009 Rm	2008 Rm
4. Loans and advances to banks			
Other loans and advances to banks	**19 305**	27 100	27 646
Reverse repurchase agreements (refer to note 46)	**5 572**	8 932	17 247
	24 877	36 032	44 893
Portfolio analysis			
Financial assets designated at fair value through profit or loss	**7 047**	2 403	7 169
Other loans and advances to banks	**1 475**	629	—
Reverse repurchase agreements	**5 572**	1 774	7 169
Loans and receivables	**17 830**	33 629	37 724
	24 877	36 032	44 893

Comparatives have been reclassified, refer to note 1.26.

Loans with variable rates are R17 931 million (2009: R26 700 million; 2008: R24 479 million) and fixed rates are R6 946 million (2009: R9 332 million; 2008: R20 414 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 46. 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.

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 46).

	Group 2010 Rm	2009 Rm	2008 Rm
5. Trading and hedging portfolio assets			
Commodities	**654**	631	517
Debt instruments	**11 694**	10 715	5 178
Derivative assets (refer to note 58.3)	**43 404**	31 836	65 407
Commodity derivatives	**301**	2 901	4 722
Credit derivatives	**118**	282	343
Equity derivatives	**875**	2 164	2 322
Foreign exchange derivatives	**12 932**	8 734	31 479
Interest rate derivatives	**29 178**	17 755	26 541
Equity instruments	**4 393**	5 283	4 566
Money market assets	**1 902**	3 837	1 464
Total trading portfolio assets	**62 047**	52 302	77 132
Hedging portfolio assets (refer to note 58.3)	**4 662**	2 558	3 139
	66 709	54 860	80 271
Portfolio analysis			
Derivatives designated as cash flow hedging instruments	**3 813**	1 946	2 530
Derivatives designated as fair value hedging instruments	**849**	612	609
Financial assets held for trading	**61 393**	51 671	76 615
Debt instruments	**11 694**	10 715	5 178
Derivative assets	**43 404**	31 836	65 407
Equity instruments	**4 393**	5 283	4 566
Money market assets	**1 902**	3 837	1 464
Non-financial instruments	**654**	631	517
	66 709	54 860	80 271

Comparatives have been reclassified, refer to note 1.26.

5. Trading and hedging portfolio assets *(continued)*

Included above are financial instruments related to the Group's interest rate economic hedging programme with a notional value of R5 734 million (2009: R8 225 million; 2008: R1 891 million) and a fair value of R639 million (2009: R282 million; 2008: R142 million).

Trading portfolio assets with a carrying value of R8 249 million (2009: R10 297 million; 2008: R5 178 million) have been pledged as security for repurchase agreements (refer to note 46). In addition, trading portfolio assets with a carrying value of R742 million (2009: R418 million; 2008 Rnil) have been pledged as security for deposits. These assets are pledged for the duration of the respective agreements.

Included within debt instrument 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.

	Group	
	2010 Rm	2009 Rm
6. Other assets		
Accounts receivable and prepayments	**5 223**	6 240
Collateral	**4 171**	7 931
Deferred costs	**150**	116
Deferred acquisition costs (refer to note 6.1)	**88**	83
Other deferred costs	**62**	33
Inventories	**1 255**	1 207
Cost	**1 344**	1 271
Write-down	**(89)**	(64)
Retirement benefit fund surplus (refer to note 44)	**705**	616
Settlement accounts	**4 627**	1 667
	16 131	17 777
Portfolio analysis		
Loans and receivables	**13 490**	15 620
Accounts receivable	**4 692**	6 022
Collateral	**4 171**	7 931
Settlement accounts	**4 627**	1 667
Financial assets designated at fair value through profit or loss	**16**	—
Non-financial assets	**2 625**	2 157
	16 131	17 777
6.1 Deferred acquisition costs (refer to note 6)		
Balance at the beginning of the year	**83**	92
Additions	**510**	304
Amortisation charge	**(505)**	(313)
Balance at the end of the year	**88**	83
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**196**	234
Current tax liabilities		
Amount due to revenue authorities	**965**	59

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For the year ended 31 December

	Group 2010 Rm	2009 Rm	2008 Rm
8. Loans and advances to customers			
Cheque accounts	**22 518**	28 956	28 388
Corporate overdrafts and specialised finance loans	**15 442**	13 484	10 306
Credit cards	**20 663**	20 202	19 662
Foreign currency loans	**6 609**	7 870	13 352
Instalment credit agreements (refer to note 8.1)	**56 967**	59 396	68 141
Gross advances	**67 517**	69 849	84 722
Unearned finance charges	**(10 550)**	(10 453)	(16 581)
Reverse repurchase agreements (refer to note 46)	**3 063**	1 988	7 072
Loans to associates and joint ventures	**6 825**	7 878	9 167
Microloans	**2 069**	2 936	4 034
Mortgages	**307 054**	304 724	303 369
Other advances[1]	**2 948**	3 322	4 542
Overnight finance	**7 331**	12 340	11 821
Personal and term loans	**28 283**	21 645	20 780
Preference shares	**7 372**	7 967	9 380
Wholesale overdrafts	**25 393**	26 613	31 663
	512 537	519 321	541 677
Impairment losses on loans and advances (refer to note 9)	**(13 902)**	(13 158)	(8 858)
	498 635	506 163	532 819
Portfolio analysis			
Financial assets designated at fair value through profit or loss	**9 990**	9 374	8 862
Corporate overdrafts and specialised finance loans	**593**	711	915
Foreign currency loans	**703**	884	—
Reverse repurchase agreements	**3 063**	1 988	1 544
Loans to associates and joint ventures	**—**	—	1 017
Mortgages	**1 161**	1 388	1 673
Other advances	**—**	—	55
Preference shares	**1 245**	—	—
Wholesale overdrafts	**3 225**	4 403	3 658
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	**501 800**	509 301	532 250
	512 537	519 321	541 677

Comparatives have been reclassified, refer to note 1.26.

Included above are securitised assets of R5 140 million (2009: R4 313 million; 2008: R6 248 million). Refer to note 47 for further details.

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 46. 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.*

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

8.1 Instalment credit agreements

Maturity analysis

	Group		
	2010		
	Gross investment in finance leases Rm	**Unearned finance charges Rm**	**Net investment in finance leases Rm**
Less than one year	**22 779**	**(3 398)**	**19 381**
Between one and five years	**43 420**	**(6 931)**	**36 489**
More than five years	**1 318**	**(221)**	**1 097**
	67 517	**(10 550)**	**56 967**

	2009		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	21 387	(3 094)	18 293
Between one and five years	47 000	(7 111)	39 889
More than five years	1 462	(248)	1 214
	69 849	(10 453)	59 396

	2008		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	25 954	(4 963)	20 991
Between one and five years	57 014	(11 232)	45 782
More than five years	1 754	(386)	1 368
	84 722	(16 581)	68 141

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

A significant portion of leases is 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 726 million; 2008: R5 898 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 743 million; 2008: R1 021 million).

Notes to the consolidated financial statements

For the year ended 31 December

	Group 2010 Rm	Group 2009 Rm
9. Impairment losses on loans and advances		
Balance at the beginning of the year	**13 158**	8 858
Amounts written off during the year	**(5 219)**	(4 635)
Exchange differences	**(2)**	(3)
Interest on impaired assets (refer to note 29)	**(764)**	(945)
	7 173	3 275
Impairments raised during the year (refer to note 9.1)	**6 729**	9 883
Balance at the end of the year (refer to note 8)	**13 902**	13 158
Comprising:		
Identified impairments	**12 949**	11 999
Unidentified impairments	**953**	1 159
	13 902	13 158
9.1 Statement of comprehensive income charge for impairment losses on loans and advances		
Impairments raised during the year	**6 729**	9 883
Identified impairments	**6 919**	10 151
Unidentified impairments	**(190)**	(268)
Recoveries of loans and advances previously written off	**(724)**	(916)
	6 005	8 967
10. Reinsurance assets		
Insurance contracts (refer to note 24)	**386**	474
Life insurance contracts	**58**	41
Short-term insurance contracts	**328**	433
Investment contracts (refer to note 23.2)	**474**	245
	860	719

Included in 'Other assets' (refer to note 6) is R52 million (2009: R51 million) relating to amounts receivable from reinsurers for claims made against them.

	Group 2010 Rm	Group 2009 Rm
11. Investment securities		
Debt instruments	**8 045**	11 297
Investments linked to investment contracts (refer to note 23.2)	**7 847**	8 993
Debt instruments	**—**	2
Derivative instruments (refer to note 58.3)	**215**	410
Listed equity instruments	**7 171**	7 842
Unlisted equity and hybrid instruments	**461**	739
Listed equity instruments	**1 802**	2 492
Unlisted equity and hybrid instruments	**6 132**	6 782
	23 826	29 564

Included in 'Unlisted equity and hybrid instruments' is an investment of R66 million (2009: R73 million) in a United States dollar (USD) unit trust which has been designated as a hedge of expected future purchases from foreign suppliers for which the Group has firm commitments. The unit trust investment is being used to hedge the foreign currency risk of the firm commitments. The cash flow hedge of the expected future sales was assessed to be highly effective at the reporting date.

	Group 2010 Rm	Group 2009 Rm
11. Investment securities *(continued)*		
Market value and directors' valuation		
Directors' valuation of unlisted equity and hybrid instruments	**6 593**	7 521
Market value of debt instruments	**8 045**	11 299
Market value of derivative instruments	**215**	410
Market value of listed equity instruments	**8 973**	10 334
	23 826	29 564
Portfolio analysis		
Available-for-sale financial assets (refer to note 11.1)	**1 492**	1 995
Debt instruments	**1 292**	1 762
Listed equity instruments	**51**	73
Unlisted equity and hybrid instruments	**149**	160
Financial assets designated at fair value through profit or loss	**21 731**	26 751
Debt instruments	**6 365**	9 127
Investments linked to investment contracts	**7 632**	8 583
Listed equity instruments	**1 751**	2 419
Unlisted equity and hybrid instruments	**5 983**	6 622
Held for trading financial assets		
Derivative instruments linked to investment contracts	**215**	410
Held-to-maturity financial assets		
Debt instruments	**388**	408
	23 826	29 564
11.1 Available-for-sale financial assets		
Carrying value at the beginning of the year	**1 995**	2 476
Cost plus fair value movements	**2 107**	2 552
Impairments[1]	**(112)**	(76)
Movement in investment securities	**(478)**	(445)
Net disposals	**(463)**	(432)
Fair value movements	**(15)**	(13)
Movement in impairments (refer to note 39)	**(25)**	(36)
Carrying value at the end of the year	**1 492**	1 995
Cost plus fair value movements	**1 629**	2 107
Impairments[1]	**(137)**	(112)

Note

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

Notes to the consolidated financial statements

For the year ended 31 December

	Group 2010 Rm	Group 2009 Rm
12. Investments in associates and joint ventures		
Listed investments	**41**	100
Unlisted investments	**375**	387
	416	487
12.1 Movement in carrying value		
Balance at the beginning of the year	**487**	2 144
Share of current year's post-tax results	**(9)**	(50)
Share of current year's results before taxation	**52**	(7)
Taxation on current year's results	**(16)**	2
Dividends received	**(45)**	(45)
Net movement resulting from acquisitions, disposals and transfers (refer to note 12.4)	**(32)**	(291)
(Decrease)/increase in loans	**(4)**	4
Impairment charge (refer to note 39)	**(29)**	(1 328)
Movement in amount recognised in other liabilities for the Group's share of losses	**3**	8
Balance at the end of the year	**416**	487
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**	133
Share of post-acquisition reserves	**250**	240
Share of non-distributable reserves	**250**	201
Amount recognised in other liabilities for the Group's share of losses	**—**	39
Loans and receivables	**11**	14
	375	387

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

	Group 2010 Rm	Group 2009 Rm
12.3 Market value and directors' valuation		
Directors' valuation of unlisted investments[1]	**375**	387
Market value of listed investments	**55**	188
	430	575

Note

[1] *The directors' valuation of unlisted investments is measured at fair value.*

12. Investments in associates and joint ventures *(continued)*

12.4 Net movement resulting from acquisitions, disposals and transfers

	Group			
	2010		2009	
	Effective holding (%)	Movement Rm	Effective holding (%)	Movement Rm
Acquired during the current year, at cost:				
One Commercial Investment Holdings (Proprietary) Limited	**49,0**	**0**	—	—
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	—
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)
Banco Commercial Angolano	**—**	**—**	—	(63)
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)		(291)

12.5 Details of transfers and purchase consideration on net assets acquired

	Group	
	2010 Rm	2009 Rm
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

	Group	
	2010 Rm	2009 Rm
Cash consideration	**(95)**	(78)
Consideration in shares	**—**	(660)
Total consideration	**(95)**	(738)
Loss on disposal	**(0)**	(43)
Transfer to investment securities	**(32)**	—
	(127)	(781)

Refer to note 48 for the full disclosure of the Group's investments in associates and joint ventures.

Notes to the consolidated financial statements

For the year ended 31 December

13. Goodwill and intangible assets

	Group					
	2010			2009		
	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
Computer software development costs	**1 738**	**(616)**	**1 122**	1 051	(508)	543
Customer lists	**191**	**(96)**	**95**	190	(66)	124
Goodwill	**693**	**(122)**	**571**	693	(122)	571
Other	**10**	**(4)**	**6**	8	(1)	7
	2 632	**(838)**	**1 794**	1 942	(697)	1 245

Reconciliation of goodwill and intangible assets

	Group							
	2010							
	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	**543**	**718**	**—**	**—**	**(3)**	**(132)**	**(4)**	**1 122**
Customer lists	**124**	**—**	**1**	**—**	**—**	**(30)**	**—**	**95**
Goodwill	**571**	**—**	**—**	**—**	**—**	**—**	**—**	**571**
Other	**7**	**—**	**2**	**—**	**—**	**(3)**	**—**	**6**
	1 245	**718**	**3**	**—**	**(3)**	**(165)**	**(4)**	**1 794**

	2009							
	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	212	427	—	(3)	5	(79)	(19)	543
Customer lists	160	—	—	—	—	(36)	—	124
Goodwill	583	—	25	—	—	—	(37)	571
Other	8	—	—	—	—	(1)	—	7
	963	427	25	(3)	5	(116)	(56)	1 245

Refer to note 1.14 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 R325 million (2009: R31 million) relating to assets still under construction.

13. Goodwill and intangible assets *(continued)*

	Group 2010 Rm	2009 Rm
Composition of goodwill		
Abseq Properties (Proprietary) Limited	**25**	25
Abvest Holdings (Proprietary) Limited	**30**	30
Absa Vehicle Management (Proprietary) Limited	**112**	112
Glenrand MIB employee benefits and healthcare	**22**	22
Ngwenya River Estate (Proprietary) Limited	**18**	18
Woolworths Financial Services (Proprietary) Limited	**364**	364
	571	571

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 7% (2009: 3% to 8%).

14. Investment properties

	Group 2010 Rm	2009 Rm
Balance at the beginning of the year	**2 195**	661
Additions through business combinations (refer to note 55)	—	1 352
Additions	**288**	110
Additions to property under construction	—	35
Change in fair value (refer to note 37)	**50**	66
Disposals	**(2)**	—
Foreign exchange movements	**(8)**	(73)
Transfer from property and equipment (refer to note 15)	—	44
Balance at the end of the year	**2 523**	2 195

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

15. Property and equipment

	Group 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	**4 997**	**(3 322)**	**1 675**	5 046	(3 322)	1 724
Freehold property	**3 615**	**(226)**	**3 389**	2 593	(207)	2 386
Furniture and other equipment	**4 776**	**(2 447)**	**2 329**	4 541	(2 177)	2 364
Leasehold property	**465**	**(375)**	**90**	554	(429)	125
Motor vehicles	**56**	**(46)**	**10**	54	(47)	7
	13 909	**(6 416)**	**7 493**	12 788	(6 182)	6 606

Notes to the consolidated financial statements

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15. Property and equipment *(continued)*

Reconciliation of property and equipment

Group

	Opening balance Rm	Additions Rm	Disposals Rm	Transfer to investment properties Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
2010								
Computer equipment	**1 724**	**816**	**(177)**	**—**	**(19)**	**(669)**	**—**	**1 675**
Freehold property	**2 386**	**1 094**	**(12)**	**—**	**(49)**	**(30)**	**—**	**3 389**
Furniture and other equipment	**2 364**	**430**	**(22)**	**—**	**(17)**	**(413)**	**(13)**	**2 329**
Leasehold property	**125**	**5**	**(2)**	**—**	**(6)**	**(32)**	**—**	**90**
Motor vehicles	**7**	**6**	**(1)**	**—**	**1**	**(3)**	**—**	**10**
	6 606	**2 351**	**(214)**	**—**	**(90)**	**(1 147)**	**(13)**	**7 493**

	Opening balance Rm	Additions Rm	Disposals Rm	Transfer to investment properties Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
2009								
Computer equipment	1 478	956	(49)	—	—	(661)	—	1 724
Freehold property	1 871	703	(42)	(44)	(81)	(21)	—	2 386
Furniture and other equipment	2 609	493	(314)	—	(10)	(405)	(9)	2 364
Leasehold property	160	17	(3)	—	(12)	(37)	—	125
Motor vehicles	9	1	—	—	2	(5)	—	7
	6 127	2 170	(408)	(44)	(101)	(1 129)	(9)	6 606

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 949 million (2009: R2 962 million).

Leasehold property and computer equipment with a carrying value of R158 million (2009: R264 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.

	Group 2010 Rm	Group 2009 Rm

16. Deferred tax

16.1 Reconciliation of net deferred tax liability

	2010 Rm	2009 Rm
Balance at the beginning of the year	**1 773**	2 719
Deferred tax asset released/(raised) on STC credits (refer to note 16.4)	**2**	(23)
Acquisition of businesses (refer to note 55)	**1**	160
Deferred tax on amounts charged directly to other comprehensive income	**529**	(321)
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**	(259)
Fair value measurement	**(60)**	(476)
Transfer to the profit and loss component of the statement of comprehensive income	**509**	217
Retirement benefit asset and liabilities	**8**	19
Charge to the profit and loss component of the statement of comprehensive income (refer to note 41)	**(449)**	(833)
Tax effect of translation and other differences	**8**	71
Balance at the end of the year	**1 864**	1 773

16.2 Deferred tax liabilities/(assets)

	2010 Rm	2009 Rm
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**1 788**	2 651
Fair value adjustments on investment securities	**16**	(498)
Impairment of advances	**(72)**	(723)
Lease and rental debtor allowances	**280**	459
Other temporary differences	**77**	—
Property allowances	**11**	96
Retirement benefit asset and liabilities	**198**	162
Deferred tax liabilities	**2 298**	2 147
Deferred tax assets	**(434)**	(374)
Deferred tax asset – normal	**(365)**	(303)
Deferred tax asset – STC credit (refer to note 16.4)	**(69)**	(71)
Net deferred tax liability	**1 864**	1 773

16.3 Future tax relief

The Group has estimated tax losses of R207 million (2009: R127 million).

The above figures exclude tax losses and temporary differences of R56 million (2009: reversing temporary differences of R38 million) for which deferred tax liabilities/(assets) have been raised.

	2010 Rm	2009 Rm
Balance at the beginning of the year	**127**	478
Losses incurred	**26**	78
Movement in temporary differences	**56**	(38)
Operating losses utilised	**(2)**	(391)
Balance at the end of the year	**207**	127

16.4 Secondary taxation on companies (STC)

	2010 Rm	2009 Rm
Accumulated STC credits	**685**	707
Deferred tax asset raised at 10% (refer to note 16.2)	**69**	71
Movement in deferred tax asset for the year (refer to note 16.1)	**(2)**	23

If the total reserves of R50 267 million (2009: R44 331 million) as at the reporting date were to be declared as dividends, the secondary tax impact at a rate of 10% would be R5 027 million (2009: R4 433 million).

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For the year ended 31 December

	Group		
	2010 Rm	2009 Rm	2008 Rm
17. Deposits from banks			
Call deposits	**6 537**	989	7 282
Fixed deposits	**860**	3 239	2 228
Foreign currency deposits	**1 704**	1 882	6 119
Other deposits	**2 091**	6 220	11 213
Repurchase agreements (refer to note 46)	**4 214**	24 211	27 774
	15 406	36 541	54 616
Portfolio analysis			
Financial liabilities at amortised cost	**13 727**	29 222	45 614
Financial liabilities designated at fair value through profit or loss	**1 679**	7 319	9 002
Fixed deposits	**462**	466	698
Foreign currency deposits	**3**	19	—
Other deposits	**—**	—	297
Repurchase agreements	**1 214**	6 834	8 007
	15 406	36 541	54 616

Comparatives have been reclassified, refer to note 1.26.

Deposits with variable rates are R4 848 million (2009: R8 873 million; 2008: R24 614 million) and fixed rates are R10 558 million (2009: R27 668 million; 2008: R30 002 million).

	Group		
	2010 Rm	2009 Rm	2008 Rm
18. Trading and hedging portfolio liabilities			
Derivative liabilities (refer to note 58.3)	**43 527**	36 960	67 838
Commodity derivatives	**154**	2 899	4 619
Credit derivatives	**131**	245	322
Equity derivatives	**1 968**	6 132	4 116
Foreign exchange derivatives	**12 465**	9 529	31 493
Interest rate derivatives	**28 809**	18 155	27 288
Short positions	**3 927**	7 285	3 152
Total trading portfolio liabilities	**47 454**	44 245	70 990
Hedging portfolio liabilities (refer to note 58.3)	**1 881**	565	1 080
	49 335	44 810	72 070
Portfolio analysis			
Derivatives designated as cash flow hedging instruments	**94**	132	285
Derivatives designated as fair value hedging instruments	**1 787**	433	795
Financial liabilities held for trading	**47 454**	44 245	70 990
Derivative liabilities	**43 527**	36 960	67 838
Short positions	**3 927**	7 285	3 152
	49 335	44 810	72 070

Comparatives have been reclassified, refer to note 1.26.

Included above are financial instruments related to the Group's interest rate economic hedging programme with a notional value of R1 771 million (2009: R2 518 million; 2008: R3 945 million) and a fair value of R102 million (2009: R180 million; 2008: R824 million).

19. Other liabilities

	Group 2010 Rm	Group 2009 Rm
Accruals	**1 278**	978
Audit fee accrual	**34**	45
Creditors	**5 978**	7 503
Deferred income	**179**	202
Liabilities under finance leases (refer to note 19.1)	**621**	800
Retirement benefit obligation (refer to note 44)	**358**	423
Settlement balances	**2 489**	2 118
Share-based payment liability (refer to note 54)	**302**	143
	11 239	12 212
Portfolio analysis		
Financial liabilities at amortised cost	**9 076**	10 127
Creditors	**5 966**	7 209
Liabilities under finance leases	**621**	800
Settlement balances	**2 489**	2 118
Financial liabilities designated at fair value through profit or loss	**12**	294
Non-financial liabilities	**2 151**	1 791
	11 239	12 212

19.1 Liabilities under finance leases

Group 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.

Notes to the consolidated financial statements

For the year ended 31 December

19. Other liabilities *(continued)*

19.1 Liabilities under finance leases *(continued)*

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.

19.1.2 Minimum future income receivable from subleasing

	Group 2010 Rm	Group 2009 Rm
Receivable within one year	**6**	40
Receivable within two to five years	**1**	2
	7	42

20. Provisions

Group 2010	Redundancy and restructuring provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	**—**	**822**	**862**	**1 684**
Additions	**—**	**986**	**399**	**1 385**
Amounts used	**—**	**(874)**	**(79)**	**(953)**
Reversals	**—**	**(25)**	**(283)**	**(308)**
Balance at the end of the year	**—**	**909**	**899**	**1 808**

2009	Redundancy and restructuring provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	6	1 386	721	2 113
Additions	—	644	477	1 121
Amounts used	(6)	(1 023)	(336)	(1 365)
Release of provision subject to share-based payment arrangement	—	(185)	—	(185)
Balance at the end of the year	—	822	862	1 684

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were R1 254 million (2009: R926 million). Sundry provisions are made with respect to fraud cases, litigation claims and insurance claims.

	Group		
	2010 Rm	2009 Rm	2008 Rm

21. Deposits due to customers

	2010 Rm	2009 Rm	2008 Rm
Call deposits	**54 707**	61 995	63 226
Cheque account deposits	**107 787**	92 265	99 694
Credit card deposits	**1 830**	1 868	2 051
Fixed deposits	**114 180**	106 886	124 760
Foreign currency deposits	**9 661**	9 011	12 297
Notice deposits	**11 365**	10 293	7 297
Other deposits[1]	**3 702**	7 618	12 219
Repurchase agreements with non-banks (refer to note 46)	**7 035**	1 712	2 217
Savings and transmission deposits	**67 844**	64 717	59 443
	378 111	356 365	383 204
Portfolio analysis			
Financial liabilities at amortised cost	**361 255**	343 813	371 785
Financial liabilities designated at fair value through profit or loss	**16 856**	12 552	11 419
Fixed deposits	**9 821**	8 791	9 202
Other deposits	**—**	2 049	—
Repurchase agreements with non-banks	**7 035**	1 712	2 217
	378 111	356 365	383 204

Comparatives have been reclassified, refer to note 1.26.

Note

[1]*Included in other deposits are partnership contributions received, deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.*

Notes to the consolidated financial statements

For the year ended 31 December

	Group 2010 Rm	Group 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	**75 740**	84 925
Liabilities arising from securitised SPEs	**4 216**	4 810
Negotiable certificates of deposit	**64 271**	59 354
Other debt securities in issue	**—**	15
Promissory notes	**1 811**	1 855
Replica bonds	**1 220**	1 534
Senior notes	**9 138**	5 922
	164 545	171 376
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**5 273**	6 046
Floating rate notes	**5 187**	5 959
Negotiable certificates of deposit	**86**	87
Financial liabilities at amortised cost	**157 711**	163 589
Financial liabilities designated at fair value through profit or loss	**1 561**	1 741
Credit linked notes	**—**	192
Other debt securities in issue	**—**	15
Promissory notes	**341**	—
Replica bonds	**1 220**	1 534
	164 545	171 376
23. Liabilities under investment contracts		
Balance at the beginning of the year	**12 446**	10 377
Changes in investment contracts (refer to note 34)	**1 014**	620
Inflows on investment contracts	**2 644**	3 155
Policyholder benefits on investment contracts	**(2 114)**	(1 661)
Linked investment policies	**(26)**	(45)
Balance at the end of the year	**13 964**	12 446
Portfolio analysis		
Financial liabilities designated at fair value through profit or loss	**13 964**	12 446
23.1 Liabilities under investment contracts attributable to external policyholders		
Total liabilities under investment contracts	**14 817**	13 171
Elimination of intergroup balance	**(853)**	(725)
	13 964	12 446

23. Liabilities under investment contracts *(continued)*

23.2 Assets linked to investment contracts

	Group		
	2010		
	Linked to investment contracts Rm	Intergroup assets and liabilities Rm	Attributable to external policy-holders Rm
Money market assets (refer to note 2)	**6 473**	**(5 802)**	**671**
Investment securities (refer to note 11)	**7 866**	**(19)**	**7 847**
Other assets	**16**	**—**	**16**
Other liabilities	**(12)**	**—**	**(12)**
Investments in linked investment policies (refer to note 10)	**474**	**—**	**474**
	14 817	**(5 821)**	**8 996**

	2009		
	Linked to investment contracts Rm	Intergroup assets and liabilities Rm	Attributable to external policy-holders Rm
Money market assets (refer to note 2)	3 582	(3 091)	491
Investment securities (refer to note 11)	9 091	(98)	8 993
Other assets	7	—	7
Other liabilities	(20)	—	(20)
Investments in linked investment policies (refer to note 10)	511	(266)	245
	13 171	(3 455)	9 716

24. Policyholder liabilities under insurance contracts

	Group		
	2010		
	Gross Rm	Reinsurance Rm	Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 24.1)	**729**	**(208)**	**521**
Claims reported and loss adjustment expense	**556**	**(186)**	**370**
Claims incurred but not reported	**173**	**(22)**	**151**
Unearned premiums at the end of the year	**809**	**(120)**	**689**
Balance at the beginning of the year	**897**	**(180)**	**717**
Increase during the year	**2 857**	**(508)**	**2 349**
Release during the year	**(2 945)**	**568**	**(2 377)**
	1 538	**(328)**	**1 210**
Long-term insurance contracts (refer to note 24.2)	**1 463**	**(58)**	**1 405**
	3 001	**(386)**	**2 615**

Notes to the consolidated financial statements

For the year ended 31 December

24. Policyholder liabilities under insurance contracts *(continued)*

	Group 2009 Gross Rm	Group 2009 Reinsurance Rm	Group 2009 Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 24.1)	837	(253)	584
Claims reported and loss adjustment expense	665	(230)	435
Claims incurred but not reported	172	(23)	149
Unearned premiums at the end of the year	897	(180)	717
Balance at the beginning of the year	856	(137)	719
Increase during the year	2 820	(468)	2 352
Release during the year	(2 779)	425	(2 354)
	1 734	(433)	1 301
Long-term insurance contracts (refer to note 24.2)	1 402	(41)	1 361
	3 136	(474)	2 662

	Group 2010 Rm	Group 2009 Rm
Comprising:		
Unit-linked insurance contracts		
Gross	**1 049**	867
Non-linked insurance contracts	**1 566**	1 795
Gross	**1 952**	2 269
Reinsurance (refer to note 10)	**(386)**	(474)
	2 615	2 662

24.1 Reconciliation of claims outstanding, including claims incurred but not reported

	Group 2010 Gross Rm	Group 2010 Reinsurance Rm	Group 2010 Net Rm
Balance at the beginning of the year	**837**	**(253)**	**584**
Cash paid for claims settled during the year	**(2 199)**	**260**	**(1 939)**
Increase/(decrease) in claims arising from current year claims outstanding	**2 073**	**(210)**	**1 863**
Increase/(decrease) in claims arising from previous years' claims outstanding	**18**	**(5)**	**13**
Balance at the end of the year (refer to note 24)	**729**	**(208)**	**521**

	2009 Gross Rm	2009 Reinsurance Rm	2009 Net Rm
Balance at the beginning of the year	727	(213)	514
Cash paid for claims settled during the year	(1 828)	(38)	(1 866)
Increase/(decrease) in claims arising from current year claims outstanding	1 935	(22)	1 913
Increase/(decrease) in claims arising from previous years' claims outstanding	3	20	23
Balance at the end of the year (refer to note 24)	837	(253)	584

24. Policyholder liabilities under insurance contracts *(continued)*

24.2 Reconciliation of the gross long-term insurance contracts

	Group	
	2010 Rm	2009 Rm
Balance at the beginning of the year	**1 402**	1 493
Reinsurance liability	**16**	(31)
Transfer from statement of comprehensive income (refer to note 34)	**45**	(60)
Increase in retrospective liabilities	**165**	152
Unwind of discount rate	**34**	32
New business	**59**	33
Change in methodology	**(34)**	39
Change in economic assumptions	**37**	(86)
Changes in non-economic assumptions	**(154)**	(158)
Expected cash flow	**354**	259
Expected release of margins	**(411)**	(337)
Experience variances	**(5)**	6
Balance at the end of the year (refer to note 24)	**1 463**	1 402
Recoverable from reinsurers	**58**	41
Net liabilities	**1 405**	1 361
Unit-linked liabilities	**1 049**	898
Non-linked liabilities	**356**	463
	1 463	1 402

Change in accounting estimate – changes in non-economic assumptions

One of the margins established in terms of the Group's accounting policy, is that future investment management charges on unit-linked business are not recognised when determining the value of policyholder liabilities under insurance contracts. The Group earns investment management fees on the investment balances held in respect of unit-linked business. PGN 104 allows for the inclusion of expected future investment management fees when determining the best estimate of future cash flows. The best estimate of future cash flows is used in the calculation of the policyholder liabilities. Allowing for the future investment management charges in the best estimate of future cash flows will reduce the policyholder liability. Management previously considered it appropriate not to provide for this margin as asset-based fees are more appropriately accounted for as and when they are received. However, the emergence of investment management charges in the Group's financial statements have been consistent and can be expected to continue into the future. Furthermore, PGN 104 allows for the explicit recognition in the liabilities of factors that are expected to be received in terms of the policy contracts. During the current reporting period management has reassessed the margin held in respect of future investment management fees. Management considered it appropriate to revise the margin to take full account of the future investment management charges expected to be received on unit-linked business, based on additional experience of the emergence of investment management fees.

This has resulted in a decrease in policyholder liabilities and an increase in profit before taxation of R117 million (a reduced lapse margin was previously held on certain regular premium business against the uncertainty and inherent volatility associated with future lapses, which resulted in a release of R162 million in 2009). This amount is taxed in the corporate fund at 28%, amounting to R32,8 million, as it represents a transfer from the individual policyholders fund to the corporate fund.

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			Group	
			2010 Rm	2009 Rm
25. Borrowed funds				
Subordinated callable notes				
The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act, No 94 of 1990 (as amended).				
Interest rate	*Final maturity date*	*Note*		
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

25. 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group does not exercise the redemption option, a coupon step-up of 150 bps points 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.

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	Group 2010 Rm	Group 2009 Rm
26. Share capital and premium		
26.1 Ordinary share capital		
Authorised		
880 467 500 (2009: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
718 210 043 (2009: 718 210 043) ordinary shares of R2,00 each	**1 437**	1 437
570 000 (2009: 545 111) treasury shares held by Absa Group companies	**(1)**	(1)
1 049 790 (2009: 1 841 624) treasury shares held by Absa Group Limited Share Incentive Trust	**(3)**	(4)
	1 433	1 432
Total issued capital		
Share capital	**1 433**	1 432
Share premium	**4 590**	4 784
	6 023	6 216

Authorised shares

The authorised share capital was increased during the previous year in terms of article 177.4 of the Articles of Association of the Company, which states that upon redemption of any issued redeemable preference share, that issued share shall:

- be automatically cancelled as to its issue, but not as to its authorisation; and simultaneously
- be automatically converted from an authorised but unissued redeemable preference share to an authorised but unissued ordinary share of R2,00 each ranking pari passu in all respects with the authorised ordinary shares.

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 annual general meeting of the Company.

The Group has a share incentive trust in terms of which shares are issued and share awards are granted. Details of the share incentive trust are set out in note 54. As required by IFRS, Absa Group Limited Share Incentive Trust has been consolidated into the Group's annual financial statements.

Shares issued during the current year

There were no shares issued during the current year.

26. Share capital and premium *(continued)*

26.1 Ordinary share capital *(continued)*

Shares issued during the previous year

The following ordinary shares were issued during the previous year to meet the obligation of the Absa Group Limited Share Ownership Administrative Trust:

» On 17 March 2009, 93 900 shares at R64,80 per share, being R2,00 par value and R62,80 share premium.

» On 24 June 2009, 434 900 shares at R68,30 per share, being R2,00 par value and R66,30 share premium.

The following ordinary shares were issued during the previous year to meet the obligation of the Absa Group Limited Share Incentive Trust:

» On 24 June 2009, 753 642 shares at R41,97 per share, being R2,00 par value and R39,97 share premium.

The following ordinary shares were issued during the previous year to meet the obligation of Batho Banko Capital (Proprietary) Limited exercising its options to subscribe for ordinary shares:

» On 15 June 2009, 36 649 300 shares at R68,30 per share, being R2,00 par value and R66,30 share premium.

27. Other reserves

Associates' and joint ventures' reserve

The associates' and joint ventures' reserve comprises the Group'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.

General credit risk reserve

The general credit risk reserve consists of the following:

Total impairments, calculated in terms of IAS 39 should exceed the provisions calculated for regulatory purposes. For some African subsidiaries, the IAS 39 impairment provision is less than the regulatory provision which 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.

Provisions within the Collaterised Auto Receivables Securitisation Programme (Proprietary) Limited (Cars) securitisation offering circular (dated 12 October 2006), state that Cars has to transfer to non-distributable reserves (i.e. the general credit risk reserve) the net finance lease receivable amount, less the related IAS 39 impairment provision in respect of finance lease receivables having four or more instalments in arrear or those deemed to be uncollectable or potentially uncollectable.

Insurance contingency reserve

A contingency reserve is maintained at 10% of net written premiums as stipulated by the Short-term Insurance Act, 1988. The utilisation of this reserve, in case of catastrophe, is subject to the approval of the Financial Services Board (FSB).

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27. Other reserves *(continued)*

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.

	Group	
	2010 Rm	2009 Rm
28. Non-controlling interest – preference shares		
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 Bank which directly affects the rights attached to the preference shares or the interest of the holders thereof.

	Group 2010 Rm	Group 2009 Rm
29. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	**103**	160
Fair value adjustments on hedging instruments	**1 023**	781
Investment securities	**495**	553
Loans and advances to banks	**1 234**	2 475
Other loans and advances to banks	**954**	1 401
Reverse repurchase agreements	**280**	1 074
Loans and advances to customers	**48 316**	59 369
Cheque accounts	**3 162**	3 446
Corporate overdrafts and specialised finance loans	**1 254**	1 102
Credit cards	**2 998**	3 459
Foreign currency loans	**252**	630
Instalment credit agreements	**6 095**	7 780
Interest on impaired financial assets (refer to note 9)	**764**	945
Reverse repurchase agreements	**—**	258
Loans to associates and joint ventures	**486**	645
Microloans	**706**	986
Mortgages	**25 071**	31 132
Other advances[1]	**943**	609
Overnight finance	**640**	1 108
Personal and term loans	**3 225**	3 185
Preference shares	**693**	910
Wholesale overdrafts	**2 027**	3 174
Other interest	**87**	126
Statutory liquid asset portfolio	**2 983**	1 783
	54 241	65 247
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale items held in a fair value hedging relationship (refer to note 58.2)	**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 58.2)	**1 485**	244
Fair value hedges (refer to note 58.2)	**(369)**	690
Economic hedges	**(93)**	(153)
Interest on financial assets held at amortised cost and available-for-sale	**51 302**	63 717
Interest on financial assets designated at fair value through profit or loss	**1 419**	1 483
Cash, cash balances and balances with central banks	**61**	103
Investment securities	**344**	498
Loans and advances	**735**	636
Statutory liquid asset portfolio	**279**	246
	54 241	65 247

Note

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

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For the year ended 31 December

	Group 2010 Rm	Group 2009 Rm
30. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**1 586**	1 021
Debt securities in issue	**12 786**	16 293
Deposits due to customers	**17 204**	25 371
Call deposits	**3 237**	4 665
Cheque account deposits	**3 196**	4 068
Credit card deposits	**13**	30
Fixed deposits	**7 197**	10 732
Foreign currency deposits	**142**	545
Notice deposits	**457**	589
Other deposits	**609**	1 642
Savings and transmission deposits	**2 353**	3 100
Deposits from banks	**273**	694
Call deposits	**177**	534
Fixed deposits	**62**	132
Other	**34**	28
Fair value adjustments on hedging instruments	**(1 116)**	(243)
Interest incurred on finance leases	**108**	130
Other interest	**60**	127
	30 901	43 393
Portfolio analysis		
Fair value adjustments on amortised cost items held in a fair value hedging relationship (refer to note 58.2)	**504**	(410)
Borrowed funds	**291**	(223)
Debt securities in issue	**213**	(187)
Fair value adjustments on hedging instruments	**(1 116)**	(243)
Cash flow hedges (refer to note 58.2)	**(644)**	(512)
Fair value hedges (refer to note 58.2)	**(472)**	269
Interest on financial liabilities designated at fair value through profit or loss	**989**	1 589
Debt securities in issue	**364**	786
Deposits due to customers	**625**	803
Interest on financial liabilities held at amortised cost	**30 524**	42 457
	30 901	43 393

31. Net fee and commission income

	Group 2010 Rm	Group 2009 Rm
Fee and commission income		
Asset management and other related fees	**105**	103
Consulting and administration fees	**510**	428
Credit-related fees and commissions	**12 855**	12 494
Cheque accounts	**3 198**	3 231
Credit cards[1]	**1 938**	1 860
Electronic banking	**3 828**	3 501
Other[2]	**1 474**	1 601
Savings accounts	**2 417**	2 301
Insurance commission received	**950**	1 088
Other fees and commissions	**299**	199
Pension fund payment services	**497**	545
Project finance fees	**209**	262
Trust and other fiduciary services	**1 029**	1 182
Portfolio and other management fees	**783**	947
Trust and estate income	**246**	235
	16 454	16 301
Fee and commission expense	**(2 063)**	(2 012)
Cheque processing fees	**(173)**	(193)
Commission paid	**(867)**	(867)
Debt collecting fees	**(85)**	(261)
Other	**(561)**	(367)
Transaction-based legal fees	**(192)**	(148)
Valuation fees	**(185)**	(176)
	14 391	14 289

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

Notes

[1]*Includes merchant, acquiring and issuing fees.*

[2]*Includes service, commission and credit-related fees on mortgage loans and foreign exchange transactions.*

31.1 Included above are net fees and commissions linked to financial instruments not at fair value

	Group 2010 Rm	Group 2009 Rm
Fee and commission income		
Cheque accounts	**3 198**	3 231
Credit cards	**883**	831
Electronic banking	**3 828**	3 501
Other	**1 080**	1 293
Savings accounts	**2 417**	2 301
	11 406	11 157
Fee and commission expense	**(173)**	(193)
	11 233	10 964

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For the year ended 31 December

	Group 2010 Rm	Group 2009 Rm
32. Net insurance premium income		
Gross insurance premiums	**5 365**	4 390
Life insurance contracts	**1 871**	1 386
Short-term insurance contracts	**3 494**	3 004
Premiums ceded to reinsurers	**(763)**	(603)
Reinsurance on life insurance contracts	**(154)**	(96)
Reinsurance on short-term insurance contracts	**(609)**	(507)
	4 602	3 787
Comprising:		
Life	**1 717**	1 290
Credit life	**575**	328
Funeral business	**375**	309
Home mortgage protection	**523**	417
Other	**244**	236
Short-term	**2 885**	2 497
Commercial business	**1 044**	788
Personal business	**1 841**	1 709
	4 602	3 787
33. Net insurance claims and benefits paid		
Gross claims and benefits paid on insurance contracts	**2 864**	2 521
Life insurance claims and benefits	**516**	471
Short-term insurance claims and benefits	**2 348**	2 050
Reinsurance recoveries	**(459)**	(306)
Reinsurance recoveries on life insurance contracts	**(79)**	(40)
Reinsurance recoveries on short-term insurance contracts	**(380)**	(266)
	2 405	2 215
Comprising:		
Life	**437**	431
Credit life	**59**	71
Funeral business	**98**	93
Home mortgage protection	**241**	211
Other	**39**	56
Short-term	**1 968**	1 784
Commercial business	**926**	716
Personal business	**1 042**	1 068
	2 405	2 215

	Group 2010 Rm	Group 2009 Rm
34. Changes in investment and insurance liabilities		
Increase/(decrease) in insurance liabilities (refer to note 24.2)	**45**	(60)
Increase in investment contracts (refer to note 23)	**1 014**	620
	1 059	560
35. 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	**(316)**	(63)
Debt securities in issue	**(28)**	(125)
Deposits from banks and due to customers	**(1 315)**	(434)
Investment securities	**180**	(130)
Debt instruments	**26**	(31)
Listed equity instruments	**86**	466
Unlisted equity and hybrid instruments	**68**	(565)
Loans and advances to banks and customers	**840**	614
Statutory liquid asset portfolio	**7**	12
Financial instruments held for trading		
Derivatives and trading instruments	**2 570**	2 555
Ineffective hedges	**100**	(19)
Cash flow hedges (refer to note 58.2)	**115**	(3)
Fair value hedges (refer to note 58.2)	**(15)**	(16)
	2 349	2 575

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For the year ended 31 December

	Group 2010 Rm	Group 2009 Rm
36. Gains and losses from investment activities		
Associates and joint ventures		
Profit realised on disposal	**—**	15
Available-for-sale unwind from reserves		
Investment securities: unlisted equity and hybrid instruments	**—**	1
Financial instruments designated at fair value through profit or loss	**908**	1 499
Cash, cash balances and balances with central banks	**217**	313
Investment securities	**477**	518
Debt instruments	**125**	78
Listed equity instruments	**344**	393
Unlisted equity and hybrid instruments	**8**	47
Investments linked to investment contracts	**214**	668
Cash, cash balances and balances with central banks	**(51)**	(50)
Debt instruments	**(24)**	(5)
Listed equity instruments	**289**	722
Unlisted equity and hybrid instruments	**—**	1
Financial instruments held for trading		
Investments linked to investment contracts: derivative instruments	**(24)**	(41)
Subsidiaries		
Loss realised on disposal	**—**	(10)
	884	1 464
37. Other operating income		
Exchange differences	**59**	40
Income from investment properties	**61**	74
Change in fair value of investment properties (refer to note 14)	**50**	66
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	**41**	68
Profit on sale of developed properties	**28**	50
Gross sales	**61**	62
Cost of sales	**(33)**	(12)
Profit on sale of repossessed properties	**6**	8
Gross sales	**141**	107
Cost of sales	**(135)**	(99)
Rental income	**253**	218
Sundry income[1]	**249**	343
	712	892

Note

[1]*Includes service fees levied on sundry non-core business activities.*

	Group	
	2010 Rm	2009 Rm

38. Operating expenses

Amortisation of intangible assets (refer to note 13)	**165**	116
Auditors' remuneration	**159**	134
Audit fees	**101**	90
Audit fees – under provision from previous years	**6**	9
Other fees[1]	**52**	35
Cash transportation	**729**	467
Depreciation (refer to note 15)	**1 147**	1 129
Equipment costs	**271**	278
Rentals	**134**	139
Maintenance	**137**	139
Information technology[2]	**2 085**	1 753
Investment property charges – operating expenses	**4**	4
Marketing costs	**1 070**	875
Operating lease expenses on properties	**978**	910
Other operating costs[3]	**2 737**	2 358
Printing and stationery	**272**	283
Professional fees[2]	**1 096**	897
Staff costs	**12 537**	10 816
Bonuses	**1 101**	644
Current service costs on post-retirement benefits	**635**	551
Other staff costs[4]	**528**	331
Salaries	**9 707**	8 872
Share-based payments (refer to note 54)	**297**	223
Training costs	**269**	195
Telephone and postage	**820**	837
	24 070	20 857

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.*

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	Group 2010 Rm	Group 2009 Rm
39. Other impairments		
Financial instruments	**37**	38
Amortised cost instruments	**12**	2
Available-for-sale instruments (refer to note 11.1)	**25**	36
Other	**71**	1 419
Computer software development costs (refer to note 13)	**4**	19
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
	108	1 457

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 instruments 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 instruments are reported in the 'Absa Capital' segment.
- Impairments on amortised cost financial instruments are reported in the 'Financial Services' segment.
- Impairments on computer software development costs are reported in the 'Financial Services' 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.
- Impairment on repossessed properties are reported in the 'Retail Banking' segments.

During the previous year, the Group 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 Group's best estimate of the price the Group would achieve in a sale of these investments. These investments were consequently impaired.

	Group 2010 Rm	Group 2009 Rm
40. Indirect taxation		
Payments to third parties	**2**	5
Training levy	**94**	89
Value added tax net of input credits	**675**	819
	771	913

	Group 2010 Rm	Group 2009 Rm
41. Taxation expense		
Current		
Foreign taxation	**339**	915
STC	**117**	248
South African current tax	**3 253**	1 981
South African current tax – previous year	**2**	29
	3 711	3 173
Deferred		
Deferred tax (refer to note 16.1)	**(449)**	(833)
Accelerated tax depreciation	**(153)**	(213)
Allowances for loan losses	**731**	(176)
Other provisions	**302**	129
Other temporary differences	**(1 347)**	(594)
Retirement benefit asset and liabilities	**18**	21
	3 262	2 340
Reconciliation between operating profit and the taxation expense		
Operating profit before income tax	**11 851**	9 842
Share of post-tax results of associates and joint ventures	**9**	50
	11 860	9 892
Tax calculated at a tax rate of 28%	**3 321**	2 770
Effect of different tax rates in other countries	**76**	(334)
Expenses not deductible for tax purposes	**96**	190
Income not subject to tax	**(578)**	(463)
Other	**230**	(71)
STC	**117**	248
	3 262	2 340

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.

42. Earnings per share

42.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Group, 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.

	Group 2010 Rm	Group 2009 Rm
Profit attributable to ordinary equity holders of the Group	**8 118**	6 840
Weighted average number of ordinary shares in issue (millions)	**716,3**	693,2
Issued shares at the beginning of the year (millions)	**718,2**	680,2
Effect of shares issued during the year (weighted millions)	**—**	15,5
Treasury shares held by Absa Group companies (weighted millions)	**(0,6)**	(0,4)
Treasury shares held by Absa Group Limited Employee Share Ownership Administrative Trust (weighted millions)	**—**	(0,0)
Treasury shares held by Absa Group Limited Share Incentive Trust (weighted millions)	**(1,3)**	(2,1)
Basic earnings per share (cents)	**1 133,3**	986,7

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42. Earnings per share *(continued)*

42.2 Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential dilutive ordinary shares. The Group has two categories of potential dilutive ordinary shares: redeemable, cumulative option-holding preference shares and share options. The options linked to redeemable cumulative option-holding preference shares is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual quoted market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is shares that would be obtained for no value.

Contingently issuable shares are only included as potential dilutive ordinary shares when all of the conditions of the contingency are deemed to have been met, based on the information available, at the reporting date.

In calculating the diluted earnings per share on share options to employees and other share-based payment arrangements, the Group adjusts the exercise price, which impacts the weighted average shares issued at no value, of potential ordinary shares to include the fair value of services that will be recognised as an expense in a future period.

	Group	
	2010 Rm	2009 Rm
Profit attributable to ordinary equity holders of the Group	**8 118**	6 840
Interest expense on convertible debt (net of taxation)	**—**	6
Diluted earnings	**8 118**	6 846
Diluted weighted average number of ordinary shares in issue (millions)	**720,7**	711,5
Weighted average number of ordinary shares in issue (millions)	**716,3**	693,2
Adjustments for shares issued at no value:		
Options linked to redeemable cumulative option-holding preference shares (weighted millions)	**—**	13,9
Share options (weighted millions)	**4,4**	4,4
Diluted earnings per share (cents)	**1 126,4**	962,2

The dilution represents the effective discount between the average option price and the average market price at which option holders can convert into ordinary shares. This includes options issued in respect of the Absa Group Limited Share Incentive Trust.

	Group			
	2010		2009	
	Gross Rm	Net[1] Rm	Gross Rm	Net[1] Rm
43. Headline earnings				
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders of the Group		**8 118**		6 840
Adjustments for:				
IFRS 3 – (Gain on bargain purchase) and goodwill (refer to notes 39 and 55.1)	**(72)**	**(72)**	37	37
IAS 16 – Profit on disposal of property and equipment (refer to note 37)	**(41)**	**(37)**	(68)	(58)
IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations	**—**	**—**	(23)	(23)
IAS 27 – Loss on disposal of subsidiaries (refer to note 36)	**—**	**—**	10	10
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 notes 35 and 36)	**(42)**	**(42)**	43	35
IAS 28 and 31 – Impairment of investments in associates and joint ventures (refer to note 39)	**29**	**21**	1 328	956
IAS 36 – Impairment of equipment (refer to note 39)	**13**	**9**	9	6
IAS 38 – Impairment and net profit on disposal of intangible assets (refer to notes 37 and 39)	**4**	**3**	(46)	(42)
IAS 39 – Release of available-for-sale reserves[2] (refer to note 35)	**92**	**66**	(105)	(115)
IAS 39 – Impairment and net profit on disposal of available-for-sale assets[2] (refer to note 39)	**25**	**18**	25	16
IAS 40 – Change in fair value of investment properties (refer to note 37)	**(50)**	**(42)**	(66)	(52)
Headline earnings		**8 041**		7 621
Interest expense on convertible debt (net of taxation)		**—**		6
Diluted headline earnings		**8 041**		7 627
Headline earnings per share (cents)		**1 122,6**		1 099,4
Diluted headline earnings per share (cents)		**1 115,7**		1 072,0

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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	Group 2010 Rm	Group 2009 Rm
44. Retirement benefit obligations		
Surplus disclosed in 'Other assets' (refer to note 6)		
The Absa Group defined benefit plan (refer to note 44.3.1)	**705**	616
Obligation disclosed in 'Other liabilities' (refer to note 19)		
Subsidiaries' defined benefit plan (refer to note 44.1)	**352**	418
Subsidiaries' post-retirement medical aid	**6**	5
	358	423
Statement of comprehensive income charge included in staff costs and interest expense		
Subsidiaries' defined benefit plan (refer to note 44.1)	**44**	64
The Absa Group defined benefit plan (refer to note 44.3.1)	**(61)**	(76)
	(17)	(12)
44.1 Subsidiaries' defined benefit plan		
Reconciliation of movement in funded obligation		
Balance at the beginning of the year	**418**	503
Benefits paid	**(22)**	(27)
Current service costs	**7**	9
Exchange differences	**(90)**	(154)
Interest expense	**37**	55
Net actuarial losses/(gains)	**2**	32
Balance at the end of the year	**352**	418
Total expenses comprise		
Current service costs	**7**	9
Interest expense	**37**	55
	44	64
The principal actuarial assumptions used were as follows:		
Discount rate (%)	**15,0**	11,5
Expected rate on plan assets (%)	**13,5**	10,0
Future pension increases (%)	**4,6**	2,8
Future salary increases (%)	**11,5**	9,0
Assumptions regarding future mortality experience are set based on advice from published statistics and experience.		
The average life expectancy in years of a pensioner retiring at the age of 65 is as follows:		
Male	**12,5**	12,5
Female	**14,4**	14,4

	Group 2010 Rm	Group 2009 Rm
Pension fund assets		
Investments		
Government bonds	**75**	48
Treasury bills	**231**	318
Current assets		
Bank balance with Barclays Bank Mozambique S.A.	**19**	29
Interest owing by government	**17**	15
	342	410

The Group expects to contribute R7 million (2009: R6 million) to this defined benefit plan in the next financial year.

44. Retirement benefit obligations *(continued)*

44.1 Subsidiaries' defined benefit plan *(continued)*

The assets have been ring-fenced to the retirement benefits, but do not qualify as plan assets in terms of IAS 19 – Employee Benefits as they are not in a separate entity and therefore are carried on the Group's statement of financial position. The major constraint in this regard is the lack of enabling legislation in certain African countries.

	Group			
	2010 Rm	2009 Rm	2008 Rm	2007 Rm
Historical information as at the reporting date				
Present value of defined benefit obligation	**352**	418	503	372
Experience adjustments on plan liabilities	**2**	32	(19)	29

44.2 Subsidiaries' post-retirement medical aid plan

Woolworths Financial Services (Proprietary) Limited subsidises a portion of the medical aid contributions of retired employees who participate in the Wooltru Healthcare Fund. The accrued and future liability in respect of post-retirement medical aid contributions is valued annually on the reporting date. The liability was actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality and withdrawal assumptions. For purposes of the valuation it was assumed that medical inflation is 7,4% (2009: 7,5%) per annum. The discount rate used to value the liability is 8,6% (2009: 9,0%) per annum. At the reporting date, the accrued liability amounted to R5,5 million (2009: R5 million) in respect of those current and retired employees who participate in the Wooltru Healthcare Fund. Employees who joined the healthcare fund after 1 November 2000 are not entitled to receive post-retirement healthcare benefits.

The provision for post-retirement medical aid benefits determined in terms of IAS 19 – Employee benefits is as follows:

	Group	
	2010 Rm	2009 Rm
Unfunded obligation		
Unfunded liability	**6**	5
Unfunded deficit	**6**	5
Net obligation	**6**	5

Reconciliations of movement in the obligation and funding liability have not been provided as amounts are less than R1 million.

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For the year ended 31 December

	Group 2010 Rm	2009 Rm
44. Retirement benefit obligations *(continued)*		
44.3 The Absa Group Pension Fund		
44.3.1 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 surplus	**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

The Group 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.

Total expenses/(income) comprises:

	2010 Rm	2009 Rm
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**	(51)
	(27)	(104)
Cumulative actuarial gains recognised in other comprehensive income	**884**	936

44. Retirement benefit obligations *(continued)*

44.3 The Absa Group Pension Fund *(continued)*

44.3.1 Defined benefit plan *(continued)*

	Group 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

	Group 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.

44.4 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 Group's policy to ensure that the fund is adequately funded to provide for the benefits of members, and particularly to ensure that any shortfall with regard to the defined benefit structure will be met by way of additional contributions.

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

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44. Retirement benefit obligations *(continued)*

44.4 Post-retirement benefits *(continued)*

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation be carried out at least every three years. The most recent statutory valuation of the fund was effected on 1 April 2008 and confirmed that the fund was in a sound financial position. This valuation was in accordance with the Pension Funds Second Amendment Act of 2001 (the Act). This Act facilitates the determination of the surplus apportionment to members, while avoiding the inappropriate distribution of surpluses. The Act requires that a fund explicitly establish additional contingency reserves to ensure the financial soundness of the fund going forward. The valuation has been performed using 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.

45. Dividends per share

	Group 2010 Rm	Group 2009 Rm
Dividends paid to ordinary equity holders during the year		
16 February 2010 final dividend number 47 of 220 cents per ordinary share (9 February 2009: 330 cents)	**1 580**	2 245
4 August 2010 interim dividend number 48 of 225 cents per ordinary share (3 August 2009: 225 cents)	**1 616**	1 616
Dividends paid on shares held by Batho Bonke Capital (Proprietary) Limited in terms of the bridging finance arrangement (refer to note 54.2)	**—**	(56)
Dividends paid on treasury shares held by Absa Group companies	**(5)**	(5)
	3 191	3 800
Dividends paid to ordinary equity holders relating to income for the year		
4 August 2010 interim dividend number 48 of 225 cents per ordinary share (3 August 2009: 225 cents)	**1 616**	1 616
15 February 2011 final dividend number 49 of 230 cents per ordinary share (16 February 2010: 220 cents)	**1 652**	1 580
Dividends paid on shares held by Batho Bonke Capital (Proprietary) Limited in terms of the bridging finance arrangement (refer to note 54.2)	**—**	(56)
Dividends paid on treasury shares held by Absa Group companies	**(3)**	(2)
	3 265	3 138
The STC payable by the Group in respect of the dividend approved and declared subsequent to the reporting date, amounts to R165 million (2009: R158 million). No provision has been made for this dividend and the related STC in the financial statements at the reporting date.		
Dividends paid to non-controlling 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 non-controlling 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 Group 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.

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

Reverse repurchase agreements and cash collateral on securities borrowed

Reverse repurchase agreements are accounted for as collateralised loans under loans and advances while cash collateral is shown under other assets.

	Group			
	Cash collateral on securities borrowed 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 assets	3 276	—	7 191	—
Loans and advances to customers (refer to note 8)	—	3 063	—	1 988
	3 276	11 320	7 191	12 861

As part of the reverse repurchase agreements, the Group has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the 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 Group. Amounts received from the counterparty are treated as deposits.

	Group Repurchase agreements	
	2010 Rm	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' to the value of R7 309 million, refer to note 4.

Notes to the consolidated financial statements

For the year ended 31 December

	Group	
	2010 Rm	2009 Rm
47. Assets transferred not derecognised		
In the ordinary course of business, the Group 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 Group 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 Group. In the current year R362 million was transferred back to the Group.

This entity is consolidated by the Group based on the following conclusions reached in terms of SIC-12:

- » The Group bears credit risk through its holding of notes issued by the entities.
- » The Group receives the return on the notes issued, a servicing fee and the residual income in the entities.
- » The Group retains the majority of the residual ownership risks relating to this entity through a combination of its preference share investment and its holding of the notes issued by the entity.

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 Group sold certain exposures to Commissioner Street, an SPE established by the Group. 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 Group 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 Group being exposed to the majority of risks and rewards of Commissioner Street, the Group failed to derecognise the exposures in terms of IAS 39 and is also required to consolidate Commissioner Street in terms of SIC-12. The Group 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 Group transferred retail mortgages to Home Obligors Mortgage Enhanced Securities (Proprietary) Limited (Homes) in previous years.

Homes is consolidated by the Group based on the following conclusions reached in terms of SIC-12:

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

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 46.

48. Related parties

Barclays Bank PLC owns 55,5% (2009: 55,5%) of the ordinary shares in the Group. 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 Group:

- » key management personnel (refer to notes 48.1 and 48.2);
- » the parent company (refer to note 48.3);
- » subsidiaries (refer to note 48.4);
- » associates, joint ventures and retirement benefit funds (refer to note 48.5);
- » 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 Group; and
- » children and/or dependants and spouses or partners of the individuals referred to above.

48. Related parties *(continued)*

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 Group Executive Committee (Exco).

48.1 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:

	Group			
	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 Group are entitled to.

	Group			
	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 Group	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 Group.

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48. Related parties *(continued)*

48.1 Transactions with key management personnel *(continued)*

	Group			
	Trans-actions with key manage-ment 2010 Rm	Trans-actions with entities controlled by key manage-ment 2010 Rm	Trans-actions with key manage-ment 2009 Rm	Trans-actions with entities controlled by key manage-ment 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).

	Group	
	2010 Rm	2009 Rm

48. Related parties *(continued)*

48.2 Key management personnel compensation

	2010 Rm	2009 Rm
Executive directors		
Post-employment benefit contributions	**1**	1
Salaries and other short-term benefits	**38**	38
Share-based payments	**17**	26
Termination benefits	**10**	22
	66	87
Other key management personnel		
Post-employment benefit contributions	**2**	1
Salaries and other short-term benefits	**43**	19
Share-based payments	**33**	17
Termination benefits	**—**	9
	78	46

48.3 Balances and transactions with parent company

	2010 Rm	2009 Rm
Balances		
Loans and advances	**15 673**	10 436
Derivative assets	**9 144**	6 936
Nominal value of derivative assets	**493 402**	341 406
Other assets	**552**	196
Reinsurance assets	**—**	18
Investment securities	**581**	509
Deposits	**(6 082)**	(8 246)
Debt securities in issue	**—**	(15)
Derivative liabilities	**(9 006)**	(8 450)
Nominal value of derivative liabilities	**(375 467)**	(318 237)
Other liabilities	**(267)**	(287)
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
Dividends paid	**1 774**	2 213

All transactions entered into are on the same commercial terms and conditions as in the normal course of business.

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48. Related parties *(continued)*

48.4 Subsidiaries

Details of the material subsidiaries are as follows:

Name	Nature of business
Absa Group Limited and its subsidiaries	
Absa Capital Securities (Proprietary) Limited[1]	Stockbrokers
Absa Development Company Holdings (Proprietary) Limited (Devco)	Specialises in township development and sale of residential, commercial and industrial land.
Absa Manx Holdings Limited	Captive insurance company for the Group and responsible for investments in the insurance markets.
Absa Stockbrokers (Proprietary) Limited	Enables customers to trade online or by telephone in shares, warrants and exchange traded funds.
Absa Trading and Investment Solutions Holdings Limited	Financial investment company.
AllPay Consolidated Investment Holdings (Proprietary) Limited	Distributes social security grants and other payments to beneficiaries on behalf of third parties, mainly provincial government departments.
Barclays Bank Mozambique S.A. (incorporated in Mozambique)	Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs.
Blue Age Properties 60 (Proprietary) Limited	Property Fund.
Diluculo Investments (Proprietary) Limited	Investment holding and management company, providing project and management services to property funds and trading projects.
MB Acquired Operations (Proprietary) Limited (formerly Meeg Bank Limited)	Provides a comprehensive range of banking and financial services to the personal market, small- to medium-sized corporates and the public sector in the Eastern Cape.
National Bank of Commerce Limited (NBC) (incorporated in Tanzania)	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.
Unifer Holdings Limited	Microlending holding company.
Woodbook Finance Limited	Markets and delivers a range of banking and insurance products to medical and dental practitioners and private hospitals.
Woolworths Financial Services (Proprietary) Limited	Provides credit cards, in-store cards and personal loans.
Absa Bank Limited and subsidiaries	
Absa Bank Limited	Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customers.
Absa Capital Representative Office Nigeria Limited[1]	Representative office to facilitate trade and obtain market share in Nigeria.
Absa Debtor Finance Company (Proprietary) Limited	Provides debtor financing to business customers.
Abseq Properties (Proprietary) Limited[2]	Property development and investment company.
Ambit Management Services (Proprietary) Limited	Property management company.
Ngwenya River Estate (Proprietary) Limited	Residential property development.
Sanlam Home Loans (Proprietary) Limited[3]	Offers residential property related ownership solutions to individuals.
The Ballito Junction Development (Proprietary) Limited	Retail property development company.
Absa Financial Services and subsidiaries	
Absa Asset Management (Proprietary) Limited	An institutional asset management company that offers fixed income, equity, structured products and alternative investment solutions to customers through various pooled and segregated investment mandates.
Absa Consultants and Actuaries (Proprietary) Limited	Offers comprehensive administrative, actuarial and consulting services, including asset consulting services in respect of pension funds, provident funds and other employee benefit group schemes.
Absa Financial Services Limited	Holding company of financial service related entities.
Absa Fund Managers Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.
Absa Health Care Consultants (Proprietary) Limited	To advise medical funds and other persons and institutions on any matter relating to the structure and management of medical funds and health care benefits.
Absa *idirect* Limited	Short-term insurance business.
Absa Insurance and Financial Advisers (Proprietary) Limited (previously known as Absa Brokers (Proprietary) Limited)	Provides a full spectrum of financial advisory services ranging from risk management to wealth creation, preservation and estate planning.
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.
Absa Investment Management Services (Proprietary) Limited	Approved investment manager and linked investment service provider. Offers off-the-shelf local and international linked investment products, as well as investment solutions to suit specific needs.

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.*

	Group					
					Shares at book value	
Country of incorporation	Issued capital 2010 Rm	Direct/ indirect holding 2010 %	Issued capital 2009 Rm	Direct/ indirect holding 2009 %	2010 Rm	2009 Rm
South Africa	0	100	—	—	0	—
South Africa	0	100	0	100	0	0
Isle of Man	0	100	0	100	436	436
South Africa	0	100	0	100	0	0
South Africa	8	100	8	100	857	857
South Africa	0	100	0	100	0	0
Mozambique	434	96	165	80	399	131
South Africa	0	100	0	100	0	0
South Africa	0	100	0	100	0	0
South Africa	1	100	1	100	1	1
Tanzania	81	55	81	55	86	86
South Africa	13	100	13	100	0	0
South Africa	0	100	0	100	75	75
South Africa	918	50	918	50	907	907
South Africa	303	100	303	100	13 347	12 347
Nigeria	0	100	—	—	0	—
South Africa	0	100	0	100	0	0
South Africa	336	85	336	85	301	301
South Africa	0	100	0	100	38	38
South Africa	0	100	0	100	131	131
South Africa	0	100	—	—	—	—
South Africa	35	100	35	100	161	161
South Africa	0	100	0	100	70	70
South Africa	0	100	0	100	1	1
South Africa	0	100	0	100	118	118
South Africa	3	100	3	100	3	3
South Africa	0	100	0	100	0	0
South Africa	1	100	1	100	40	40
South Africa	0	100	0	100	2	2
South Africa	31	100	31	100	31	31
South Africa	0	100	0	100	0	0

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48. Related parties *(continued)*

48.4 Subsidiaries *(continued)*

Details of the material subsidiaries are as follows:

Name	Nature of business
Absa Life Limited	Provides life insurance products focusing on risk and investment products that complement the Group's offerings to various market segments.
Absa Mortgage Fund Managers (Proprietary) Limited	Provides loans to small and large companies, close corporations, trusts, property investors and developers for the development, acquisition or refinancing of income-producing commercial and industrial properties.
Absa Portfolio Managers (Proprietary) Limited	Marketing and exploiting of investment services through direct delivery systems and managing and administration of investment business.
Absa Trust Limited	Main activities include the drafting and safe custody of wills, the administration of deceased estates and trusts, portfolio management and estate and financial planning.
Abvest Holdings (Proprietary) Limited	Holding company of asset management related entities.
Share trusts	
Absa Group Limited Employee Share Ownership Administrative Trust	Share purchase and option scheme to all staff.
Absa Group Limited Share Incentive Trust	Share purchase and option scheme to senior staff.
Batho Bonke Absa Historical Disadvantaged South Africans (HDSA) Employee Trust	BBBEE trust.
Special purpose entities	
Absa Benefit Fund	Cell captive.
Absa Foundation Trust	Funds community upliftment. Receives a percentage of the Group's dividends which it distributes to identified community-related projects.
Absa General Fund	Fund used to invest in unit trusts.
Alpha Trust	Provides preference share funding.
Absa Property Equity Fund[1]	Unit trust.
Asset Backed Collaterised Securities (Proprietary) Limited (Abacas)	SPE for Absa Capital division.
Collaterised Auto Receivables Securitisation Programme (Proprietary) Limited	Securitisation vehicle for Absa Vehicle and Asset Finance division.
Collaterised Auto Receivables Securitisation Series 1 (Proprietary) Limited	Securitisation vehicle for Absa Vehicle and Asset Finance division.
Commissioner Street No. 1 (Proprietary) Limited[2]	SPE for Absa Capital division, with asset backed securities.
Home Obligors Mortgage Enhanced Securities (Proprietary) Limited	Securitisation vehicle for Absa Home Loans division.
IFU Property Fund	Unit trust.
Woolworths Financial Services Cell Captive[2]	Provides credit life insurance to Woolworths Financial Services customers.

	2010 Rm	2009 Rm
Subsidiaries' aggregate profits and losses after taxation[3]	**8 127**	6 890

Notes

[1] *The entity was disposed of during the current year.*

[2] *The entity was incorporated during the current year.*

[3] *Profit for the year attributable to ordinary equity holders excluding share of post-tax results of associates and joint ventures.*

	Group					
	Issued capital	**Direct/ indirect holding**	Issued capital	Direct/ indirect holding	Shares at book value	
Country of incorporation	**2010 Rm**	**2010 %**	2009 Rm	2009 %	**2010 Rm**	2009 Rm
South Africa	**24**	**100**	24	100	**24**	24
South Africa	**2**	**100**	2	100	**2**	2
South Africa	**9**	**100**	9	100	**9**	9
South Africa	**0**	**100**	0	100	**11**	11
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**n/a**	**n/a**	n/a	n/a	**n/a**	n/a
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**n/a**	**n/a**	n/a	n/a	**n/a**	n/a
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**—**	n/a	75	**—**	160
South Africa	**0**	**n/a**	0	n/a	**n/a**	n/a
South Africa	**0**	**n/a**	0	n/a	**n/a**	n/a
South Africa	**0**	**n/a**	0	n/a	**n/a**	n/a
South Africa	**0**	**n/a**	—	—	**n/a**	—
South Africa	**0**	**n/a**	0	n/a	**n/a**	n/a
United Kingdom	**n/a**	**100**	n/a	100	**126**	126
South Africa	**n/a**	**100**	—	—	**n/a**	—

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48. Related parties *(continued)*

48.5 Associates, joint ventures and retirement benefit fund

The Group provides certain banking and financial services to associates and joint ventures. The Group also provides a number of current and interest-bearing cash accounts to the 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 Group's financial statements are as follows:

Group

	2010		
	Associates and joint ventures Rm	**Retirement benefit fund Rm**	**Total Rm**
Value of Absa Group Pension Fund investments managed by the Group	**—**	**7 193**	**7 193**
Value of Absa Group Limited ordinary shares held by the Absa Group Pension Fund	**—**	**116**	**116**
Value of other 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)**
Other liabilities	**(47)**	**—**	**(47)**
Derivative transactions	**4**	**—**	**4**
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	**—**	**635**	**635**

	2009		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of Absa Group Pension Fund investments managed by the Group	—	7 047	7 047
Value of Absa Group Limited ordinary shares held by the Absa Group Pension Fund	—	69	69
Value of other 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	—	551	551

48. Related parties *(continued)*

48.5 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
Spring Valley Investments (Proprietary) Limited	Property development.	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
One Commercial Investment Holdings (Proprietary) Limited[4]	Cell captive.	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
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 Group, 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.*

Notes to the consolidated financial statements

For the year ended 31 December

48. Related parties *(continued)*

48.5 Associates, joint ventures and retirement benefit fund *(continued)*

Name
Equity-accounted associates
Blue Financial Services Limited[2]
Sekunjalo Investments Limited
Spring Valley Investments (Proprietary) Limited
Equity-accounted joint ventures
FFS Finance South Africa (Proprietary) Limited
Integrated Processing Solutions (Proprietary) Limited
Kilkishen Investments (Proprietary) Limited
MAN Financial Services (S.A.) (Proprietary) Limited
Meadowood Investments 8 (Proprietary) Limited
One Commercial Investment Holdings (Proprietary) Limited[3]
Stand 1135 Houghton (Proprietary) Limited
Virgin Money South Africa (Proprietary) Limited[4]
Associates and joint ventures designated at fair value through profit or loss
Absa Corob Trust Joint Venture
African Spirit Trading 309 (Proprietary) Limited[5]
Agrista (Proprietary) Limited[4]
Amrichprop 49 Properties (Proprietary) Limited[6]
Barrie Island Property Investments (Proprietary) Limited
Birchacres Mall (Proprietary) Limited
Cherry Vanilla Investments (Proprietary) Limited
Culemborg Investment Properties (Proprietary) Limited
Mall on 14th Avenue (Proprietary) Limited
Maxcity Homes (Proprietary) Limited
Maxcity Properties (Proprietary) Limited[4]
Mogale City Mall (Proprietary) Limited
Northern Lights Trading 197 (Proprietary) Limited
Pacific Heights Investments 196 (Proprietary) Limited
Palm Hill Property Investments (Proprietary) Limited[4]
Parsons Vlei Development (Proprietary) Limited
Persistent Properties (Proprietary) Limited
Retail Africa Wingspan Investments (Proprietary) Limited
Royal Bafokeng Nations Administration (Proprietary) Limited[7]
Somerset West Autopark (Proprietary) Limited
Sovereign Seekers (Proprietary) Limited[7]
Supreme Cylinders (Proprietary) Limited[7]
The Racing Investment Trust[4]
Tropical Mushrooms (Proprietary) Limited[7]

Notes

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

[2] *Transferred to investment securities during the year.*

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

[4] *Disposed of during the year.*

[5] *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.*

[6] *Acquired during the year.*

[7] *Transferred from investment securities during the year.*

Group					
2010					
Carrying value Rm	Total assets[1] Rm	Total liabilities[1] Rm	Equity-accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
—	—	—	—	—	7
41	728	(324)	2	—	26
10	73	(74)	(1)	0	37
259	8 025	(7 508)	1	5	50
23	115	(39)	4	—	50
33	108	(52)	2	—	50
41	1 925	(1 842)	(15)	1	50
0	550	(742)	—	0	50
0	131	(126)	0	0	49
9	19	(10)	1	—	50
—	—	—	(3)	—	—
n/a	0	(0)	n/a	—	50
n/a	0	(83)	n/a	83	50
n/a	—	—	n/a	—	47
n/a	52	(0)	n/a	—	50
n/a	46	(47)	n/a	—	40
n/a	180	(185)	n/a	—	50
n/a	83	(29)	n/a	—	30
n/a	262	(203)	n/a	118	50
n/a	0	0	n/a	—	30
n/a	0	(229)	n/a	229	50
n/a	—	—	n/a	—	40
n/a	0	(0)	n/a	—	30
n/a	240	(99)	n/a	—	50
n/a	348	(204)	n/a	—	50
n/a	0	(0)	n/a	(0)	40
n/a	140	(202)	n/a	132	25
n/a	36	(37)	n/a	20	50
n/a	571	(434)	n/a	—	30
n/a	34	(16)	n/a	—	40
n/a	87	(82)	n/a	23	33
n/a	4	(4)	n/a	—	24
n/a	3	(4)	n/a	—	25
n/a	0	(0)	n/a	—	20
n/a	10	(10)	n/a	—	49

Notes to the consolidated financial statements

For the year ended 31 December

48. Related parties *(continued)*

48.5 Associates, joint ventures and retirement benefit fund *(continued)*

Name
Equity-accounted associates
Ambit Properties Limited[2]
Blue Financial Services Limited[3, 4]
Pinnacle Point Group Limited[3]
Sekunjalo Investments Limited[3]
Spring Valley Investments (Proprietary) Limited
Unitrans Finance (Proprietary) Limited[5]
Equity-accounted joint ventures
FFS Finance South Africa (Proprietary) Limited
Integrated Processing Solutions (Proprietary) Limited[5]
Kilkishen Investments (Proprietary) Limited[5]
MAN Financial Services (S.A.) (Proprietary) Limited
Meadowood Investments 8 (Proprietary) Limited
Sanlam Home Loans (Proprietary) Limited
Stand 1135 Houghton (Proprietary) Limited[5]
Virgin Money South Africa (Proprietary) Limited
Associates and joint ventures designated at fair value through profit or loss
Absa Corob Trust Joint Venture
African Spirit Trading 309 (Proprietary) Limited[6]
Agrista (Proprietary) Limited
Barrie Island Property Investments (Proprietary) Limited
Birchacres Mall (Proprietary) Limited
Cherry Vanilla Investments (Proprietary) Limited
Culemborg Investment Properties (Proprietary) Limited
Mall on 14th Avenue (Proprietary) Limited
Maxcity Homes (Proprietary) Limited
Maxcity Properties (Proprietary) Limited
Mogale City Mall (Proprietary) Limited
Northern Lights Trading 197 (Proprietary) Limited
Pacific Heights Investments 196 (Proprietary) Limited
Palm Hill Property Investments (Proprietary) Limited
Parsons Vlei Development (Proprietary) Limited
Persistent Properties (Proprietary) Limited
Retail Africa Wingspan Investments (Proprietary) Limited
Somerset West Autopark (Proprietary) Limited
The Racing Investment Trust

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.*

[6] *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.*

Carrying value Rm	Total assets[1] Rm	Total liabilities[1] Rm	Equity-accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
Group 2009					
—	—	—	4	—	—
58	2 459	(1 552)	—	—	20
—	1 685	(970)	—	—	23
41	723	(331)	(13)	—	26
14	35	(28)	(0)	—	37
0	0	(0)	—	—	35
258	8 337	(7 820)	(41)	4 619	50
19	85	(33)	8	—	50
32	107	(52)	(0)	—	50
57	2 065	(1 952)	0	1 181	50
0	513	(722)	—	356	50
—	4 978	(5 006)	—	1 569	50
8	20	(10)	(0)	—	50
0	30	(106)	(8)	0	50
n/a	10	—	n/a	—	50
n/a	695	(362)	n/a	79	50
n/a	—	—	n/a	—	47
n/a	42	(45)	n/a	—	40
n/a	0	(0)	n/a	—	50
n/a	150	(49)	n/a	22	30
n/a	273	(193)	n/a	120	50
n/a	181	(157)	n/a	—	30
n/a	52	(18)	n/a	—	50
n/a	125	(248)	n/a	212	40
n/a	95	(39)	n/a	—	30
n/a	230	(86)	n/a	—	50
n/a	328	(182)	n/a	—	50
n/a	41	(21)	n/a	(3)	40
n/a	176	(183)	n/a	120	25
n/a	26	(33)	n/a	19	50
n/a	2 666	(2 107)	n/a	283	30
n/a	71	(31)	n/a	18	33
n/a	77	(26)	n/a	23	20

Notes to the consolidated financial statements

For the year ended 31 December

	Group 2010 Rm	2009 Rm
49. Assets under management and administration		
Deceased estates	**2 153**	2 247
Other	**10 898**	11 557
Participation bond schemes	**2 315**	2 105
Portfolio management	**21 145**	17 770
Trusts	**6 482**	5 803
Unit trusts	**125 320**	115 632
	168 313	155 114
50. Financial guarantee contracts		
Financial guarantee contracts	**599**	1 007

Financial guarantee contracts represent contracts where the Group undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument. This amount represents the maximum off-statement of financial position exposure.

	Group 2010 Rm	2009 Rm
51. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**1 061**	928

The Group 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.

	Group 2010 Rm	2009 Rm
Operating lease payments due		
No later than one year	**1 066**	1 157
Later than one year and no later than five years	**2 059**	2 135
Later than five years	**482**	307
	3 607	3 599

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 Group. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

	Group 2010 Rm	2009 Rm
52. Contingencies		
Guarantees	**11 051**	10 484
Irrevocable debt facilities	**46 495**	54 517
Irrevocable equity facilities	**750**	—
Letters of credit	**4 979**	5 007
Other contingencies	**44**	5
	63 319	70 013

52. Contingencies *(continued)*

Irrevocable facilities are commitments to extend credit where the Group does not have the right to terminate the facilities by written notice. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Guarantees include performance guarantee contracts and payment guarantee contracts.

Legal proceedings

The Group has been party in proceedings against it during the year, and as at year-end the following cases need further disclosure:

» The Group 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 Group 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 the claim and reduce the amount claimed by R70 million to R129,5 million. The Group 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 Group, 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.

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 Group's control, but especially in the area of banking regulation, are likely to have an impact on the Group's businesses and earnings.

The Group 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 Group has also adopted appropriate remedial and/or mitigating steps, where necessary or advisable, and made disclosures on material findings as and when appropriate.

	Group	
	2010 Rm	2009 Rm
53. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**4 939**	5 175
Loans and advances to banks	**1 478**	1 801
	6 417	6 976
54. Share-based payments		
During the year, R48 million (2009: R123 million) and R249 million (2009: R100 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 38):		
Equity-settled arrangements:		
Absa Group Limited Executive Share Award Scheme	**55**	78
Absa Group Limited Performance Share Plan	**(19)**	19
Absa Group Limited Share Incentive Scheme	**12**	26
Cash-settled arrangements:		
Absa Group Limited Deferred Award Plan[1]	**162**	—
Absa Group Limited Phantom Executive Share Award Scheme	**(9)**	40
Absa Group Limited Phantom Joiners Share Award Plan	**72**	51
Absa Group Limited Phantom Performance Share Plan	**—**	9
Absa Group Limited Retention Plan[1]	**24**	—
	297	223
Total carrying amount of liabilities for cash-settled arrangements (refer to note 19)	**302**	143

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 R17 million (2009: R5 million).

Notes to the consolidated financial statements

For the year ended 31 December

54. Share-based payments *(continued)*

54.1 Absa Group Limited Share Incentive Scheme

In terms of the rules of the Share Incentive Trust, the maximum number of shares of the Group that may be issued or transferred and/or in respect of which options may be granted to the participants, shall be limited to shares representing 10% of the total number of issued shares from time to time. This scheme is an equity-settled share-based payment arrangement and options are allocated to employees according to the normal human resources talent management processes. The options issued up to August 2005 (issue 192) had no performance criteria linked to them and vested in equal tranches after three, four and five years respectively. No dividends accrue to the option holder over the vesting period. The options expire after a period of 10 years from the issuing date. Options issued since August 2005 (issue 193) have performance criteria associated with them, which require headline earnings per share to exceed an agreed benchmark over a three-year period from the grant date for the options to vest. Participants need to be in the employment of the Group at the vesting date in order to be entitled to the options.

The number and weighted average exercise prices of share options are as follows:

	Group	
	2010	
	Number of options ’000	**Weighted exercise price R**
Outstanding at the beginning of the year	**6 298**	**79,09**
Exercised during the year	**(2 889)**	**79,09**
Forfeited during the year	**(173)**	**84,99**
Outstanding at the end of the year	**3 236**	**78,72**
Of which are exercisable	**2 691**	**73,02**
	2009	
	Number of options ’000	Weighted exercise price R
Outstanding at the beginning of the year	9 967	74,52
Exercised during the year	(3 569)	64,30
Forfeited during the year	(100)	88,15
Outstanding at the end of the year	6 298	79,09
Of which are exercisable	5 016	71,44

Options exercised during the year resulted in 2 889 318 (2009: 3 568 819) shares being allocated at an average exercise price of R79,09 (2009: R64,30) each. The related weighted average share price at the time of exercise was R133,67 (2009: R115,73).

54. Share-based payments *(continued)*

54.1 Absa Group Limited Share Incentive Scheme *(continued)*

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:

	Group			
	2010			
Exercise price ranges (R)	**Average option exercise price R**	**Weighted average contractual remaining life Years**	**Weighted average fair value R**	**Number of options outstanding**
28,73 – 37,43	**37,31**	**0,46**	**13,93**	**188 402**
25,16 – 35,97	**33,61**	**1,45**	**11,37**	**230 914**
31,99 – 35,01	**35,01**	**2,43**	**12,04**	**251 179**
44,36 – 68,93	**49,23**	**3,47**	**30,02**	**1 002 073**
72,36 – 94,63	**90,98**	**4,62**	**30,13**	**1 125 787**
100,30 – 113,75	**105,35**	**5,48**	**39,82**	**437 502**

	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	26,66	0,51	10,13	144 606
28,73 – 37,43	37,37	1,46	14,10	392 314
25,16 – 35,97	33,40	2,44	11,58	538 889
31,99 – 35,01	35,01	3,43	12,13	434 905
44,36 – 68,93	49,45	4,47	26,03	1 671 602
72,36 – 94,63	90,73	5,63	29,38	2 385 341
100,30 – 113,75	107,59	6,47	38,72	730 834

The following shares and options are available for allocation:

	Group	
	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

Notes to the consolidated financial statements

For the year ended 31 December

54. Share-based payments *(continued)*

54.2 Batho Bonke Capital (Proprietary) Limited

The Group entered into a BBBEE transaction with Batho Bonke Capital (Proprietary) Limited (Batho Bonke) in July 2004. The shares issued in terms of the transaction vested immediately. Due to the shares issued vesting immediately and also as a result of the issue being before 1 January 2005, the provisions of IFRS 2 were not applicable. In the previous year 49,9% of the options were repurchased from Batho Bonke at a discount to their fair value. Batho Bonke utilised the proceeds to exercise 11 970 536 options. The Group provided bridging finance for the remaining 24 678 764 options. The life of these options was effectively extended for three months, effective 1 June 2009. The modification did not result in an increase in the fair value of these options and therefore, in terms of the provisions of IFRS 2, no cost was recognised in the statement of comprehensive income.

The bridging finance was redeemed on 1 September 2009 and Batho Bonke exercised the balance of the options outstanding.

The number and weighted average exercise price of share options are as follows:

		Group	
	Weighted average exercise price R	Number of options 2010 '000	Number of options 2009 '000
Outstanding at the beginning of the year	48 – 69	—	73 152
Exercised during the year	68,30	—	(36 649)
Repurchased during the year	—	—	(36 503)
Outstanding at the end of the year	48 – 69	—	—
Of which are exercisable	48 – 69	—	—

54.3 Absa Group Limited Employee Share Ownership Administrative Trust

As of the implementation date (1 July 2004), all employees of South African wholly owned subsidiaries (excluding executive directors of Absa Group Limited and Absa Bank Limited), were eligible to participate in this one-off equity-settled share-based payment scheme. Each employee who elected to participate was issued and allotted 200 compulsory redeemable cumulative option-holding preference shares against a receipt of the R400,00 subscription price. A maximum of 7 315 200 preference shares were available for allocation to the trust.

On 1 July 2004, 6 085 200 preference shares were issued. The preference shares 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. The Group 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:

		Group	
	Weighted average exercise price R	Number of options 2010 '000	Number of options 2009 '000
Outstanding at the beginning of the year	48 – 69	—	559
Exercised during the year	67,23	—	(539)
Forfeited during the year	48 – 69	—	(20)
Outstanding at the end of the year	48 – 69	—	—
Of which are exercisable	48 – 69	—	—

54. Share-based payments *(continued)*

54.4 Absa Group Limited Phantom Performance Share Plan (Phantom PSP)

The Phantom PSP is a cash-settled plan and payments made to participants in respect of their awards are in the form of cash. The Phantom PSP 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 the Group'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.

	Group Number of awards	
	2010 '000	2009 '000
Outstanding at the beginning of the year	**1 186**	2 201
Exercised during the year	—	(982)
Forfeited during the year	**(1 186)**	(33)
Outstanding at the end of the year	—	1 186

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.

54.5 Absa Group Limited Executive Share Award Scheme (ESAS)

The ESAS is an equity-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of Absa Group Limited 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 performance bonus options in excess of a predetermined amount were compelled to place a set percentage of their bonus award into the ESAS. Employees also had the option of utilising more of their bonus options for voluntary ESAS options.

Notes to the consolidated financial statements

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54. Share-based payments *(continued)*

54.5 Absa Group Limited Executive Share Award Scheme (ESAS) *(continued)*

The following number of initial options allocated in terms of the scheme are eligible for the 20% and/or 10% matched options:

	Group Number of options	
	2010 ’000	2009 ’000
Outstanding at the beginning of the year	**2 184**	1 015
Forfeited during the year	**(109)**	(155)
Granted during the year	**—**	1 324
Outstanding at the end of the year	**2 075**	2 184

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 Group considers adjustments to reflect expectations for options that might be forfeited before the shares vest.

For purposes of determining the expected life and number of options to vest, historical exercise and forfeiture patterns were used.

54.6 Absa Group Limited Phantom Joiners Share Award Plan (JSAP)

The JSAP is a cash-settled share-based payment arrangement that enables the Group to attract and motivate new employees by buying out the ‘in the money’ portion of a participant’s shares or options under their previous employers’ share scheme by offering the employees Absa Group Limited phantom 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.

	Group Number of awards	
	2010 ’000	2009 ’000
Outstanding at the beginning of the year	**923**	954
Exercised during the year	**(255)**	(246)
Forfeited during the year	**(87)**	(90)
Granted during the year	**602**	305
Outstanding at the end of the year	**1 183**	923

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 Group considers adjustments to reflect expectations for phantom awards that might be forfeited before the awards vest. At each reporting date the Group adjusts the liability to reflect differences:

» between the share price at grant date and the share price at valuation date; and

» between actual and expected forfeited awards.

54. Share-based payments *(continued)*

54.7 Absa Group Limited Phantom Executive Share Award Scheme (Phantom ESAS)

The Phantom ESAS is a cash-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost phantom awards, based on the allocation price of Absa Group Limited's ordinary shares. If the participant is in the employ of the Group after the three-year vesting period, the participant will receive 20% matched phantom 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 awards, over the three- or five-year period. Employees that received a performance bonus in excess of a predetermined amount were compelled to place a set percentage of their bonus award into the Phantom ESAS. Employees also had the option of utilising more of their bonus award for voluntary 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:

	Group Number of awards	
	2010 '000	2009 '000
Outstanding at the beginning of the year	**455**	554
Exercised during the year	**(394)**	(111)
Forfeited during the year	**(36)**	(13)
Granted during the year	**128**	25
Outstanding at the end of the year	**153**	455
Of which are exercisable	**114**	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 phantom 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 Group considers adjustments to reflect expectations of phantom awards that might be forfeited before the awards vest. At each reporting date the Group adjusts the liability to reflect differences:

» between the share price at grant date and the share price at valuation date; and

» between actual and expected forfeited awards.

54.8 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 Group performance fails to meet the minimum performance criteria.

	Group Number of options	
	2010 '000	2009 '000
Outstanding at the beginning of the year	**3 417**	2 008
Forfeited during the year	**(199)**	(180)
Granted during the year	**—**	1 589
Outstanding at the end of the year	**3 218**	3 417

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54. Share-based payments *(continued)*

54.8 Absa Group Limited Performance Share Plan (PSP) *(continued)*

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 Group 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.

54.9 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 the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total.

	Group Number of awards	
	2010 '000	2009 '000
Outstanding at the beginning of the year	**—**	—
Granted during the year	**2 613**	—
Forfeited during the year	**(145)**	—
Outstanding at the end of the year	**2 468**	—

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 awards be settled immediately on vesting, at any given time there are no awards which have vested but have not yet been settled.

54.10 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.

	Group Number of awards	
	2010 '000	2009 '000
Outstanding at the beginning of the year	**—**	—
Granted during the year	**613**	—
Forfeited during the year	**(17)**	—
Outstanding at the end of the year	**596**	—

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.

55. Acquisitions and disposals of businesses

55.1 Acquisitions of businesses during the current year

55.1.1 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 Group acquired the underlying business. The termination resulted in the Group 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 Group for the period from 30 June 2010 to 31 December 2010. If the acquisition occurred on 1 January 2010, the Group'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:	Group 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.

55.1.2 The Group 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 Group and Sanlam had joint control over SHL. On 1 August 2010, the Group acquired the remaining 50% preference shares in SHL, which resulted in the Group controlling and consolidating SHL. SHL contributed a net profit before tax of R39 million and revenue of R12 million to the Group for the period from 1 August 2010 to 31 December 2010. If the acquisition occurred on 1 January 2010, the Group'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:	Group 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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55. Acquisitions and disposals of businesses *(continued)*

55.1 Acquisitions of businesses during the current year *(continued)*

55.1.2 *(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 Group 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.

	Group 2010 Rm
Total cash and cash equivalents acquired	**470**

55.2 Acquisitions of businesses during the previous year

55.2.1 On 31 January 2009, the Group 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 as fair value through profit or loss. Abseq contributed a net profit before tax of R10 million to the Group for the period 31 January 2009 to 31 December 2009. If the acquisitions had occurred on 1 January 2009, the Group'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:	Group 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 attributed to the synergies expected to arise after the Group'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.

55. Acquisitions and disposals of businesses *(continued)*

55.2 Acquisitions of businesses during the previous year *(continued)*

55.2.2 On 1 June 2009, the Group acquired a 100% interest in Blue Age Properties 60 (Proprietary) Limited.

	Group 2009 Fair value recognised on acquisition Rm
Net assets acquired	0
Satisfied by:	
Cash outflow on acquisition	0
Fair value of net assets acquired	0
Goodwill	0
Net cash outflow due to acquisitions	166

55.3 Disposal of businesses during the current year

55.3.1 Absa Property Equity Fund operated as an SPE for the investment of community upliftment projects. This fund was previously consolidated under SIC-12 as the Group held between 75% and 93% of units (depending on the total 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 Group 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 Group 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.

	Group
Details of the net assets disposed of are as follows:	**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 equivalents disposed	**(22)**
Net cash outflow on disposal	**(6)**

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56. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial instruments not held at fair value:

	Group			
	2010		2009[1]	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with other central banks	**859**	**859**	827	827
Balances with the SARB	**12 912**	**12 912**	10 983	10 983
Coins and bank notes	**4 939**	**4 939**	5 175	5 175
Money market assets	**2 180**	**2 180**	688	688
Cash, cash balances and balances with central banks (refer to note 2)	**20 890**	**20 890**	17 673	17 673
Loans and advances to banks (refer to note 4)	**17 830**	**17 829**	33 629	33 627
Other assets (refer to note 6)	**13 490**	**13 490**	15 620	15 620
Retail Banking	**325 790**	**326 475**	322 034	322 560
Cheque accounts	**2 211**	**2 211**	2 241	2 241
Credit cards	**18 319**	**18 319**	17 434	17 434
Instalment credit agreements	**39 549**	**39 927**	39 599	39 899
Loans to associates and joint ventures	**4 827**	**4 827**	6 187	6 187
Microloans	**1 662**	**1 784**	2 563	2 721
Mortgages	**245 963**	**246 148**	242 653	242 721
Other	**31**	**31**	305	305
Personal and term loans	**13 228**	**13 228**	11 052	11 052
Absa Capital	**41 178**	**41 315**	50 404	50 562
Absa Business Bank	**121 983**	**122 357**	123 188	123 454
Corporate	**23 173**	**23 244**	21 609	21 609
Large and Medium	**73 127**	**73 351**	73 543	73 690
Other	**20 615**	**20 679**	23 085	23 204
Small	**5 068**	**5 083**	4 951	4 951
Other and intergroup eliminations	**(1 053)**	**(1 053)**	517	517
Loans and advances to customers – net of impairment (refer to note 8)	**487 898**	**489 094**	496 143	497 093
Investment securities (refer to note 11)	**388**	**388**	408	408
Total	**540 496**	**541 691**	563 473	564 421

Note

[1]*Comparatives have been reclassified, refer to note 1.26.*

56. Fair value of financial instruments *(continued)*

	Group			
	2010		2009[1]	
	Carrying value Rm	**Fair value Rm**	Carrying value Rm	Fair value Rm
Financial liabilities				
Deposits from banks (refer to note 17)	**13 727**	**13 728**	29 222	29 262
Other liabilities (refer to note 19)	**9 076**	**9 075**	10 127	10 127
Call deposits	**54 707**	**54 828**	61 995	61 996
Cheque account deposits	**107 787**	**107 787**	92 265	92 265
Credit card deposits	**1 830**	**1 830**	1 868	1 868
Fixed deposits	**104 359**	**104 784**	98 095	98 342
Foreign currency deposits	**9 661**	**9 661**	9 011	9 011
Notice deposits	**11 365**	**11 370**	10 293	10 296
Other deposits	**3 702**	**3 703**	5 569	5 569
Saving and transmission deposits	**67 844**	**67 844**	64 717	64 717
Deposits due to customers (refer to note 21)	**361 255**	**361 807**	343 813	344 064
Debt securities in issue (refer to note 22)	**157 711**	**158 491**	163 589	165 059
Borrowed funds (refer to note 25)	**7 440**	**8 109**	7 221	7 436
Total	**549 209**	**551 210**	553 972	555 948

Note
[1]*Comparatives have been reclassified, refer to note 1.26.*

57. Segment report

57.1 Segment report per geographical segment

	Group			
	2010			
	South Africa Rm	**Rest of Africa Rm**	**Other foreign countries Rm**	**Total Rm**
Net interest income – external	**22 522**	**707**	**111**	**23 340**
Non-interest income – external	**19 101**	**403**	**(30)**	**19 474**
Total assets	**701 591**	**9 230**	**5 649**	**716 470**

	2009			
	South Africa Rm	Rest of Africa Rm	Other foreign countries Rm	Total Rm
Net interest income – external	20 894	822	138	21 854
Non-interest income – external	19 623	461	148	20 232
Total assets	693 908	9 633	7 255	710 796

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57. Segment report *(continued)*

57.2 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	**12 923**	12 669	**7 205**	7 090
Net interest income – external	**26 885**	32 225	**5 968**	6 889
Net interest income – internal	**(13 962)**	(19 556)	**1 237**	201
Impairment losses on loans and advances	**(4 820)**	(7 547)	**(1 075)**	(1 103)
Non-interest income	**10 368**	10 307	**4 421**	4 408
Non-interest income – external	**9 873**	9 969	**3 778**	3 980
Non-interest income – internal	**495**	338	**643**	428
Operating expenses	**(13 301)**	(12 225)	**(6 397)**	(5 624)
Depreciation and amortisation	**(404)**	(375)	**(45)**	(38)
Other operating expenses	**(12 897)**	(11 850)	**(6 352)**	(5 586)
Other impairments	**(25)**	(25)	**(1)**	(52)
Indirect taxation	**(228)**	(313)	**(62)**	(54)
Share of post-tax results of associates and joint ventures	**(2)**	(49)	**(12)**	4
Operating profit before income tax	**4 915**	2 817	**4 079**	4 669
Taxation expense	**(1 470)**	(709)	**(1 156)**	(1 395)
Profit for the year	**3 445**	2 108	**2 923**	3 274
Profit attributable to:				
Ordinary equity holders of the Group	**3 353**	1 945	**2 903**	3 235
Non-controlling interest – ordinary shares	**92**	163	**19**	38
Non-controlling interest – preference shares	**—**	—	**1**	1
	3 445	2 108	**2 923**	3 274
Headline earnings	**3 232**	1 749	**2 848**	3 206
Operating performance (%)				
Net interest margin on average interest-bearing assets[2]	**2,86**	3,02	**5,09**	4,85
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**1,49**	2,30	**0,90**	0,91
Non-interest income as a percentage of total operating income	**44,5**	44,9	**38,0**	38,3
Top-line growth	**1**	5	**1**	1
Cost growth	**9**	3	**14**	(3)
Cost-to-income ratio	**57,1**	53,2	**55,0**	48,9
Cost-to-assets ratio	**2,8**	2,8	**4,1**	3,5
Statement of financial position as at 31 December (Rm)				
Loans and advances to customers	**325 790**	322 034	**123 618**	125 181
Investment securities	**—**	—	**2 226**	2 355
Other assets	**143 253**	127 747	**40 994**	36 674
Total assets	**469 043**	449 781	**166 838**	164 210
Deposits due to customers	**115 046**	110 433	**136 619**	127 161
Debt securities in issue	**4 216**	4 810	**—**	—
Other liabilities	**345 883**	331 274	**27 247**	33 980
Total liabilities	**465 145**	446 517	**163 866**	161 141

Notes

[1] *Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank. Also refer to note 1.26 for additional reclassifications.*

[2] *The Group reassessed the criteria of certain internal loans during the year and re-aligned it 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 Group consolidated ratio.*

Absa Capital		Financial Services		Other		Head office and inter-segment eliminations		Absa Group	
2010 Rm	2009[1] Rm	2010 Rm	2009[1] Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009[1] Rm
2 730	2 042	10	21	(254)	45	726	(13)	23 340	21 854
(10 388)	(18 132)	10	12	676	945	189	(85)	23 340	21 854
13 118	20 174	—	9	(930)	(900)	537	72	—	—
(108)	(318)	(6)	(3)	—	1	4	3	(6 005)	(8 967)
2 496	2 404	3 594	3 372	(276)	(289)	(1 129)	30	19 474	20 232
3 294	2 080	3 084	3 653	(338)	(370)	(217)	920	19 474	20 232
(798)	324	510	(281)	62	81	(912)	(890)	—	—
(2 836)	(2 309)	(1 797)	(1 549)	(86)	(19)	347	869	(24 070)	(20 857)
(110)	(152)	(41)	(25)	(108)	(85)	(604)	(570)	(1 312)	(1 245)
(2 726)	(2 157)	(1 756)	(1 524)	22	66	951	1 439	(22 758)	(19 612)
(66)	(1 371)	1	(21)	(14)	88	(3)	(76)	(108)	(1 457)
(82)	(79)	(80)	(77)	(81)	(76)	(238)	(314)	(771)	(913)
2	—	—	—	—	—	3	(5)	(9)	(50)
2 136	369	1 722	1 743	(711)	(250)	(290)	494	11 851	9 842
(616)	(41)	(432)	(459)	362	434	50	(170)	(3 262)	(2 340)
1 520	328	1 290	1 284	(349)	184	(240)	324	8 589	7 502
1 480	288	1 290	1 284	(669)	(237)	(239)	325	8 118	6 840
40	40	—	—	—	—	—	—	151	241
—	—	—	—	320	421	(1)	(1)	320	421
1 520	328	1 290	1 284	(349)	184	(240)	324	8 589	7 502
1 527	1 272	1 291	1 300	(623)	(282)	(234)	376	8 041	7 621
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,01	3,74
0,20	0,49	n/a	n/a	n/a	n/a	n/a	n/a	1,20	1,74
47,8	54,1	99,7	99,4	n/a	n/a	n/a	n/a	45,5	48,1
18	(21)	6	(2)	n/a	n/a	n/a	n/a	2	(2)
23	(5)	16	13	n/a	n/a	n/a	n/a	15	(1)
54,3	51,9	49,9	45,7	n/a	n/a	n/a	n/a	56,2	49,6
0,8	0,5	5,3	4,5	n/a	n/a	n/a	n/a	3,3	2,8
50 044	58 301	242	268	622	131	(1 681)	248	498 635	506 163
10 611	14 403	10 541	12 016	—	151	448	639	23 826	29 564
304 653	292 875	12 164	21 669	78 465	72 119	(385 520)	(376 015)	194 009	175 069
365 308	365 579	22 947	33 953	79 087	72 401	(386 753)	(375 128)	716 470	710 796
127 462	118 371	—	—	—	—	(1 016)	400	378 111	356 365
148 061	156 534	—	—	14 465	13 254	(2 197)	(3 222)	164 545	171 376
86 455	87 886	18 975	30 525	19 357	18 493	(386 252)	(375 593)	111 665	126 565
361 978	362 791	18 975	30 525	33 822	31 747	(389 465)	(378 415)	654 321	654 306

Notes to the consolidated financial statements

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57. Segment report *(continued)*

57.2 Segment report per market segment *(continued)*

	Retail Banking 2010 Rm	Retail Banking 2009[1] Rm	Absa Business Bank 2010 Rm	Absa Business Bank 2009[1] Rm
Financial performance (%)				
Return on average economic capital[2] (unaudited)	**17,9**	9,6	**23,9**	24,3
Return on average assets	**0,68**	0,40	**1,82**	2,01
Other (unaudited)				
Banking customer base by segment (millions)[3]	**11,3**	11,1	**0,5**	0,6
Attributable income from the rest of Africa (Rm)	**(85)**	49	**(23)**	20

57.3 Retail Banking segment

	Home Loans 2010 Rm	Home Loans 2009 Rm	Vehicle and Asset Finance 2010 Rm	Vehicle and Asset Finance 2009 Rm
Statement of comprehensive income				
Net interest income	**3 204**	2 860	**1 830**	1 961
Net interest income – external	**18 493**	22 766	**4 773**	5 838
Net interest income – internal	**(15 289)**	(19 906)	**(2 943)**	(3 877)
Impairment losses on loans and advances	**(2 202)**	(3 946)	**(941)**	(944)
Non-interest income	**327**	273	**363**	318
Non-interest income – external	**157**	104	**338**	319
Non-interest income – internal	**170**	169	**25**	(1)
Operating expenses	**(1 090)**	(1 005)	**(906)**	(842)
Other	**12**	(62)	**21**	(79)
Operating profit before income tax	**251**	(1 880)	**367**	414
Taxation expense	**(55)**	581	**(87)**	(149)
Profit for the year	**196**	(1 299)	**280**	265
Profit attributable to:				
Ordinary equity holders of the Group	**196**	(1 299)	**280**	265
Non-controlling interest – ordinary shares	**—**	—	**—**	—
	196	(1 299)	**280**	265
Headline earnings	**125**	(1 299)	**280**	265

Notes

[1]*Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank. Also refer to note 1.26 for additional reclassifications.*

[2]*Financial Services' return on average equity is 34,8% (2009: 37,9%) and Absa Group's return on average equity is 15,1% (2009: 15,5%).*

[3]*Includes African operations.*

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

Absa Capital 2010 Rm	Absa Capital 2009[1] Rm	Financial Services 2010 Rm	Financial Services 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 Group 2010 Rm	Absa Group 2009[1] Rm
16,5	14,9	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**19,7**	18,2
0,41	0,30	**3,81**	3,74	**n/a**	n/a	**n/a**	n/a	**1,12**	1,02
0,0	0,0	**—**	—	**—**	—	**—**	—	**11,8**	11,7
219	192	**3**	0	**—**	24	**(22)**	—	**92**	285

Card 2010 Rm	Card 2009 Rm	Personal Loans[4] 2010 Rm	Personal Loans[4] 2009 Rm	Retail Bank[4] 2010 Rm	Retail Bank[4] 2009[1] Rm	Total 2010 Rm	Total 2009[1] Rm
2 304	2 284	**1 652**	1 538	**3 933**	4 026	**12 923**	12 669
3 094	3 473	**2 313**	2 345	**(1 788)**	(2 197)	**26 885**	32 225
(790)	(1 189)	**(661)**	(807)	**5 721**	6 223	**(13 962)**	(19 556)
(466)	(1 287)	**(510)**	(1 005)	**(701)**	(365)	**(4 820)**	(7 547)
2 051	1 977	**284**	215	**7 343**	7 524	**10 368**	10 307
2 076	1 992	**234**	194	**7 068**	7 360	**9 873**	9 969
(25)	(15)	**50**	21	**275**	164	**495**	338
(1 732)	(1 644)	**(673)**	(711)	**(8 900)**	(8 023)	**(13 301)**	(12 225)
(66)	(65)	**(9)**	(8)	**(213)**	(173)	**(255)**	(387)
2 091	1 265	**744**	29	**1 462**	2 989	**4 915**	2 817
(643)	(389)	**(229)**	(9)	**(456)**	(743)	**(1 470)**	(709)
1 448	876	**515**	20	**1 006**	2 246	**3 445**	2 108
1 346	811	**515**	20	**1 016**	2 148	**3 353**	1 945
102	65	**—**	—	**(10)**	98	**92**	163
1 448	876	**515**	20	**1 006**	2 246	**3 445**	2 108
1 344	811	**515**	20	**968**	1 952	**3 232**	1 749

Notes to the consolidated financial statements

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57. Segment report *(continued)*

57.3 Retail Banking segment *(continued)*

	Home Loans 2010 Rm	Home Loans 2009 Rm	Vehicle and Asset Finance 2010 Rm	Vehicle and Asset Finance 2009 Rm
Operating performance (%)				
Impairment losses on loans and advances as % of average loans and advances to customers	**0,98**	1,76	**2,16**	2,05
Cost-to-income ratio	**30,9**	32,1	**41,3**	37,0
Statement of financial position as at 31 December (Rm)				
Loans and advances to customers	**226 137**	222 905	**44 247**	43 843
Total assets	**247 881**	241 457	**51 020**	50 543
Deposits due to customers	**—**	—	**9**	7
Total liabilities	**247 676**	242 171	**50 264**	49 834
Financial performance (%)				
Return on average economic capital (unaudited)	**1,6**	(18,3)	**8,5**	7,4

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 2010 Rm	Card 2009 Rm	Personal Loans[1] 2010 Rm	Personal Loans[1] 2009 Rm	Retail Bank[1] 2010 Rm	Retail Bank[1] 2009[2] Rm	Total 2010 Rm	Total 2009[2] Rm
2,57	7,13	**4,78**	10,45	**2,55**	1,23	**1,49**	2,30
39,8	38,6	**34,8**	40,6	**78,9**	69,5	**57,1**	53,2
19 264	17 574	**11 843**	9 697	**24 299**	28 015	**325 790**	322 034
26 609	24 146	**12 887**	9 488	**130 646**	124 147	**469 043**	449 781
1 826	1 711	**4**	—	**113 207**	108 715	**115 046**	110 433
25 143	23 044	**12 578**	9 475	**129 484**	121 993	**465 145**	446 517
44,4	28,1	**33,3**	1,3	**36,8**	62,0	**17,9**	9,6

Notes to the consolidated financial statements

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57. Segment report *(continued)*

57.4 Absa Business Bank segment

	2010 Rm	Excluding real estate investment portfolio[1] 2010 Rm	2009[2] Rm	Excluding real estate investment portfolio[1] 2009[2] Rm
Statement of comprehensive income				
Net interest income	7 205	7 624	7 090	7 511
Impairment losses on loans and advances	(1 075)	(1 075)	(1 103)	(1 103)
Non-interest income	4 421	3 951	4 408	3 714
Operating expenses	(6 397)	(6 296)	(5 624)	(5 480)
Other	(75)	(78)	(102)	(114)
Operating profit before income tax	4 079	4 126	4 669	4 528
Taxation expense	(1 156)	(1 169)	(1 395)	(1 353)
Profit for the year	2 923	2 957	3 274	3 175
Profit attributable to:				
Ordinary equity holders of the Group	2 903	2 937	3 235	3 136
Non-controlling interest – ordinary shares	19	19	38	38
Non-controlling interest – preference shares	1	1	1	1
	2 923	2 957	3 274	3 175
Headline earnings	2 848	2 882	3 206	3 107

	2010 Rm	2009[1, 2] Rm
Operating profit before income tax by business area		
Large	1 293	1 808
Medium	1 046	982
Small	1 367	1 311
Corporate	425	345
Africa	(5)	82
Real estate investment portfolio[3]	(47)	141
CPF equities	23	152
Devco	(70)	(11)
	4 079	4 669
Statement of financial position as at 31 December		
Loans and advances to customers	123 618	125 181
Total assets	166 838	164 210
Deposits due to customers	136 619	127 161
Total liabilities	163 866	161 141

Notes

[1]*Devco is now disclosed as part of the real estate portfolio together with the CPF equity portfolio.*

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

[3]*Operating profit before income tax includes realised and unrealised profits on listed CPF equities, unlisted CPF equities and Devco.*

57. Segment report *(continued)*

57.5 Absa Capital segment

	2010 Rm	2009 Rm
Statement of comprehensive income		
Net interest income	**2 730**	2 042
Impairment losses on loans and advances	**(108)**	(318)
Non-interest income	**2 496**	2 404
Operating expenses	**(2 836)**	(2 309)
Other	**(146)**	(1 450)
Operating profit before income tax	**2 136**	369
Taxation expense	**(616)**	(41)
Profit for the year	**1 520**	328
Profit attributable to:		
Ordinary equity holders of the Group	**1 480**	288
Non-controlling interest – ordinary shares	**40**	40
	1 520	328
Headline earnings	**1 527**	1 272
Statement of financial position as at 31 December[1]		
Loans and advances to customers	**50 044**	58 301
Total assets	**365 308**	365 579
Deposits due to customers	**127 462**	118 371
Total liabilities	**361 978**	362 791

Note

[1]*Comparatives have been reclassified, refer to note 1.26 for additional information.*

Notes to the consolidated financial statements

For the year ended 31 December

57. Segment report *(continued)*

57.6 Financial Services

Statement of financial position

	Note	2010 Rm	2009 Rm
Assets			
Cash balances and loans and advances to banks		**9 194**	5 975
Insurance operations	57.6.1	**8 330**	5 241
Other subsidiaries		**864**	734
Other assets[1, 2]		**2 135**	14 960
Financial assets backing investment and insurance liabilities		**11 537**	12 970
Investment securities		**10 541**	12 016
Insurance operations	57.6.1	**10 418**	11 899
Other subsidiaries		**123**	117
Other assets backing shareholder and policyholder liabilities			
Insurance operations	57.6.1	**996**	954
Property and equipment		**81**	48
Total assets[2]		**22 947**	33 953
Liabilities			
Other liabilities[1, 2]		**1 980**	15 150
Liabilities under investment contracts		**13 964**	12 446
Policyholder liabilities under insurance contracts[3]		**2 988**	2 898
Deferred tax liabilities		**43**	31
Total liabilities[2]		**18 975**	30 525
Total equity		**3 972**	3 428
Total equity and liabilities		**22 947**	33 953

Notes

[1]*Other assets and liabilities include settlement account balances in Absa Stockbrokers (Proprietary) Limited.*

[2]*Comparatives have been reclassified, refer to note 1.26.*

[3]*In managing the policyholder liability, certain assets have been allocated specifically for the purpose of backing this liability. The disclosure to follow reflects this split of assets between policyholders and shareholders.*

57. Segment report *(continued)*

57.6 Financial Services *(continued)*

57.6.1 Financial assets backing investment and insurance liabilities

	2010					
	Debt instruments Rm	Listed equity instruments Rm	Unlisted equity and hybrid instruments Rm	Other Rm	Cash balances and loans and advances to banks Rm	Total Rm
Shareholder investment securities	**767**	**898**	**193**	**—**	**638**	**2 496**
Life	**216**	**858**	**2**	**—**	**186**	**1 262**
Non-life	**551**	**40**	**191**	**—**	**452**	**1 234**
Policyholder investment securities	**495**	**6 317**	**1 748**	**996**	**7 692**	**17 248**
Investment contracts[1]	**—**	**6 317**	**695**	**474**	**6 474**	**13 960**
Insurance contracts[1]	**495**	**—**	**1 053**	**522**	**1 218**	**3 288**
	1 262	**7 215**	**1 941**	**996**	**8 330**	**19 744**

	2009					
	Debt instruments Rm	Listed equity instruments Rm	Unlisted equity and hybrid instruments Rm	Other Rm	Cash balances and loans and advances to banks Rm	Total Rm
Shareholder investment securities	870	898	364	6	517	2 655
Life	240	789	6	6	161	1 202
Non-life	630	109	358	—	356	1 453
Policyholder investment securities	537	7 213	2 017	948	4 724	15 439
Investment contracts[1]	4	7 213	1 149	511	3 582	12 459
Insurance contracts[1]	533	—	868	437	1 142	2 980
	1 407	8 111	2 381	954	5 241	18 094

Note

[1]*Includes R853 million (2009: R725 million) in unlisted insurance contracts representing Absa Life's investment in the Absa General Fund. This fund is consolidated as an investment contract at a Group level and disclosed as such in the consolidated financial statements.*

57.6.2 Financial performance (unaudited)

	2010	2009
Assets under management and administration (Rbn)	**163**	145
Net money market flows (Rbn)	**10,9**	1,8
Net non-money market flows (Rbn)	**0,4**	23,1
Return on average equity (%)	**34,8**	37,9
Solvency margin (%)	**55,3**	55,5

Notes to the consolidated financial statements

For the year ended 31 December

57. Segment report *(continued)*

57.6 Financial Services *(continued)*

Statement of comprehensive income

		Life		Insurance	
	Note	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm
Net insurance premium income		**1 583**	1 291	**2 885**	2 554
Net insurance claims and benefits paid		**(429)**	(430)	**(1 977)**	(1 787)
Investment income	57.6.3				
Policyholder investment contracts		**957**	537	**—**	—
Policyholder insurance contracts		**167**	184	**67**	102
Changes in investment and insurance liabilities					
Policyholder investment contracts		**(954)**	(508)	**—**	—
Policyholder insurance contracts		**(31)**	60	**—**	—
Other income		**(20)**	(27)	**18**	27
Gross operating income		**1 273**	1 107	**993**	896
Net commission paid by insurance companies[1]		**(280)**	(207)	**(448)**	(400)
Operating expenses		**(210)**	(175)	**(309)**	(269)
Other impairments and indirect taxation		**(64)**	(81)	**(2)**	(2)
Net operating income		**719**	644	**234**	225
Investment income					
Shareholder funds	57.6.3	**165**	149	**132**	127
Taxation expense		**(222)**	(206)	**(88)**	(87)
Profit attributable to ordinary equity holders of the Group		**662**	587	**278**	265

Note

[1]*Net commission paid includes internal commission, eliminated on consolidation of the Group's results.*

Investments 2010 Rm	Investments 2009 Rm	Other 2010 Rm	Other 2009 Rm	Total Financial Services 2010 Rm	Total Financial Services 2009 Rm
—	—	—	—	**4 468**	3 845
—	—	—	—	**(2 406)**	(2 217)
—	—	**83**	131	**1 040**	668
—	—	—	—	**234**	286
—	—	**(60)**	(112)	**(1 014)**	(620)
—	—	—	—	**(31)**	60
752	725	**953**	933	**1 703**	1 658
752	725	**976**	952	**3 994**	3 680
—	—	—	—	**(728)**	(607)
(362)	(311)	**(916)**	(794)	**(1 797)**	(1 549)
(2)	(6)	**(11)**	(9)	**(79)**	(98)
388	408	**49**	149	**1 390**	1 426
17	16	**18**	25	**332**	317
(105)	(121)	**(17)**	(45)	**(432)**	(459)
300	303	**50**	129	**1 290**	1 284

Notes to the consolidated financial statements

For the year ended 31 December

57. Segment report *(continued)*

57.6 Financial Services *(continued)*

57.6.3 Investment income

	Life 2010 Rm	Life 2009 Rm	Insurance 2010 Rm	Insurance 2009 Rm
Policyholder investment contracts	**957**	537	**—**	—
Net interest income	**584**	228	**—**	—
Dividend income	**33**	42	**—**	—
Fair value gains	**340**	267	**—**	—
Policyholder insurance contracts	**167**	184	**67**	102
Net interest income	**49**	70	**67**	102
Dividend income	**7**	44	**—**	—
Fair value gains	**111**	70	**—**	—
Shareholder funds	**165**	149	**132**	127
Net interest income	**29**	26	**99**	124
Dividend income	**24**	17	**32**	58
Fair value gains/(losses)	**112**	106	**1**	(55)
Total	**1 289**	870	**199**	229
Net interest income	**662**	324	**166**	226
Dividend income	**64**	103	**32**	58
Fair value gains/(losses)	**563**	443	**1**	(55)
57.6.4 Operating performance				
Annual premium equivalent (Rm)[1]	**880**	761	**n/a**	n/a
Gross premium income (Rm)	**1 732**	1 386	**3 420**	3 042
Underwriting surplus (Rm)	**n/a**	n/a	**445**	348
Gross margin (bps)[1]	**n/a**	n/a	**n/a**	n/a
Underwriting margin (%)	**n/a**	n/a	**n/a**	3,8
Loss ratio (%)	**n/a**	n/a	**n/a**	69,9

Note

[1]*Unaudited.*

Investments 2010 Rm	Investments 2009 Rm	Other 2010 Rm	Other 2009 Rm	Total Financial Services 2010 Rm	Total Financial Services 2009 Rm
—	—	83	131	1 040	668
—	—	1	1	585	229
—	—	14	13	47	55
—	—	68	117	408	384
—	—	—	—	234	286
—	—	—	—	116	172
—	—	—	—	7	44
—	—	—	—	111	70
17	16	18	25	332	317
10	16	1	1	139	167
—	—	3	1	59	76
7	—	14	23	134	74
17	16	101	156	1 606	1 271
10	16	2	2	840	568
—	—	17	14	113	175
7	—	82	140	653	528
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	5 152	4 428
n/a	n/a	n/a	n/a	n/a	n/a
46,0	50,6	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a

Notes to the consolidated financial statements

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57. Segment report *(continued)*

57.6 Financial Services *(continued)*

57.6.5 Reconciliation with Absa Group

	Note	2010 Financial Services Rm	Inter-group balances and trans-actions Rm	Other[1] Rm	Absa Group Rm
Statement of financial position					
Investments linked to investment contracts	11	7 012	835	—	7 847
Policyholder liabilities under insurance contracts	24	(2 988)	244	(257)	(3 001)
Statement of comprehensive income					
Net insurance premium income	32	4 468	(40)	174	4 602
Net insurance claims and benefits paid	33	(2 406)	136	(135)	(2 405)
Investment income – policyholder investment contracts/gains and losses from investment activities	36	1 040	(826)	—	214
Cash, cash balances and balances with central banks	36	450	(501)	—	(51)
Debt instruments	36	(24)	—	—	(24)
Equity instruments	36	614	(325)	—	289

	Note	2009 Financial Services Rm	Inter-group balances and trans-actions Rm	Other[1] Rm	Absa Group Rm
Statement of financial position					
Investments linked to investment contracts	11	8 366	627	—	8 993
Policyholder liabilities under insurance contracts	24	(2 898)	—	(238)	(3 136)
Statement of comprehensive income					
Net insurance premium income	32	3 845	(97)	39	3 787
Net insurance claims and benefits paid	33	(2 217)	30	(28)	(2 215)
Investment income – policyholder investment contracts/gains and losses from investment activities	36	668	—	—	668
Cash, cash balances and balances with central banks	36	(50)	—	—	(50)
Debt instruments	36	(5)	—	—	(5)
Equity instruments	36	723	—	—	723

Note

[1]*Consists of Absa Manx Insurance Company Limited and Woolworths Financial Services (Proprietary) Limited.*

58. Derivatives

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Group's accounting policies.

At the reporting date, the Group did not have any compound financial instruments with multiple embedded derivatives in issue.

58.1 Derivatives held for trading

As part of the Group's trading activities, it enters into derivative transactions in the normal course of business.

58.2 Derivatives held for hedging

As part of the Group'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 Group 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 Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

The Group recognised the following gains and losses on hedging instruments and hedging items:

	Group	
	2010 Rm	2009 Rm
Gains/(losses) on hedged items (assets) (refer to note 29)	**497**	(734)
(Losses)/gains on hedging instruments (assets) (refer to note 29)	**(369)**	690
(Losses)/gains on hedged items (liabilities) (refer to note 30)	**(504)**	410
Gains/(losses) on hedging instruments (liabilities) (refer to note 30)	**472**	(269)

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:

	Group	
	2010 Rm	2009 Rm
Ineffectiveness (outside range) (refer to note 35)	**(15)**	(16)
Ineffectiveness (inside range)	**107**	(197)

Notes to the consolidated financial statements

For the year ended 31 December

58. Derivatives *(continued)*

58.2 Derivatives held for hedging *(continued)*

Derivatives designated as cash flow hedges

The objective of cash flow hedges is to protect against changes in future interest cash flows resulting from the impact of changes in market interest rate risk and reinvestment or reborrowing of current balances.

The Group uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. The Group applies hedge accounting for its non-trading interest rate risk in major currencies by analysing the expected cash flows on a group basis.

The Group is exposed to variability in future interest cash flows on non-trading portfolio assets and liabilities which bear interest at a variable rate. The Group designates interest rate swaps as hedging instruments in a cash flow hedging relationship to hedge the variability in cash flows owing to changes in interest rates.

A schedule indicating the periods when the hedged cash flows are expected to occur and when they are expected to affect the profit and loss component of the statement of comprehensive income as at the reporting date is as follows:

Group

	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]	**1 695**	**1 049**	**528**	**220**	**62**	**9**	**3 563**
Forecast payable cash flow[1]	**(46)**	**(13)**	**(13)**	**(14)**	**(13)**	**(49)**	**(148)**
Net cash flow	**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[1]	863	555	317	110	22	2	1 869
Forecast payable cash flow[1]	(31)	(9)	(7)	(10)	(10)	(56)	(123)
Net cash flow	832	546	310	100	12	(54)	1 746

Note

[1] *These balances are shown before taxation.*

58. Derivatives *(continued)*

58.2 Derivatives held for hedging *(continued)*

The following net gains/(losses) on cash flow hedges was recycled from other comprehensive income to the profit or loss component of the statement of comprehensive income:

	Group 2010 Rm	Group 2009 Rm
Interest and similar income (refer to note 29)	**1 485**	244
Interest expense and similar charges (refer to note 30)	**644**	512
Gains and losses from banking and trading activities (refer to note 35)	**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:

	Group 2010 Rm	Group 2009 Rm
Ineffectiveness (outside range) (refer to note 35)	**115**	(3)
Ineffectiveness (inside range)	**(95)**	(65)

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58. Derivatives *(continued)*

58.3 Detailed breakdown of derivatives

The Group uses the following derivative instruments for both hedging and non-hedging purposes:

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- **Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (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 Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.
- **Options** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange traded or negotiated between the Group and a customer.

58. Derivatives *(continued)*

58.3 Detailed breakdown of derivatives *(continued)*

	Group					
	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	22 726	824	1 278	(454)	303 205	(348)
Currency swaps	310 689	(654)	11 024	(11 678)	10 232	(645)
Over-the-counter (OTC) foreign exchange options	18 469	298	630	(332)	17 042	205
OTC foreign exchange options purchased	9 517	630	630	—	8 975	524
OTC foreign exchange options written	8 952	(332)	—	(332)	8 067	(319)
Other OTC foreign exchange derivatives	114	(1)	—	(1)	27 278	(8)
Exchange traded derivatives	285 747	—	—	—	121 618	1
Euro dollar futures	285 718	—	—	—	121 618	1
Exchange traded futures	29	—	—	—	—	—
Total foreign exchange derivatives	637 745	467	12 932	(12 465)	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	32 132	(127)	4	(131)	38 014	49
Interest rate swaps	1 171 332	1 475	22 936	(21 461)	1 150 850	38
OTC options on FRAs and swaps	158 715	56	379	(323)	270 238	(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)	161 977	(316)
OTC bond option contracts	—	—	—	—	3 702	—
OTC bond options purchased	—	—	—	—	2 002	11
Other bond options written	—	—	—	—	1 700	(11)
Other OTC interest rate derivatives	296	33	74	(41)	643	32
Exchange traded derivatives	10 904	2	4	(2)	10 880	1
Exchange traded options on FRAs and swaps purchased	10 027	3	4	(1)	10 880	1
Exchange traded options on FRAs and swaps written	877	(1)	—	(1)	—	—
Total interest rate derivatives	2 820 892	369	29 178	(28 809)	2 864 025	(400)
Balance carried forward	3 458 637	836	42 110	(41 274)	3 343 400	(1 195)

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58. Derivatives *(continued)*

58.3 Detailed breakdown of derivatives *(continued)*

	Group					
	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	**3 458 637**	**836**	**42 110**	**(41 274)**	3 343 400	(1 195)
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**	**(48)**	**188**	**(236)**	230	(191)
Other OTC equity derivatives	**45 438**	**(275)**	**153**	**(428)**	11 357	(293)
OTC equity derivatives	**79 042**	**(1 140)**	**763**	**(1 903)**	43 781	(3 908)
Exchange traded derivatives	**16 292**	**47**	**112**	**(65)**	84 119	(1)
Exchange traded options purchased	**7 942**	**112**	**112**	**—**	23 444	—
Exchange traded options written	**8 350**	**(65)**	**—**	**(65)**	37 044	—
Exchange traded futures	**—**	**—**	**—**	**—**	23 631	(1)
Other exchange traded equity derivatives	**—**	**—**	**—**	**—**	148	(59)
Total equity derivatives	**95 334**	**(1 093)**	**875**	**(1 968)**	128 048	(3 968)
Commodity derivatives						
Agricultural forwards	**104**	**6**	**12**	**(6)**	5	(1)
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)**	9 639	(4)
OTC gold options purchased	**142**	**5**	**8**	**(3)**	4 859	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)**	15 310	(9)
Exchange traded agricultural derivatives	**16 395**	**33**	**33**	**—**	11 485	—
Exchange traded agricultural derivatives purchased	**184**	**—**	**—**	**—**	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
Total commodity derivatives	**19 879**	**147**	**301**	**(154)**	39 961	2
Balance carried forward	**3 573 850**	**(110)**	**43 286**	**(43 396)**	3 511 409	(5 161)

58. Derivatives *(continued)*

58.3 Detailed breakdown of derivatives *(continued)*

	Group					
	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	**3 573 850**	**(110)**	**43 286**	**(43 396)**	3 511 409	(5 161)
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
Total credit derivatives	**14 862**	**(13)**	**118**	**(131)**	12 621	37
Total trading	**3 588 712**	**(123)**	**43 404**	**(43 527)**	3 524 030	(5 124)
Hedging						
Cash flow hedges						
Interest rate swaps	**126 962**	**3 719**	**3 813**	**(94)**	105 975	1 852
Forward foreign exchange	—	—	—	—	117	(38)
Total cash flow hedges	**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
Total fair value hedges	**38 885**	**(938)**	**849**	**(1 787)**	8 364	179
Total hedges	**165 847**	**2 781**	**4 662**	**(1 881)**	114 456	1 993
Investments						
Interest rate derivatives						
OTC bond options purchased	**172**	**4**	**4**	—	230	4
Total interest rate derivatives	**172**	**4**	**4**	—	230	4
OTC bond options purchased	**570**	**211**	**211**	—	687	406
Total equity derivatives	**570**	**211**	**211**	—	687	406
Total investments	**742**	**215**	**215**	—	917	410
Total derivative instruments	**3 755 301**	**2 873**	**48 281**	**(45 408)**	3 639 403	(2 721)

Derivative assets and liabilities subject to counterparty netting agreements amounted to R30 522 million (2009: R20 059 million). Additionally, the Group 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 Group's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the 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 Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates on hand, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial 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.

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59. Fair value hierarchy disclosures

59.1 Valuation methodology

The table below shows the Group'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:

	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				
Cash, cash balances and balances with central banks (refer to note 2)	458	—	—	458
Statutory liquid asset portfolio (refer to note 3)	26 656	—	—	26 656
Investment securities (refer to note 11)	1 297	100	95	1 492
Financial assets designated at fair value through profit or loss				
Cash, cash balances and balances with central banks (refer to note 2)	—	3 013	—	3 013
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
Other assets (refer to note 6)	16	—	—	16
Loans and advances to customers (refer to note 8)	—	4 212	5 778	9 990
Investment securities (refer to note 11)	11 846	4 690	5 195	21 731
Financial assets held for trading				
Derivative assets (refer to note 5)	173	43 133	98	43 404
Trading assets (refer to note 5)	15 014	2 009	966	17 989
Hedging assets (refer to note 5)	—	4 662	—	4 662
Investment securities (refer to note 11)	—	215	—	215
Total financial assets	**56 238**	**71 766**	**12 132**	**140 136**
Financial liabilities designated at fair value through profit or loss				
Deposits from banks (refer to note 17)	—	1 679	—	1 679
Other liabilities (refer to note 19)	5	7	—	12
Deposits due to customers (refer to note 21)	32	8 325	8 499	16 856
Debt securities in issue (refer to note 22)	—	1 488	73	1 561
Liabilities under investment contracts (refer to note 23)	—	13 964	—	13 964
Borrowed funds (refer to note 25)	739	—	—	739
Financial liabilities held for trading (refer to note 18)				
Derivative liabilities	—	42 936	591	43 527
Trading liabilities	3 927	—	—	3 927
Hedging liabilities	—	1 881	—	1 881
Total financial liabilities	**4 703**	**70 280**	**9 163**	**84 146**

Notes

[1] *The nature of the valuation techniques is summarised in note 59.2.*

[2] *The nature of the valuation techniques is summarised in note 59.3.*

Group

	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
	653	—	—	653
	17 904	—	—	17 904
	1 760	59	176	1 995
	2 271	—	—	2 271
	3 636	—	—	3 636
	—	2 403	—	2 403
	—	—	—	—
	—	3 958	5 416	9 374
	16 780	3 843	6 128	26 751
	45	30 998	793	31 836
	16 738	3 097	—	19 835
	—	2 558	—	2 558
	410	—	—	410
	60 197	46 916	12 513	119 626
	—	7 319	—	7 319
	—	20	274	294
	—	2 117	10 435	12 552
	—	1 495	246	1 741
	1 307	11 139	—	12 446
	718	—	—	718
	19	35 823	1 118	36 960
	7 285	—	—	7 285
	—	565	—	565
	9 329	58 478	12 073	79 880

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For the year ended 31 December

59. Fair value hierarchy disclosures *(continued)*

59.2 Valuations based on observable inputs

Valuations based on observable inputs include:

Level 1

Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

This category includes highly liquid government and other bonds, active listed equities, exchange-traded commodities and exchange-traded derivatives.

Level 2

Financial instruments valued using inputs other than quoted prices as described above for level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/corroborated by observable market data.

This category includes certain African government bills, private equity investments, loans and advances, investments in debt instruments, commodity derivatives, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

59.3 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.

59. Fair value hierarchy disclosures *(continued)*

59.3 Valuations based on unobservable inputs *(continued)*

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

Debt securities and treasury and other eligible bills

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

Equity 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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59. Fair value hierarchy disclosures *(continued)*

59.4 Movements on financial instruments subsequently measured at fair value using valuations based on unobservable inputs (level 3)

A reconciliation of the opening balances to closing balances is set out below:

	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**	**5 416**	**6 128**	**—**
Net interest income	**—**	**(227)**	**—**	**—**
Gains and losses from banking and trading activities	**3**	**(175)**	**35**	**—**
Gains and losses from investment activities	**—**	**—**	**36**	**—**
Other comprehensive income	**(22)**	**—**	**(1)**	**—**
Purchases	**—**	**1 602**	**2 449**	**966**
Sales	**—**	**(146)**	**(2 976)**	**—**
Issues	**—**	**—**	**—**	**—**
Settlements	**(104)**	**(1 219)**	**(477)**	**—**
Movement in/(out) of level 3[1]	**42**	**527**	**1**	**—**
Closing balance	**95**	**5 778**	**5 195**	**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	5 807	6 858	—
Net interest income	—	403	—	—
Gains and losses from banking and trading activities	28	(338)	(1 048)	—
Other comprehensive income	(24)	—	—	—
Purchases	—	371	873	—
Sales	—	—	(292)	—
Issues	—	—	—	—
Settlements	(350)	(827)	(263)	—
Movement out of level 3[1]	—	—	—	—
Closing balance	176	5 416	6 128	—

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.*

Group
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
	11 720	274	10 435	246	325	11 280
	(227)	—	—	—	—	—
	(137)	—	867	6	(23)	850
	36	—	—	—	—	—
	(23)	—	—	—	—	—
	5 017	376	—	—	(11)	365
	(3 122)	—	—	—	—	—
	—	—	619	3	101	723
	(1 800)	(650)	(3 152)	(5)	14	(3 793)
	570	—	(270)	(177)	87	(360)
	12 034	—	8 499	73	493	9 065

2009

	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
	13 187	407	10 786	465	161	11 819
	403	—	565	8	—	573
	(1 358)	(133)	(156)	14	285	10
	(24)	—	—	—	—	—
	1 244	—	—	—	(23)	(23)
	(292)	—	—	—	—	—
	—	—	1 033	—	5	1 038
	(1 440)	—	(1 793)	(241)	(43)	(2 077)
	—	—	—	—	(60)	(60)
	11 720	274	10 435	246	325	11 280

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59. Fair value hierarchy disclosures *(continued)*

59.5 Total unrealised gains and losses for the year on 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**

	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)	9	506	80
Gains and (losses) from banking and trading activities	—	(352)	(885)
	9	154	(805)

Group

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

	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
	595	—	(560)	(4)	—	(564)
	(1 237)	(133)	149	(5)	(286)	(275)
	(642)	(133)	(411)	(9)	(286)	(839)

Notes to the consolidated financial statements

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59. Fair value hierarchy disclosures *(continued)*

59.6 Sensitivity analysis of valuations using unobservable inputs

As part of the Group's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

A significant parameter has been deemed to be one which may result in a change in the fair value asset or liability of more than 10%. This is demonstrated by the following sensitivity analysis which includes reasonable range of possible outcomes:

Group
2010

2010	Significant unobservable parameters[1]	Potential effect recorded in profit and loss Favourable Rm	Potential effect recorded in profit and loss Unfavourable Rm	Potential effect recorded directly in equity Favourable Rm	Potential effect recorded directly in equity Unfavourable Rm
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	i, iii, v, vi, vii	775	775	—	4
Structured notes and deposits designated at fair value through profit or loss	iv	46	51	—	—
Trading assets	i	7	7	—	—
		979	1 297	—	4

2009

2009	Significant unobservable parameters[1]	Potential effect recorded in profit and loss Favourable Rm	Potential effect recorded in profit and loss Unfavourable Rm	Potential effect recorded directly in equity Favourable Rm	Potential effect recorded directly in equity Unfavourable Rm
Loans and advances designated at fair value through profit or loss	iii	130	284	—	—
Net derivatives	i, ii, iii, iv	9	11	—	—
Private equity	v, vi, vii	773	722	—	—
Structured notes and deposits designated at fair value through profit or loss	iv	59	64	—	—
		971	1 081	—	—

Note
[1]*Refer to note 59.3.*

59. Fair value hierarchy disclosures *(continued)*

59.6 Sensitivity analysis of valuations using unobservable inputs *(continued)*

The following table reflects how the unobservable parameters were changed in order to evaluate the 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	15%	–15%
	Comparator multiples		
	Discount rates		
Structured notes and deposits designated at fair value through profit or loss	Yield curve	100 bps	–100 bps

60. 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:

	Group	
	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 during the year	**(35)**	(4)
Closing balance	**73**	24

61. Financial risks

In light of King III, the Group 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 Group's performance. All financial risk disclosures are included in the Group's risk report.

61.1 Credit risk

The disclosures marked as audited relating to credit risk are set out in tables 10, 11, 13 and 22 – 33 of the risk report.

61.2 Market risk

The disclosures marked as audited relating to market risk are set out in tables 41, 43, 45 – 47 and 50 of the risk report.

61.3 Liquidity risk

The disclosures marked as audited relating to liquidity risk are set out in tables 52 and 53 of the risk report.

61.4 Insurance risk

The disclosures marked as audited relating to underwriting risk are set out in tables 54 – 59 of the risk report.

Annexure A: Embedded value report of Absa Life Limited (unaudited)

Scope of the embedded value report

This report deals with the embedded value of Absa Life and the value of new business written during the financial year.

The embedded value at the reporting date has been calculated in accordance with the principles contained in the latest version of PGN 107 of the ASSA.

Embedded value

The embedded value of the covered business is the discounted value of future after tax shareholder profits (net of the opportunity cost of the required capital) arising from covered business in force at the valuation date, together with the adjusted net worth of the covered business. Covered business is taken to be all long-term insurance business written under Absa Life's licence.

The free surplus is the excess of assets over the sum of liabilities and required capital, with assets at market value and liabilities on the statutory valuation method, adjusted to add back inadmissible assets. The required capital is taken to be two times the statutory capital adequacy requirement, in line with the results of internal capital models.

Value of new business

The value of new business is the discounted value, at the date of sale, of the projected after tax shareholder profits from new covered business (net of the opportunity cost of the required capital for new business). New covered business is defined as long-term insurance contracts written by Absa Life during the financial year and for which at least one premium has been recognised in the financial statements. The value of new business is calculated using closing assumptions for all basis items.

Embedded value and value of new business

	2010 Rm	2009 Rm
Free surplus[1]	**731**	411
Required capital	**794**	910
Covered business adjusted net worth (ANW)	**1 525**	1 321
Present value of in-force business (PVIF)	**1 745**	1 202
Cost of required capital (CoC)	**(457)**	(184)
Total embedded value	**2 813**	2 339
Value of new business (before CoC)	**574**	327
Cost of required capital (CoC)	**(109)**	(33)
Value of new business (VNB)	**465**	294
Present value of future premiums	**4 884**	4 354
Value of new business as a percentage of the present value of future premiums		
– all business (%)	**9,5**	6,8
– excluding investment business (%)	**22,1**	22,6

Note

[1]*A dividend of R250 million (2009: R294 million) was proposed.*

Assumptions

The value of the covered in-force and new business is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the best estimate assumptions used in the statutory valuation. These assumptions were based on recent experience investigations.

All discounted values are at a risk discount rate of 11,25% per annum (2009: 12,5%). The risk discount rate was derived using a top-down approach in accordance with PGN 107. The risk discount rate was set equal to the risk-free rate of return plus the Beta of Absa Group Limited multiplied by the assumed equity risk premium plus a further company risk specific margin of 0,75%. The economic assumptions used were as follows (gross of tax where applicable).

	2010 %	2009 %
Risk-free rate of return	**8,0**	9,5
Equity return – hedged	**8,2**	10,0
Equity return – unhedged	**11,5**	13,0
Cash return	**6,0**	7,5
Overall investment return	**7,9**	9,4
Risk discount rate	**11,25**	12,5
Expense inflation	**4,5**	6,0

Sensitivities

The following table summarises the sensitivity of the embedded value and value of new business calculation to changes in the underlying assumptions. In each of the scenarios no offsetting management actions are assumed to occur.

(%) change	Risk discount rate +1%	Interest rates –1%	Equity capital values x 0,9	Equity returns +1%	Mortality/ morbidity x 0,95	Maintenance expenses x 0,9	Lapse/ surrender x 0,9	Initial expenses x 0,9
ANW	0%	0%	0%	0%	0%	0%	0%	n/a
PVIF	(4%)	3%	(1%)	0%	5%	3%	4%	n/a
CoC	7%	13%	1%	(8%)	(12%)	(5%)	18%	n/a
EV	(3%	0%	(1%)	2%	5%	3%	(1%)	n/a
VNB	(5%)	0%	(3%)	0%	7%	3%	(1%)	1%

The development of the embedded value can be analysed as follows:

	2010 Rm	2009 Rm
Embedded value at the end of the year	**2 813**	2 340
Dividends accrued or paid	**458**	295
Embedded value at the beginning of the year	**(2 340)**	(2 092)
Embedded value earnings	**931**	543
Components of embedded value earnings:		
Value of new business at point of sale	**465**	294
Expected return on covered business (unwinding)	**184**	135
Operating experience variances	**64**	28
Operating assumption and model changes	**48**	(38)
Expected return on ANW	**123**	89
Embedded value operating return	**884**	508
Investment return variances on in-force covered business	**29**	(2)
Investment return variances on ANW	**13**	41
Effect of economic assumption changes	**5**	(4)
Embedded value earnings	**931**	543
Return on embedded value	**39,8%**	26,0%

Review by the independent actuaries

The embedded value of Absa Life and the value of new business written during the year have been reviewed and agreed by the independent consulting actuaries, Deloitte & Touche.

Company statement of financial position

As at 31 December

		Company	
	Note	2010 Rm	2009 Rm
Assets			
Loans and advances to banks	2	**186**	216
Other assets	3	**—**	304
Current tax assets	4	**15**	12
Investment securities	5	**139**	109
Subsidiaries	7	**16 773**	15 460
Deferred tax asset	8	**—**	2
Total assets		**17 113**	16 103
Liabilities			
Other liabilities	9	**87**	84
Total liabilities		**87**	84
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Company:			
Share capital	10	**1 437**	1 437
Share premium	10	**5 367**	5 308
Other reserves	11	**285**	298
Retained earnings		**9 937**	8 976
Total equity		**17 026**	16 019
Total equity and liabilities		**17 113**	16 103

Company statement of comprehensive income

For the year ended 31 December

	Note	Company 2010 Rm	Company 2009 Rm
Net interest income		**10**	50
Interest and similar income	12	**10**	56
Interest expense and similar charges	13	**—**	(6)
Net interest income after impairment losses on loans and advances		**10**	50
Gains and losses from investment activities	14	**4 201**	4 660
Other operating income	15	**50**	113
Operating profit before operating expenses		**4 261**	4 823
Operating expenses	16	**(5)**	(6)
Other impairment	17	**—**	(43)
Indirect taxation		**—**	(2)
Operating profit before income tax		**4 256**	4 772
Taxation expense	18	**(99)**	(201)
Profit and total comprehensive income for the year		**4 157**	4 571
Total comprehensive income attributable to:			
Ordinary equity holders of the Company		**4 157**	4 571
Earnings per share:			
Basic earnings per share (cents)	19	**578,8**	657,0
Diluted earnings per share (cents)	19	**578,8**	657,0

Company statement of changes in equity

For the year ended 31 December

	Company 2010					
	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
Balance at the beginning of the year	**718 210**	**1 437**	**5 308**	**298**	**8 976**	**16 019**
Profit and total comprehensive income	—	—	—	—	4 157	4 157
Dividends paid	—	—	—	—	(3 196)	(3 196)
Movement in share-based payment reserve	—	—	59	(13)	—	46
Transfer from share-based payment reserve	—	—	59	(59)	—	—
Value of employee services	—	—	—	46	—	46
Balance at the end of the year	**718 210**	**1 437**	**5 367**	**285**	**9 937**	**17 026**

	2009					
	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
Balance at the beginning of the year	680 278	1 361	2 750	322	9 299	13 732
Profit and total comprehensive income	—	—	—	—	4 571	4 571
Dividends paid	—	—	—	—	(3 805)	(3 805)
Shares issued	37 932	76	2 495	—	—	2 571
Repurchase of preference shares held by Batho Bonke Capital (Proprietary) Limited	—	—	3	—	(1 089)	(1 086)
Costs incurred	—	—	(7)	—	—	(7)
Movement in share-based payment reserve	—	—	67	(24)	—	43
Transfer from share-based payment reserve	—	—	67	(67)	—	—
Value of employee services	—	—	—	43	—	43
Balance at the end of the year	718 210	1 437	5 308	298	8 976	16 019
Notes	**10**	**10**	**10**	**11**		

Company statement of cash flows

For the year ended 31 December

		Company	
	Note	**2010 Rm**	2009 Rm
Cash flow from operating activities			
Interest income	**12**	**10**	56
Interest expense	**13**	**—**	(6)
Net trading and other income		**11**	45
Cash payments to employees and suppliers		**(5)**	(6)
Dividends received		**4 241**	4 728
Income taxes paid		**(100)**	(180)
Cash flow from operating profit before changes in operating assets and liabilities		**4 157**	4 637
Net increase in derivative asset		**—**	(2)
Net decrease/(increase) in other assets		**304**	(300)
Net increase/(decrease) in other liabilities		**3**	(17)
Net cash generated from operating activities		**4 464**	4 318
Cash flow from investing activities			
Investment in shares		**(768)**	(810)
Decrease in net loans from/to subsidiaries		**(500)**	(1 462)
Net (decrease)/increase in securities		**(30)**	19
Net cash utilised from investing activities		**(1 298)**	(2 253)
Cash flow from financing activities			
Issue of ordinary shares		**—**	1 478
Redemption of borrowed funds		**—**	(156)
Dividends paid	**21**	**(3 196)**	(3 805)
Net cash utilised from financing activities		**(3 196)**	(2 483)
Net decrease in cash and cash equivalents		**(30)**	(418)
Cash and cash equivalents at the beginning of the year		**216**	634
Cash and cash equivalents at the end of the year		**186**	216

Notes to the Company financial statements

For the year ended 31 December

	Company 2010 Rm	2009 Rm
1. Accounting policies		
The financial statements of Absa Group Limited (Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Group. For detailed accounting policies refer to the Group's financial statements.		
2. Loans and advances to banks		
Other loans and advances to banks	**186**	216
Portfolio analysis		
Loans and receivables	**186**	216
Loans with variable rates are R180 million (2009: R209 million) and fixed rates are R6 million (2009: R7 million).		
3. Other assets		
Accounts receivable and prepayments	**—**	304
Portfolio analysis		
Loans and receivables	**—**	304
4. Current tax		
Amount due from revenue authorities	**15**	12
5. Investment securities		
Debt instruments	**139**	109
Market value and directors' valuation		
Market value of debt instruments	**139**	109
Portfolio analysis		
Available-for-sale financial assets		
Debt instruments	**139**	109
5.1 Available-for-sale investments		
Cost plus fair value movements at the beginning of the year	**109**	127
Net acquisitions and (disposals)	**30**	(18)
Cost plus fair value movements at the end of the year	**139**	109

5.2 Fair value hierarchy disclosure

The Company holds investments in debt instruments which is measured at fair value.

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 notes 59.2 and 59.3 of the Group's financial statements.

5. Investment securities *(continued)*

5.2 Fair value hierarchy disclosure *(continued)*

Company	Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on unobservable inputs Level 3 Rm	Total Rm
2010				
Available-for-sale financial assets				
Investment securities[1] (refer to note 5)	—	**139**	—	**139**
2009				
Available-for-sale financial assets				
Investment securities[1] (refer to note 5)	—	109	—	109

[1]The investment relates to notes in a securitisation vehicles and the movement in fair value is the result of acquisitions, disposals and accrued interest.

	Company 2010 Rm	Company 2009 Rm
6. Investments in associates and joint ventures		
Unlisted investments	—	—
6.1 Movement in carrying value		
Balance at the beginning of the year	—	45
Net movement resulting from acquisitions and disposals of investments in associates and joint ventures (refer to note 6.2)	—	(45)
Balance at the end of the year	—	—
Directors' valuation of unlisted investments[1]	—	—

Note
[1]The directors' valuation of unlisted investments is measured at fair value.

6.2 Net movement resulting from acquisitions and disposals of investments in associates and joint ventures

Company	2010 Effective holding (%)	2010 Rm	2009 Effective holding (%)	2009 Rm
Disposed during the previous year:				
Banco Commercial Angolano	—	n/a	—	(45)
		n/a		(45)

	Company 2010 Rm	Company 2009 Rm
7. Subsidiaries		
Loans from subsidiary companies	—	(500)
Shares at cost	**16 773**	15 960
	16 773	15 460

Notes to the Company financial statements

For the year ended 31 December

	Company 2010 Rm	Company 2009 Rm
8. Deferred tax		
8.1 Reconciliation of net deferred tax asset		
Balance at the beginning of the year	**2**	—
Deferred tax asset (released)/raised on STC credits (refer to note 8.3)	**(2)**	2
Balance at the end of the year	**—**	2
8.2 Deferred tax asset		
Deferred tax asset – STC credits (refer to note 8.3)	**—**	2
8.3 Secondary taxation on companies (STC)		
Accumulated STC credits	**—**	(19)
Deferred tax asset raised at 10% (refer to note 8.2)	**—**	2
Movement in deferred tax asset for the year (refer to note 8.1)	**(2)**	2
If the total reserves of R10 222 million as at the reporting date (2009: R9 274 million) were to be declared as dividends, the STC impact at a rate of 10% would be R1 022 million (2009: R927 million).		
9. Other liabilities		
Creditors	**87**	84
Portfolio analysis		
Financial liabilities at amortised cost	**87**	84

	Company 2010 Rm	Company 2009 Rm
10. Share capital and premium		
Ordinary share capital		
Authorised		
880 467 500 (2009: 880 467 500) ordinary shares of R2,00 each	**1 761**	1 761
Issued		
718 210 043 (2009: 718 210 043) ordinary shares of R2,00 each	**1 437**	1 437
Total issued capital		
Share capital	**1 437**	1 437
Share premium	**5 367**	5 308
	6 804	6 745

Authorised shares

The authorised share capital was increased during the previous year in terms of article 177.4 of the Articles of Association of the Company which states that upon redemption of any issued redeemable preference share, that issued share shall:

- be automatically cancelled as to its issue, but not as to its authorisation; and simultaneously
- be automatically converted from an authorised but unissued redeemable preference share to an authorised but unissued ordinary share of R2,00 each ranking pari passu in all respects with the authorised ordinary shares.

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 annual general meeting of the Company.

Shares issued during the current year

There were no shares issued during the current year.

Shares issued during the previous year

The following ordinary shares were issued during the previous year to meet the obligation of the Absa Group Limited Share Ownership Administrative Trust:

- On 17 March 2009, 93 900 shares at R64,80 per share, being R2,00 par value and R62,80 share premium.
- On 24 June 2009, 434 900 shares at R68,30 per share, being R2,00 par value and R66,30 share premium.

The following ordinary shares were issued during the previous year to meet the obligation of the Absa Group Limited Share Incentive Trust:

- On 24 June 2009, 753 642 shares at R41,97 per share, being R2,00 par value and R39,97 share premium.

The following ordinary shares were issued during the previous year to meet the obligation of Batho Bonke Capital (Proprietary) Limited exercising its options to subscribe for ordinary shares:

- On 15 June 2009, 36 649 300 shares at R68,30 per share, being R2,00 par value and R66,30 share premium.

11. Other reserves

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
12. Interest and similar income		
Interest and similar income is earned from:		
Loans and advances to banks	**10**	56
Portfolio analysis		
Interest on financial assets held at amortised cost	**10**	56
13. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**—**	6
Portfolio analysis		
Interest on financial liabilities held at amortised cost	**—**	6
14. Gains and losses from investment activities		
Profit realised on disposal of associates and joint ventures	**—**	32
Subsidiaries	**4 201**	4 628
Dividends received	**4 201**	4 727
Loss realised on disposal	**—**	(99)
	4 201	4 660
15. Other operating income		
Exchange differences	**—**	6
Sundry income	**50**	107
	50	113
16. Operating expenditure		
Administrative expenses	**5**	6
17. Other impairments		
Investment in subsidiary	**—**	43
During the previous year, the fair value of the investment in Abvest Holdings (Proprietary) Limited was reassessed. It was found to be lower than the carrying amount. The investment was impaired and an impairment loss was recognised.		
18. Taxation expense		
Current		
South African current tax	**6**	35
South African current tax – previous year	**(2)**	27
STC	**93**	141
	97	203
Deferred		
Deferred tax (refer to note 8.1)	**2**	(2)
	99	201

	Company 2010 Rm	Company 2009 Rm

18. Taxation expense *(continued)*

Reconciliation between operating profit and the taxation expense

	2010 Rm	2009 Rm
Operating profit before income tax	**4 256**	4 772
Tax calculated at a tax rate of 28%	**1 192**	1 336
Effects of previous year adjustments	**—**	26
Expenses not deductible for tax purposes	**6**	4
Income not subject to tax	**(1 190)**	(1 332)
Other	**(2)**	26
STC	**93**	141
	99	201

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.

19. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders 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.

	2010 Rm	2009 Rm
Profit attributable to ordinary equity holders of the Company	**4 157**	4 571
Weighted average number of ordinary shares in issue (millions)	**718,2**	695,7
Issued shares at the beginning of the year (millions)	**718,2**	680,2
Effect of shares issued during the year (weighted millions)	**—**	15,5
Basic earnings per share (cents)	**578,8**	657,0
Diluted earnings per share (cents)	**578,8**	657,0

20. 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 ordinary equity holders of the Company		**4 157**		4 571
Adjustments for:				
IAS 27 – Loss on disposal of subsidiaries (refer to note 14)	**—**	**—**	99	99
IAS 28 and 31 – Profit on disposal of investments in associates and joint ventures (refer to note 14)	**—**	**—**	(32)	(32)
IAS 36 – Impairment of investments in subsidiaries (refer to note 17)	**—**	**—**	43	43
Headline and diluted headline earnings		**4 157**		4 681
Headline earnings per share (cents)		**578,8**		672,8
Diluted headline earnings per share (cents)		**578,8**		672,8

Note

[1]*The net amount is reflected after tax.*

Notes to the Company financial statements

For the year ended 31 December

	Company 2010 Rm	2009 Rm
21. Dividends per share		
Dividends paid to ordinary equity holders during the year		
16 February 2010 final dividend number 47 of 220 cents per ordinary share (9 February 2009: 330 cents)	**1 580**	2 245
4 August 2010 interim dividend number 48 of 225 cents per ordinary share (3 August 2009: 225 cents)	**1 616**	1 616
Dividends paid on shares held by Batho Bonke Capital (Proprietary) Limited in terms of the bridging finance arrangement (refer to note 54.2 of the Group's financial statements)	**—**	(56)
	3 196	3 805
Dividends paid to ordinary equity holders relating to income for the year		
4 August 2010 interim dividend number 48 of 225 cents per ordinary share (3 August 2009: 225 cents)	**1 616**	1 616
15 February 2011 final dividend number 49 of 230 cents per ordinary share (16 February 2010: 220 cents)	**1 652**	1 580
Dividends paid on shares held by Batho Bonke Capital (Proprietary) Limited in terms of bridging finance arrangement (refer to note 54.2 of the Group's financial statements)	**—**	(56)
	3 268	3 140

The STC payable by the Company in respect of the dividend approved and declared subsequent to the reporting date, amounts to R165 million 2009: R158 million). No provision has been made for this dividend and the related STC in the financial statements at the reporting date.

22. Related parties

Refer to note 48 of the Group's financial statements for the full disclosure of related party transactions.

22.1 Transactions with subsidiaries

The following are transactions entered into with, subsidiaries:

	Company 2010 Rm	2009 Rm
Transactions		
Interest and similar income (refer to note 12)	**10**	8

23. Financial risks

Refer to note 61 of the Group's financial statements.

Shareholder information

Contents

Shareholder information

Pages 511 – 526

Important shareholder information including the notice of annual general meeting.

Letter from the Chairman

Dear Shareholder

I am delighted to invite you to the 25th Absa Group AGM of ordinary shareholders, to be held at the P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg, on Thursday, 21 April 2011.

This meeting provides all shareholders the important opportunity to meet with the Absa Group board of directors, to vote on the resolutions and to pose questions or comments on the results of the Group for the year ended 31 December 2010. Voting will be conducted by means of an electronic poll – kindly refer to the section 'Proxy and voting procedures' on page 525 of the notice for the appropriate way to ensure that your vote, either in person or by proxy, is accounted for. Should you not be able to attend the AGM in person, I encourage you to submit your completed proxy form to our transfer secretaries by 11:00 on Tuesday, 19 April 2011.

The formal notice of AGM follows on pages 515 to 523 and contains all the ordinary and special resolutions to be considered by shareholders at the AGM, as well as an explanation for each resolution. The board recommends that shareholders vote in favour of all resolutions set out in the notice.

In terms of ordinary resolution number 4, I am standing for re-election as director, and, in line with King III, the board will elect its Chairman annually commencing this year.

The board, via its Directors' Affairs Committee, has undertaken a comprehensive evaluation of the board's effectiveness, as well as the performance of individual directors. In light of these reviews, we recommend the re-election of the directors who retire by rotation as set out in the AGM notice.

Special resolutions

At this AGM, shareholders will be requested to approve a total of 17 resolutions, of which 12 are ordinary and five special resolutions. I would like to draw your particular attention to the special resolutions. The new Companies Act of 2008 requires that the remuneration of non-executive directors be approved by 75% of shareholders, as opposed to a simple majority required by the Companies Act of 1973.

We are also seeking your approval to amend the Company'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 Group's website. We believe that this change will facilitate the more effective and efficient distribution of financial statements to you. Subject to approval by shareholders, this change has been approved, as required by the Banks Act, by the Registrar of Banks.

The last special resolution will provide the board with the ability to repurchase shares when suitable situations arise. The board believes that this resolution is still appropriate to assist us in performing our duties in line with good corporate governance and in the best interest of shareholders.

I look forward to welcoming you at the AGM.

Garth Griffin

Group Chairman

9 March 2011

Share performance and shareholders' information

Key information

Ordinary shares

Authorised	880 467 500
Issued	718 210 043
Number of shareholders	40 372

Year-end

31 December 2010

Annual general meeting

21 April 2011

Transfer secretaries

Computershare Investor Services (Proprietary) Limited

Postal address:
PO Box 61051, Marshalltown, 2107

Telephone: (+27 11) 370 5000

JSE share code

ASA

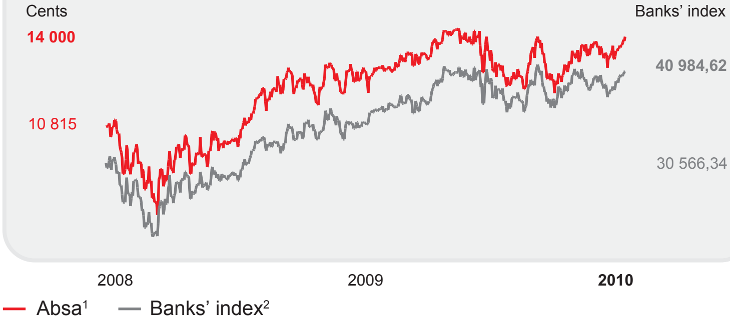
Issuer code

AMAGB

ISIN

ZAE000067237

Share performance



	2010	2009	Change %
Number of ordinary shares in issue[3]	**718 210 043**	718 210 043	—
Share price (cents per share):			
» closing	**14 000**	12 850	9
» high	**14 295**	13 075	9
» low	**12 000**	7 690	56
» average	**13 292**	11 118	20
Closing price/net asset value per share (excluding preference shares)	**1,79**	1,83	
Price-earnings (P/E) ratio (closing price/headline earnings per share)	**12,5**	11,7	
Volume of shares traded (millions)	**363,3**	545,3	(33)
Value of shares traded (Rm)	**48 266,8**	59 151,4	(18)
Market capitalisation (Rm)	**100 549,4**	92 290,0	9

Notes

[1]*Absa Group's annual total return for the year ended 31 December 2010 was* ***12,4%****.*

[2]*The Banks' index outperformed Absa's share price by* ***7,28%*** *during the year ended 31 December 2010. Total return was used to calculate the relative performance (calculated using the dividend yield for the year).*

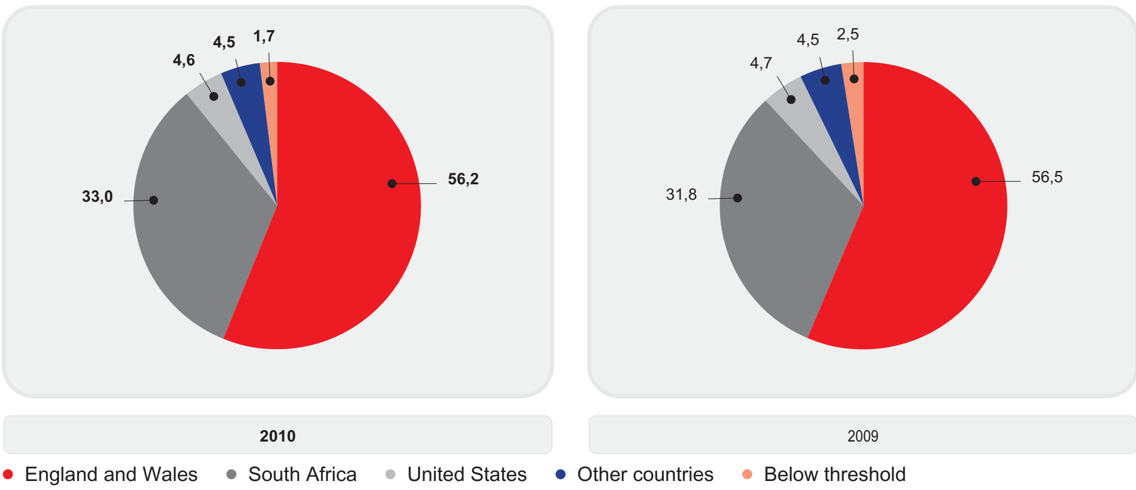
[3]*Includes* ***1 049 790*** *shares held by Absa Group Limited Share Incentive Trust (2009: 1 841 624) and* ***570 000*** *shares held by Absa Group companies (2009: 545 111).*

Ordinary shareholders

As at 31 December

	2010		2009	
	Number of shares held	**%**	Number of shares held	%
Major ordinary shareholders				
Barclays Bank PLC	**398 774 945**	**55,5**	398 774 945	55,5
Public Investment Corporation	**67 870 310**	**9,4**	61 549 260	8,6
Batho Bonke Capital (Proprietary) Limited	**36 649 300**	**5,1**	36 649 300	5,1
Old Mutual Asset Managers	**21 678 767**	**3,0**	22 556 037	3,1
Coronation Fund Managers	**13 863 560**	**1,9**	1 999 999	0,3
Stanlib Asset Management	**11 880 641**	**1,7**	12 200 691	1,7
Sanlam Investment Management	**11 578 727**	**1,6**	10 340 354	1,4
Dimensional Fund Advisors Incorporated	**7 319 695**	**1,0**	5 423 940	0,8
The Vanguard Group Incorporated	**7 160 170**	**1,0**	4 357 114	0,6
Prudential Portfolio Managers	**5 951 365**	**0,8**	5 034 123	0,7
Other	**135 482 563**	**19,0**	159 324 280	22,2
Total	**718 210 043**	**100,0**	718 210 043	100,0
Shareholder type				
Principal shareholder (Barclays Bank PLC)	**398 774 945**	**55,5**	398 774 945	55,5
Private Investors	**32 986 031**	**4,6**	28 909 854	4,0
Other	**286 449 067**	**39,9**	290 525 244	40,5
Total	**718 210 043**	**100,0**	718 210 043	100,0

Ordinary shareholders' geographical split (%)



Share performance and shareholders' information

Public and non-public shareholders

As at 31 December

	2010			2009		
	Number of share-holders	Number of shares held	%	Number of share-holders	Number of shares held	%
Public shareholders	40 333	278 947 605	38,8	43 275	277 058 789	38,6
Non-public shareholders						
» Barclays Bank PLC	2	398 774 945	55,5	2	398 774 945	55,5
» Trustees of the Absa Share Incentive Trust	1	1 049 790	0,2	1	1 841 624	0,3
» Related holdings	19	39 184 642	5,5	32	39 896 744	5,5
» Directors' and associates' beneficial holdings	17	253 061	0,0	18	637 941	0,1
› Direct		242 061			578 341	
› Indirect		11 000			36 000	
» Directors' and associates' non-beneficial holdings						
› Direct		—			—	
› Indirect		—			23 600	
Total	40 372	718 210 043	100,0	43 328	718 210 043	100,0

Note

[1]*Includes the BBBEE shareholding held by Batho Bonke Capital (Proprietary) Limited.*

Shareholders' diary

Financial year-end	**31 December 2010**
Annual general meeting	**21 April 2011**
Announcements	
Announcement of final results	**15 February 2011**
Announcement of interim results[1]	**2 August 2011**

Dividends

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.*

Notice of annual general meeting (AGM)

A member of the Company entitled to attend and vote at the below-mentioned meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company. Meeting attendees will be required to provide satisfactory identification before being allowed to participate in the meeting.

Absa Group Limited
(Incorporated in the Republic of South Africa)
Registration number: 1986/003934/06
(the Company)
JSE share code: ASA
Issuer code: AMAGB
ISIN: ZAE000067237
Record date: 19 April 2011

Notice is hereby given that the 25th (twenty-fifth) annual general meeting (AGM) of ordinary shareholders will be held in the P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg, on Thursday, 21 April 2011 at 11:00, for the purposes of considering and, if deemed fit, passing the ordinary and special resolutions below.

Agenda

1. Ordinary resolution number 1 – Annual financial statements

To consider the Group's and the Company's audited annual financial statements, including the reports of the directors, audit committee and auditors, for the year ended 31 December 2010.

Percentage of voting rights required to pass this resolution: 50% + 1 vote

2. Ordinary resolution number 2 – Re-appointment of the auditors

"Resolved to re-appoint PricewaterhouseCoopers Inc. (with Mr John Bennett as designated auditor) and Ernst & Young Inc. (with Mr Ernest van Rooyen as designated auditor) as the auditors of the Company until the conclusion of the next AGM."

Percentage of voting rights required to pass this resolution: 50% + 1 vote

Motivation for ordinary resolution number 2

Shareholders are requested to consider and, if deemed appropriate, to re-appoint PricewaterhouseCoopers Inc. (with Mr John Bennett as designated auditor) and Ernst & Young Inc. (with Mr Ernest van Rooyen as designated auditor) as the auditors of the Company to hold office until the conclusion of the next AGM. The Group Audit and Compliance Committee has recommended and the board has endorsed the above re-appointments.

3. Ordinary resolution number 3 – Re-election of B P Connellan

"Resolved that B P Connellan, who is required to retire as a director of the Company at this AGM (having served on the board for more than nine years) and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."

Percentage of voting rights required to pass this resolution: 50% + 1 vote

4. Ordinary resolution number 4 – Re-election of G Griffin

"Resolved that G Griffin, who is required to retire as a director of the Company at this AGM (having served on the board for more than nine years) and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."

Percentage of voting rights required to pass this resolution: 50% + 1 vote

Motivation for ordinary resolutions numbers 3 and 4

The Company has introduced a requirement in terms of which all directors who have been on the board for longer than nine years are subject to annual re-election by shareholders at the AGM. The directors, who retire in terms of the above requirement at the 2011 AGM, are B P Connellan and G Griffin. The two directors are eligible for re-election and have made themselves available for re-election. The board recommends their re-election.

Notice of annual general meeting (AGM)

5. Ordinary resolution number 5 – Re-election of Y Z Cuba

"Resolved that Y Z Cuba, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered herself for re-election, is hereby reappointed as a director of the Company with immediate effect."

Percentage of voting rights required to pass this resolution: 50% + 1 vote

6. Ordinary resolution number 6 – Re-election of B C M M de Vitry d'Avaucourt

"Resolved that B C M M de Vitry d'Avaucourt, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect.

Percentage of voting rights required to pass this resolution: 50% + 1 vote

7. Ordinary resolution number 7 – Re-election of A P Jenkins

"Resolved that A P Jenkins, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."

Percentage of voting rights required to pass this resolution: 50% + 1 vote

8. Ordinary resolution number 8 – Re-election of T M Mokgosi-Mwantembe

"Resolved that T M Mokgosi-Mwantembe, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered herself for re-election, is hereby reappointed as a director of the Company with immediate effect."

Percentage of voting rights required to pass this resolution: 50% + 1 vote

9. Ordinary resolution number 9 – Re-election of T S Munday

"Resolved that T S Munday, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."

Percentage of voting rights required to pass this resolution: 50% + 1 vote

10. Ordinary resolution number 10 – Re-election of M D C D N C Ramos

"Resolved that M D C D N C Ramos, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered herself for re-election, is hereby reappointed as a director of the Company with immediate effect."

Percentage of voting rights required to pass this resolution: 50% + 1 vote

Motivation for ordinary resolutions numbers 5 to 10

In addition to the re-election of the directors who have served on the board for more than nine years, one-third of the directors are required to retire at each AGM in terms of the Company's articles of association. These directors may offer themselves for re-election. The board recommends to shareholders the re-election of the directors mentioned above, who retire by rotation in terms of Article 85.1 of the Company's articles of association and who are eligible for re-election and who have offered themselves for re-election. M W Hlahla who also retires by rotation, has not offered herself for re-election.

The profiles of the directors standing for re-election as outlined in ordinary resolutions 3 to 10 above appear on page 82 of the annual report.

11. Ordinary resolution number 11 – Confirmation of appointment of a director

"Resolved that the appointment of C Beggs as a director of the Company on 23 June 2010 is hereby confirmed."

Mr Beggs' profile appears on page 82 of the annual report.

Percentage of voting rights required to pass this resolution: 50% + 1 vote

Motivation for ordinary resolution number 11

In terms of the Company's articles of association, the appointment by the board of directors or any persons as directors of the Company during the year after the last AGM requires confirmation by shareholders at the first AGM of the Company following the appointment of such persons. Mr Beggs was appointed as a director of the Company subsequent to the last AGM. The board recommends to shareholders that his appointment be confirmed.

12. Ordinary resolution number 12 – Placing of the authorised but unissued ordinary share capital under the control of the directors

"Resolved that the authorised but unissued ordinary shares of the Company (other than those specifically identified and authorised for issue in terms of any other authority by shareholders) are hereby placed under the control of the directors. Subject to any applicable legislation and the JSE Listings Requirements and any other stock exchange upon which ordinary shares in the capital of the Company may be quoted or listed from time to time. The directors are hereby authorised to allot and issue those ordinary shares on any such terms and conditions as they deem fit, subject to the proviso that the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution shall be limited to 5% (five percent) of the number of ordinary shares in issue as at 31 December 2010."

The maximum number of shares that can be allotted and issued in terms of the above is 35 910 502 (thirty-five million nine hundred and ten thousand five hundred and two) ordinary shares (being 5% (five percent) of the 718 210 043 (seven hundred and eighteen million two hundred and ten thousand and forty-three) ordinary shares in issue as at 31 December 2010.

Percentage of voting rights required to pass this resolution: 50% + 1 vote

Motivation for ordinary resolution number 12

In terms of the Companies Act, the members of the Company have to approve the placement of the unissued ordinary shares under the control of the directors.

Unless renewed, the existing authority granted by the members at the previous AGM on 21 April 2010 expires at the forthcoming annual general meeting. The authority will be subject to the Companies Act, the Banks Act and the JSE Listings Requirements. The aggregate number of ordinary shares able to be allotted and issued in terms of this resolution shall be limited to 5% (five percent) of the number of ordinary shares in issue as at 31 December 2010.

The directors have decided to seek annual renewal of this authority, in accordance with best practice. The directors have no current plans to make use of this authority, but are seeking its renewal to ensure that the Company has maximum flexibility in managing the Group's capital resources.

Notice of annual general meeting (AGM)

13. Special resolution number 1 – Remuneration of non-executive directors

"Resolved to approve the proposed fees payable to non-executive directors with effect from 1 May 2011, as set out in the table below:

Category	Fees for the 12-month period from 1 May 2011 to 30 April 2012 R	**Fees for the 12-month period from 1 May 2010 to 30 April 2011 R**	Increase %
Board Chairman[1]	3 675 000	**3 500 000**	5
Board member[2]	175 200	**166 900**	5
Group Audit and Compliance Committee (GACC) member[3]	163 100	**155 300**	5
Group Risk and Capital Management Committee (GRCMC) member[4]	163 100	**155 300**	5
Group Remuneration and Human Resources Committee (GRHRC) member[4]	86 700	**82 600**	5
Directors' Affairs Committee (DAC) member[4]	59 600	**56 800**	5
Concentration Risk Committee (CoRC) (incorporating Credit Committee: Large Exposures and Group Credit Committee) member[4]	59 600 and 1 200 per facility reviewed	**56 800 and 1 100 per facility reviewed**	5 9
Special board meeting (per meeting)	24 000	**22 900**	5
Special board committee meetings (including Board Finance Committee) (per meeting)[4]	15 400	**14 700**	5
Ad hoc board fees:[4] » per ad hoc board committee meeting or standing board subcommittee meeting attended	15 400	**14 700**	5
» consultancy work	3 465 per hour	**3 300 per hour**	5

Notes

[1]The Group Chairman's fee covers chairmanship and membership of all other board committees and subcommittees.
[2]Executive directors of Absa Group Limited no longer receive fees as members of the Absa Group Limited board.
[3]The GACC Chairman receives fees equal to three times the fee payable to a GACC member.
[4]The Chairmen of board committees and subcommittees other than the GACC receive fees equal to twice the fee payable to members of these committees.

Full particulars of all remuneration and benefits for the past year, as well as the process followed by the Group Remuneration and Human Resources Committee in recommending such board remuneration and benefits, are contained on pages 150 to 170 of the annual report.

Percentage of voting rights required to pass this resolution: 75%

Motivation for special resolution number 1

Shareholders are requested to consider and, if deemed appropriate, sanction the proposed remuneration payable to non-executive directors as set out above with effect from 1 May 2011.

The reason for the passing of the special resolution is to comply with the provisions of the 2008 Companies Act.

The effect of the special resolution is that, if approved by the shareholders at the AGM, the fees payable to non-executive directors until the next AGM will be as set out in the table above.

14. Special resolution number 2 – Amendment of article 149

"Resolved that the entire existing article 149 of the Company's articles of association be and is hereby substituted for the following new article 149:

149. Not less than 15 (fifteen) business days before the date of any annual general meeting, a summarised form of the financial statements to be presented at such meeting and directions for obtaining a copy of the complete annual financial statements for the preceding financial year shall be sent to every member, debenture holder and participant subject and in accordance with the provisions of the Act, the JSE and all other applicable laws. In addition, the requisite number of copies as may be required by law shall be sent to the Registrar, Registrar of Banks and the JSE in accordance with the provisions of applicable law.

Nothing contained in this Article shall impose a duty on the directors to send copies of such documents to any person whose address is not known to the Company, or where any shares or debentures are jointly held, to more than one of the joint holders of such shares or debentures.

This resolution is subject to the coming into law of the 2008 Companies Act on or before 1 July 2011.

Reason: The reason for the passing of the special resolution is to enable the Company to provide members, debenture holders and participants with a copy of summarised financial statements and directions for obtaining complete annual financial statements in accordance with the Act.

Effect: This will allow the Company, for example, to direct members, debenture holders and participants to an internet website to obtain a copy of the complete annual financial statements for the preceding financial year. Members, debenture holders and participants will, however, be entitled to request the Company to send to them a copy of the complete annual financial statements.

Percentage of voting rights required to pass this resolution: 75%.

15. Special resolution number 3 – Amendment of article 157

"Resolved that the entire existing article 157 of the Company's articles of association be and is hereby substituted for the following new article 157:

157. Notwithstanding Article 158, 159 and 160, any notice to be given by the Company shall be given in accordance with the provisions of the Act, the JSE and any applicable law, and generally the Company can give any notice or document (including a share certificate) to a shareholder:

(a) personally;

(b) by posting it to, or leaving it at, the shareholder's registered address;

(c) as agreed in writing by the shareholder concerned;

(d) where appropriate, by sending or supplying it by electronic medium to an address notified by the relevant shareholder to the Company for that purpose; or

(e) where appropriate, by making it available on a website and notifying the shareholder of its availability in accordance with this Article."

Reason: The reason for the resolution is to enable the Company to provide notice to members and others by means of electronic medium in accordance with the Act, the JSE and any applicable law.

Effect: This will allow the Company, always subject to applicable law, to provide notices and documents to members, debenture holders and participants by various methods including by electronic medium where appropriate and applicable.

Percentage of voting rights required to pass this resolution: 75%.

Notice of annual general meeting (AGM)

16. Special resolution number 4 – Deletion of article 157A

"Resolved that the entire existing article 157A of the Company's articles of association be and is hereby deleted."

Reason: The amendments to articles 149 and 157 will result in article 157A being obsolete, as the amendments to such articles will address notices or documents to be given by the Company to a member may be given by electronic medium.

Effect: Article 157A will be deleted in its entirety, but as a result of the amendments to articles 149 and 157, the Company will be entitled to give notices or documents to a member by electronic medium.

Percentage of voting rights required to pass this resolution: 75%.

Motivation for the special resolutions numbers 2 to 4

Special resolutions numbers 2 to 4 seek to amend the articles of the Company in order to facilitate electronic communications.

17. Special resolution number 5 – General repurchases

"Resolved that the Company or any subsidiary of the Company may, subject to the Companies Act, the Company's articles of association and the JSE Listings Requirements and any other stock exchange upon which the securities in the capital of the Company may be quoted or listed from time to time, repurchase ordinary shares issued by the Company, provided that this authority shall be valid only until the date of the next AGM of the Company or for 15 (fifteen) months from the date of the resolution, whichever is the shorter, and may be varied by a **special resolution** at any general meeting of the Company at any time prior to the AGM."

Pursuant to the above and required in terms of the JSE Listings Requirements, the following additional information is submitted:

It is recorded that the Company or any subsidiary of the Company may only make a general repurchase of ordinary shares if:

» the repurchase of ordinary shares is effected through the order book operated by the JSE trading system and is done without any prior understanding or arrangement between the Company or the relevant subsidiary and the counterparty. Reported trades are prohibited;

» the Company or the relevant subsidiary is authorised thereto by its articles of association;

» the Company or the relevant subsidiary is authorised thereto by its shareholders in terms of a special resolution of the Company or the relevant subsidiary in general meeting, which authorisation shall be valid only until the date of the next AGM or for 15 (fifteen) months from the date of the resolution, whichever is the shorter;

» repurchases are made at a price no greater than 10% (ten percent) above the volume-weighted average of the market value for the ordinary shares for the 5 (five) business days immediately preceding the date on which the repurchase is effected. The JSE will be consulted for a ruling if the applicants securities have not traded in such 5 (five) business day period;

» at any point in time, the Company or the relevant subsidiary may only appoint one agent to effect any repurchases on the Company's behalf;

» the Company or the relevant subsidiary does not repurchase securities during a prohibited period defined in terms of the JSE Listings Requirements, unless it has a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period;

» a paid press announcement, containing full details of such repurchases is published as soon as the Company has repurchased ordinary shares constituting, on a cumulative basis, 3% (three percent) of the number of securities in issue prior to the repurchases and for each 3% (three percent), on a cumulative basis, thereafter; and

- the general repurchase of any ordinary shares is (notwithstanding the 20% limit in the JSE Listings Requirements) limited to a maximum of 10% (ten percent) of the Company's issued ordinary share capital in any one financial year.

In terms of the general authority given under this special resolution, any acquisition of ordinary shares shall be subject to:

- the Companies Act;
- the JSE Listings Requirements and any other applicable stock exchange rules, as may be amended from time to time; and
- the sanction of any other relevant authority whose approval is required in by law.

After having considered the effect of any repurchases of ordinary shares pursuant to this general authority, the directors of the Company in terms of the Companies Act and the JSE Listings Requirements confirm that they will not undertake such repurchase of ordinary shares unless:

- the Company and the Group would be able to repay their debts in the ordinary course of business for the period of 12 (twelve) months after the date of the notice of the AGM;
- the assets of the Company and the Group, fairly valued in accordance with International Financial Reporting Standards and the Company's accounting policies used in the latest audited Group financial statements, will be in excess of the liabilities of the Company and the Group for the period of 12 (twelve) months after the date of the notice of the AGM;
- the Company and the Group will have adequate capital and reserves for ordinary business purposes for the period of 12 (twelve) months after the date of the notice of the AGM; and
- the working capital of the Company and the Group will be adequate for ordinary business purposes for the period of 12 (twelve) months after the date of the notice of the AGM.

The Company undertakes that it will not enter the market to repurchase the Company's securities, in terms of this general authority, until such time as the Company's sponsor has provided written confirmation to the JSE regarding the adequacy of the Company's working capital in accordance with Schedule 25 of the JSE Listings Requirements.

The maximum number of shares that can be repurchased under this authority amounts to 71 821 004 (seventy-one million eight hundred and twenty-one thousand and four) ordinary shares (10% (ten percent) of 718 210 043 (seven hundred and eighteen million two hundred and ten thousand and forty-three) ordinary shares in issue as at 31 December 2010.

For the purposes of considering the special resolution and in compliance with paragraph 11.26 of the JSE Listings Requirements, certain information is either listed below or has been included in the annual report:

- Directors and management – refer to pages 82 to 88 and 95 to 98 of the annual report.
- Major shareholders – refer to page 513 of the annual report.
- No material changes in the financial or trading position of the Company and its subsidiaries since 31 December 2010.
- Directors' interests in securities – refer to page 340 of the annual report.
- Share capital of the Company – refer to page 416 of the annual report.
- The directors, whose names are set out on pages 82 to 88 of the annual report, collectively and individually accept full responsibility for the accuracy of the information contained in this notice and accompanying documents and certify that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable enquiries in this regard, and further that this notice contains all information required by law and the JSE Listings Requirements.
- There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Company is aware), which may or have had a material effect on the Company's financial position over the past 12 (twelve) months preceding the date of this notice of AGM.

Percentage of voting rights required to pass this resolution: 75%

Notice of annual general meeting (AGM)

Motivation for the special resolution number 5

The Company's articles of association contain a provision allowing the Company or any subsidiary of the Company to repurchase securities issued by the Company. This is subject to the approval of the members in terms of the Company's articles of association, the Companies Act, the Banks Act and the JSE Listings Requirements. The existing general authority, granted by members at the previous AGM on 21 April 2010, is due to expire, unless renewed.

The directors are of the opinion that it would be in the best interests of the Company to extend such general authority and thereby allow the Company or any subsidiary of the Company to be in a position to repurchase the securities issued by the Company through the order book of the JSE, should the market conditions and price justify such action.

The proposed general authority would enable the Company or any subsidiary of the Company to repurchase up to a maximum of 71 821 004 (seventy-one million eight hundred and twenty-one thousand and four) ordinary shares in the ordinary issued share capital of the Company, representing 10% (ten percent) of the issued ordinary share capital as at 31 December 2010, with a stated upper limit on the price payable, which reflects the JSE Listings Requirements. Repurchases will be made only after the most careful consideration, where the directors believe that an increase in earnings per share will result and where repurchases are, in the opinion of the directors, in the best interests of the Company.

The reason for the passing of the special resolution is to enable the Company or any of its subsidiaries, by way of a general authority from shareholders, to repurchase ordinary shares issued by the Company.

The effect of the special resolution, once registered, will be to permit the Company or any of its subsidiaries to repurchase such ordinary shares in terms of the Companies Act. This authority will only be used if circumstances are appropriate.

Proxy and voting procedures

Members who have not dematerialised their shares or who have dematerialised their shares with 'own name' registration are entitled to attend or vote at the AGM and are entitled to appoint a proxy to attend, speak and vote in their stead. The person so appointed need not be a member of the Company.

Certificated members or dematerialised members with 'own name' registration who are unable to attend the AGM meeting but wish to be represented thereat must complete the proxy form on page 525 of the annual report.

In order to be effective, proxy forms should be delivered to the transfer secretaries, Computershare Investor Services (Proprietary) Limited at 70 Marshall Street, Johannesburg, 2001, or be posted to PO Box 61051, Marshalltown, 2107, so as to reach this address no later than 11:00 on Tuesday, 19 April 2011.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with 'own name' registration, should contact their participant (formerly Central Securities Depository Participant) or their stockbroker:

» to furnish their participant or stockbroker with their voting instructions; or
» in the event that they wish to attend the meeting, to obtain the necessary letter of representation to do so.

A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, participate in and vote at the meeting in the place of the shareholder. A proxy need not be a member of the Company.

Meeting attendees will be required to provide satisfactory identification before being allowed to participate in the meeting.

By order to the board

S Martin
Group Secretary

Johannesburg
9 March 2011

Appendix to the notice of annual general meeting

Important notes about the annual general meeting (AGM)

Date:	Thursday, 21 April 2011 at 11:00.
Venue:	P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg
Time:	The AGM will start promptly at 11:00. Shareholders wishing to attend are advised to be in the auditorium no later than 10:45. Reception staff at the Absa Towers complex will direct shareholders to the AGM venue. Refreshments will be served after the AGM.
Admission:	Shareholder, representatives of shareholders and proxies attending the AGM are requested to register at the registration desk in the auditorium reception area at the venue. Proof of identity may be required for registration purposes.
Security:	Secure parking is provided at the venue by prior arrangement. Attendees are requested not to bring cameras, laptop computers or tape recorders. Cellular telephones should be switched off for the duration of the proceedings.

Other important notes

1. General

Shareholders wishing to attend the AGM have to ensure beforehand with the Company's transfer secretaries that their shares are in fact registered in their name. Should this not be the case and the shares are registered in any other name or in the name of a nominee company, it is incumbent on shareholders attending the meeting to make the necessary arrangements with that party in whose name the shares are registered to be able to attend and vote in their personal capacity. The proxy form contains detailed instructions in this regard.

2. Certificated shareholders and dematerialised shareholders with 'own name' registration

If you are the registered holder of certificated Absa Group Limited ordinary shares or hold dematerialised Absa Group Limited ordinary shares in your own name and you are unable to attend the AGM but wish to be represented at the AGM, you must complete and return the attached form of proxy in accordance with the instructions contained therein so as to be received by the transfer secretaries, Computershare Investor Services (Proprietary) Limited at 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), by no later than 11:00 on Tuesday, 19 April 2011.

3. Dematerialised shareholders

If you are the holder of dematerialised Absa Group ordinary shares, but not the holder of dematerialised Absa ordinary shares in your own name, you must timeously provide your participant or stockbroker with your voting instructions for the AGM in terms of the custody agreement entered into with your participant or stockbroker. If, however, you wish to attend the AGM in person, then you must request your participant or stockbroker timeously to provide you with the necessary letter of representation to attend and vote your shares.

4. Proxies

Shareholders must ensure that their proxy forms reach the transfer secretaries as indicated in note 2 above by no later than 11:00 on Tuesday, 19 April 2011.

5. Enquiries

Any shareholder having difficulties or queries with regard to the AGM or the above may contact the Group Secretary, Sarita Martin, on +27 11 350 4828.

6. Results of the AGM

The results of the meeting will be posted on SENS as soon as practicably possible after the AGM.

Form of proxy

Annual general meeting

Absa Group Limited
Registration number: 1986/003934/06
JSE code: ASA
Issuer code: AMAGB
ISIN code: ZAE000067237
(Absa or the Group)

NUMBER OF SHARES

Record date: 19 April 2011

TO BE COMPLETED ONLY BY CERTIFICATED SHAREHOLDERS AND DEMATERIALISED SHAREHOLDERS WITH 'OWN NAME' REGISTRATION.

I/We ______________________________
(name(s) in block letters)
of ______________________________
(address in block letters)
being a member of the Company, entitled to vote and holding ______________ shares do hereby appoint

______________________________ or failing him/her

______________________________ or failing him/her,

the chairperson of the annual general meeting (AGM) as my/our proxy to attend and speak and vote for me/us and on my/our behalf at the AGM of members of the Company to be held in the P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg, on Thursday, 21 April 2011 at 11:00 and at any adjournment thereof, as follows:

	In favour of	Against	Abstain
1. To consider the Group and Company financial statements			
2. To re-appoint the Company's auditors			
3. Re-election of B P Connellan			
4. Re-election of G Griffin			
5. Re-election of Y Z Cuba			
6. Re-election of B C M M de Vitry d'Avaucourt			
7. Re-election of A P Jenkins			
8. Re-election of T M Mokgosi-Mwantembe			
9. Re-election of T S Munday			
10. Re-election of M D C D N C Ramos			
11. To confirm the appointment of a new director appointed after the last AGM: C Beggs			
12. Resolution regarding the placing of unissued shares under the control of the directors			
13. Special resolution to sanction the proposed remuneration of the non-executive directors, payable from 1 May 2011			
14. Special resolution to amend article 149			
15. Special resolution to amend article 157			
16. Special resolution to delete article 157A			
17. Special resolution regarding the authority for a general repurchase of ordinary shares of the Company			

Please indicate with an 'X' in the appropriate spaces provided above how you wish your vote to be cast. If no indication is given, the proxy will be entitled to vote or abstain as he/she deems fit.

A member of the Company entitled to attend and vote at the above-mentioned meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company. Meeting attendees will be required to provide satisfactory identification before being allowed to participate in the meeting.

Signed at ______________ on ______________ 2011

Full name(s) ______________________________
(in block letters)

Signature(s) ______________________________

Assisted by (guardian) ______________ Date ______________ 2011

If signing in a representative capacity, see note 4 on page 526.

Notes to the form of proxy

1. If two or more proxies attend the AGM, then that person attending the AGM whose name appears first on the proxy form and whose name is not deleted shall be regarded as the validly appointed proxy.
2. The chairperson of the AGM may reject or accept a form of proxy which is completed and/or received other than in accordance with these notes.
3. Any alteration to this proxy form, other than a deletion of alternatives, must be initialled by the signatories.
4. Documentary evidence establishing the authority of a person signing the proxy form in a representative or other legal capacity must be attached to this form, unless previously recorded by the Company or the transfer secretaries or waived by the chairperson of the meeting.
5. A minor must be assisted by his/her parent or legal guardian, unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
6. In order to be effective, proxy forms must be delivered to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, at 70 Marshall Street, Johannesburg, 2001, or be posted to PO Box 61051, Marshalltown, 2107, so as to reach this address by not later than 11:00 on Tuesday, 19 April 2011.
7. The delivery of a duly completed proxy form shall not preclude any member or his/her duly authorised representative from attending the AGM and speaking and voting thereat instead of his/her proxy.
8. Where there are joint holders of shares:

   8.1 any one holder may sign the form of proxy; and

   8.2 the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders appear in the Company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
9. Shareholders holding dematerialised shares (without 'own name' registration) who wish to attend the AGM must contact their participant or stockbroker, who will furnish them with the necessary letter of representation to attend the AGM. Alternatively, such shareholders must instruct their participant or stockbroker as to how they wish to vote in this regard. This has to be done in terms of the agreement entered into between such shareholders and their participant or stockbroker.

Reference tools

Contents

Reference tools

Reference tools to assist the reader.

Global Reporting Initiative (GRI) G3 Index

GRI Indi-cator	Index	Disclosure	Page
Strategy and analysis			
1.1	Statement from the most senior decision maker of the organisation (e.g. chief executive, chairperson or equivalent senior position) about the relevance of sustainability to the organisation and its strategy.	Absa is committed to ensuring the sustainability of its operations. Absa aims to be a respected corporate citizen. This is evidenced in both the Chairman's statement and Group Chief Executive's review.	75, 89
1.2	Description of key impacts, risks and opportunities.	Absa's impacts, risk and opportunities are identified throughout the report, specifically in the risk management and sustainability sections of the report.	31, 187
Organisational profile			
2.1	Name of the organisation.	Absa Group Limited.	
2.2	Primary brands, products and/or services.	Absa provides the full range of banking and financial services products and solutions.	104
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures.	Absa has a number of core segments being Retail Banking; Absa Business Bank; Absa Capital; Financial Services and the corporate capital and funding centres. Both legal and financial reporting structures are disclosed.	04, 102
2.4	Location of the organisation's headquarters.	Absa Group Limited headquarters are based at Absa Towers West 15 Troye Street, Johannesburg, Gauteng.	—
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Absa primarily operates in South Africa. The Group has equity holdings in Mozambique and Tanzania and representative offices in Namibia and Nigeria.	Inside front cover
2.6	Nature of ownership and legal form.	Absa Group Limited is a public company incorporated in accordance with the laws of the Republic of South Africa.	03,04
2.7	Markets served (including geographical breakdown, sectors served and types of customers/beneficiaries).	Absa provides services primarily to South African personal, commercial and corporate markets.	102
2.8	Scale of the reporting organisation (including number of employees, net sales, total capitalisation and quantity of products or services provided).	43 239 total permanent and non-permanent employees. 39 728 South African permanent and non-permanent employees. R8 041 million headline earnings. R716 470 million total assets. R100 549 million market capitalisation.	03
2.9	Significant changes during the reporting period regarding size, structure or ownership.	There were no significant changes in the organisation's size, structure or ownership. Some acquisitions and disposals were made in the normal course of business.	338
2.10	Awards received during the reporting period.	Absa received numerous awards during the year under review.	66, 106, 110, 114, 118

Global Reporting Initiative (GRI) G3 Index

GRI Indicator	Index	Disclosure	Page
Report parameters			
3.1	Reporting period for information provided.	For the year ended 31 December 2010.	—
3.2	Date of most recent previous report.	For the year ended 31 December 2009.	—
3.3	Reporting cycle (annual, biannual etc).	Absa reports once a year (annual results).	—
3.4	Contact point for questions regarding the report or its contents.	investorrelations@absa.co.za and groupsec@absa.co.za	Inside back cover
3.5	Process for defining report content (including determining materiality, prioritising topics within the report and identifying stakeholders the organisation expects to use the report).	The information contained in the report complies with the requirements of the Listings Requirements of the JSE Limited and the Companies Act. Materiality of information disclosed has been informed by what is deemed important by the Group and its stakeholders. The Group's stakeholder groups are defined by the board.	21
3.6	Boundary of the report.	Absa's reporting covers the entire Group, being retail, commercial, corporate and investment banking as well as the Group's financial services operations.	Inside front cover
3.7	State any specific limitations on the scope or boundary of the report.	None.	Inside front cover
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organisations.	Comparatives were reclassified.	338
3.9	Data measurement techniques and the basis for calculations.	The Group complies with International Financial Reporting Standards (IFRS).	353
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.	Comparatives were reclassified.	388
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report.	None.	—
3.12	Table identifying the location of the standard disclosures in the report.	Global Reporting Initiative Index.	529
3.13	Policy and current practice with regard to seeking external assurance of the report.	Financial information: The report has been reviewed by the Absa's external auditors. Non-financial information: Limited assurance has been obtained on a number of indicators.	136

GRI Indi- cator	Index	Disclosure	Page
Governance, commitments and engagement			
Governance issues			
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Absa complies with King II. Full disclosure of corporate governance bodies and activities is provided in the report.	129
4.2	Indicate whether the chairperson of the highest governance body is also an executive officer.	The Absa Group Chairman is an independent director.	129
4.3	For organisations that have a unitary board structure, state the number of board members of the highest governance body that are independent and/or non-executive members.	Independent: 12. Non-executive: Three. The Group assesses the independence of each Absa director against the criteria set out in King II, the JSE Listings Requirements, the Combined Code and other corporate governance principles.	129
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	The Group's AGM, special general meetings, and direct and indirect communication media, provide mechanisms for feedback. In addition, management interact directly with shareholders.	26
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives and the organisation's performance.	Non-executive directors' compensation is based on the size and complexity of the Group. Performance bonuses are linked to performance in terms of targeted performance goals and are based on an economic-value-added approach.	129, 80
4.6	Process in place for the highest governance body to ensure conflicts of interest are avoided.	The Group has a policy governing conflicts of interest. The policy is provided to all new directors on appointment and is reviewed by the board annually.	129
4.7	Process for determining the qualifications and expertise of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics.	The board's skills, experience, competencies and qualifications are reviewed annually.	129
4.8	Internally developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation.	Absa has a well-defined purpose, vision and mission statement. The Group also has identified values and a code of ethics. These are applied consistently across the Group.	03, 04, 142
4.9	Procedures of the highest governing body for overseeing the organisation's identification and management of economic, environmental and social performance.	Covered in the corporate governance statement.	129
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance.	The board conducts a collective board evaluation during the first quarter of every year. The DAC considers the results of the evaluation.	125

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4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	The Group has a PRP with identified principal risks that are monitored throughout the organisation.	190
4.12	Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses.	BBBEE CoGP. GRI. Equator Principles. Absa customer charter.	21
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations.	The Group is a member of a number of banking, financial services and civic associations so as to ensure its future sustainability.	26
4.14	List of stakeholder groups engaged by the organisation.	Absa's stakeholder groups are: customers; employees; shareholders; the community; and governments and regulators.	26
4.15	Basis for identification and selection of stakeholders with whom to engage.	The identification of stakeholder groups is approved by the board.	26
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	The Group makes use of a number of mediums to communicate with and obtain feedback from its stakeholders.	26
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organisation has responded to those key topics and concerns, including through its reporting.	Absa has dedicated departments to address stakeholder concerns.	27, 31
Economic approach and performance indicators			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments.	The Group posted headline earnings of R8 041 million for the year ended 31 December 2010.	23
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	The environmental risk department ensures that environmental risks are managed at an appropriate standard across the Group.	56, 70
EC3	Coverage of the organisation's defined-benefit plan obligations.	Contained in note 44 of the financial statements.	430
EC4	Significant financial assistance received from government.	Absa does not receive any financial assistance from any government.	—
EC5	Range of ratios of standard entry level wage compared with local minimum wage at significant locations of operation.	Entry level salaries are based on annual reviews of salaries amongst the market. Absa complies with all applicable minimum wage legislation and offers competitive salaries.	171

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EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation.	Absa has a clear approach procurement which is guided by the BBBEE CoGP.	63
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	The majority of Absa's employees are South African, with 31,5% of senior management from previously disadvantaged groups.	63, 171
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit though commercial, in-kind or pro bono engagement.	The Group invested over R83 million in the communities in which it operates through CSI and consumer education initiatives.	63, 66
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Absa understands that its operations ultimately result in the financial stability of the country and its citizens and therefore is cognisant of this.	70
Environmental performance indicators			
EN1	Materials used by weight or volume.	Absa is not a major consumer of material. Paper is the major material used.	70
EN2	Percentage of materials used that are recycled input materials.	Absa endeavours to facilitate recycling wherever possible.	70
EN3	Direct energy consumption by primary energy source.	Electricity is the Group's core energy source. Gas is becoming increasingly important with the completion of the energy centre at the Group's head office campus.	70
EN4	Indirect energy consumption by primary source.	Absa primarily uses electricity.	70
EN5	Energy saved due to conservation and efficiency improvements.	A number of initiatives were implemented coupled with the completion of the energy centre at the Group's head office campus.	70
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.	Absa has instituted the replacement of electrical geysers with solar geysers under the homeowners comprehensive policy. The Group also provides advisory development, financing and trading of renewable energy technology transactions.	70, 112
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Focus has been on reducing the space occupied by the Group, thus resulting in lower demand for electricity.	70
EN8	Total water withdrawal by source.	Absa is not a major consumer of water. The Group has implemented a grey water system in its Absa Towers West building.	70
EN9	Water sources significantly affected by the withdrawal of water.	None.	—
EN10	Percentage and total volume of water recycled or reused.	Not disclosed.	70

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GRI Indi-cator	Index	Disclosure	Page
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Absa has no direct impact on biodiversity/protected areas as the Group predominantly occupies offices.	—
EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas.	Absa operations have no direct impact on biodiversity in protected areas.	—
EN13	Habitats protected or restored.	Not applicable.	—
EN14	Strategies, current actions and future plans for managing impacts on biodiversity.	Not applicable.	—
EN15	Number of IUCN Red List species.	None.	—
EN16	Total direct and indirect greenhouse gas emissions by weight.	Absa launched a project to measure overall electricity use and to provide an accurate energy usage base line as electricity is 95% of the carbon footprint.	70
EN17	Other relevant indirect greenhouse gas emissions by weight.	Not measured.	—
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Absa has installed a gas energy centre and has implemented a number of initiatives to reduce electrical usage.	70
EN19	Emissions of ozone-depleting substances by weight.	Carbon dioxide footprint disclosed.	70
EN20	Other significant air emissions by type and weight.	Not applicable.	—
EN21	Total water discharge by quality and destination.	Not applicable.	—
EN22	Total weight of waste by type and disposal method.	Paper is the Group's core waste product.	70
EN23	Total number and volume of significant spills.	None.	—
EN24	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention.	All waste is handled as per legal requirements.	—
EN25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges to water and runoff.	None.	—
EN26	Initiatives to migrate environmental impacts of products and services, and extent of impact mitigation.	Absa subscribes to the Equator Principles.	56
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not applicable.	—

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EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	The Group has not incurred any fine for non-compliance with environmental regulations.	175
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	Not material.	—
EN30	Total environmental protection expenditures and investments by type.	Not measured.	—
Social performance indicators			
Labour practices			
LA1	Total workforce by employment type, employment contract and region.	Permanent employees – 36 770 Non-permanent employees – 6 469.	61, 171
LA2	Total number and rate of employee turnover by age group, gender and region.	Permanent employee turnover rate for South Africa of 10,1% for 2010.	61, 171
LA3	Benefits provided to full-time employees.	Clinics, gymnasiums, canteens, HIV/Aids guidance, paid maternity and paternity leave and a sick leave benefit bank.	61, 171
LA4	Percentage of employees covered by collective bargaining agreements.	Approximately 68% of Absa's workforce is unionised.	61, 171
LA5	Minimum notice periods regarding operational changes, including whether it is specific in collective agreements.	Absa has recognition agreements with trade unions.	61, 171
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	There are dedicated committees in each of the Group's buildings.	171
LA7	Rates of injury, occupational diseases, lost days and absenteeism and number of work-related fatalities by region.	Major injuries – 62 Number of recorded accidents – 195 Absentee rate – 1,8%	61
LA8	Education, training, counselling, prevention and risk control programmes in place to assist workforce members regarding serious diseases.	Wellness management includes the identification of behavioural risks from both organisational and individual sources, as well as providing interventions relating to these.	61, 171
LA9	Health and safety topics covered in formal agreements with trade unions.	Not included.	—
LA10	Average hours of training per year per employee by employee category.	Absa provides its employees with a number of training interventions.	61, 171
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Comprehensive programmes in place.	61, 171

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LA12	Percentage of employees receiving regular performance and career development reviews.	All employees have performance development plans in place. Review of progress against objectives and development actions take place at least twice annually and additional informal (required) reviews happen twice a year in alternate quarters. Leadership and talent reviews are conducted twice annually to ensure Absa nurtures, develops and stretches its talent.	61, 171
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity.	The corporate governance statement provides a detailed overview of the Group's governance structures. Key diversity indicators are indicated in the report.	129, 171
LA14	Ratio of basic salary of men to women by employee category.	Not disclosed.	—
Human rights			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	Absa undertakes not to provide funding to projects if the borrower is unable or unwilling to comply with the guidelines stated in the Equator Principles.	56
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	The associated governance requirements are embedded in Absa's approach.	—
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	The Group's commitment to observe all constitutional rights of employees is confirmed and articulated in various policy documents and statements. Training is provided in respect of the application of relevant policies.	175
HR4	Total number of incidents of discrimination and actions taken.	Not disclosed.	142
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk and actions taken to support these rights.	A policy is in place and is monitored.	171
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	Not applicable.	—
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour.	Not applicable.	—
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	The operational security function for the Group is outsourced and therefore training is undertaken by the vendor.	—
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	A comprehensive employment equity and diversity programme is in place. The monitoring of any incidents is part of the process.	142, 171

GRI Indi- cator	Index	Disclosure	Page
Society performance indicators			
SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting.	Prior to approving the financing of projects, the relevant communities are consulted.	56
SO2	Percentage and total number of business units analysed for risks related to corruption.	Policies and procedures are in place and managed and monitored by Group Compliance and the Group's internal audit department.	175
SO3	Percentage of employees trained in the organisation's anti-corruption policies and procedures.	All Absa employees have signed the employee Code of Conduct Guide acknowledging Absa's policy on corruption and the fight against it.	175
S04	Actions taken in response to incidents of corruption.	All matters relating to corruption are to be reported and a thorough investigation into the incident/allegation is undertaken.	175, 142
S05	Public policy positions and participation in public policy development and lobbying.	Absa has a dedicated department that focuses on government relations.	26, 141
S06	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	Absa contributed R2,6 million to political parties as per the democracy support programme.	26, 141
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes.	No court cases have been instituted against Absa.	175
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Absa has complied with the required laws and regulations.	175
Product responsibility performance indicators			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	The Group subscribes to and abides by the regulations of the Financial Intelligence Centre Act (FICA) and the Financial Advisory and Intermediary Services (FAIS) Act in obtaining customer information and providing customers with fit and proper financial advice.	175
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Not applicable.	175
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Information is provided directly to customers. Absa subscribes to and abides by the regulations of FICA, and the FAIS Act in obtaining customer information and providing customers with fit and proper financial advice. In addition, the Group complies with the National Credit Act (NCA).	175

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PR4	Total number of incidents of non-compliance with regulations concerning product and service information and labelling, by type of outcomes.	None.	175
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Customer satisfaction is continuously measured.	52, 26
PR6	Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.	Absa is committed to adhering to all the standards and voluntary codes related to marketing communication.	175
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes.	There were no incidents of non-compliance during 2010.	175
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	The Group subscribes to the Code of Banking Practice and has a process in place to ensure the protection of data.	175, 142
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	None.	175
Financial services sector specific disclosure on management approach			
FS1	Policies with specific environmental and social components applied to business lines.	Absa has policies that have a specific focus on environmental and social components.	56, 175
FS2	Procedures for assessing and screening environmental and social risks in business lines.	Absa is committed to balancing sound risk management with economic, social and environmental viability. The environmental and social impact assessment (ESIA) policy governs Absa's management of environmental and social risk assessment.	56, 175
FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	Absa requires and reviews environmental impact assessments of projects identified as environmentally sensitive. Local environmental legislation is applied as a guideline for the assessment of environmentally sensitive projects. However, in the case of projects larger than $10 million, as required by the Equator Principles, credit applications are referred to Barclays Bank PLC to be reviewed by its environmental risk policy unit.	56, 175
FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.	Employees are provided with information and training pertaining to these policies and their implementation.	56

GRI Indi-cator	Index	Disclosure	Page
FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.	Undertaken in the normal course of business.	104
FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector.	Disclosed in detail in the financial statements.	463
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.	The majority of the Group's business aims to enhance society both directly and indirectly. A full review of the Group's operations is contained in the section titled business operations.	104
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.	Absa subscribes to the Equator Principles and strives for accountable investing.	56
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.	This is undertaken as part of the Group's PRP.	190
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues.	The majority of the Group's entities are included in this regard.	104
FS11	Percentage of assets subject to positive and negative environmental or social screening.	During the year, the Group was integrally involved in 23 transactions from an environmental and social risk perspective. Of these, 16 were non-project finance transactions and seven were project finance transactions that were subject to the Equator Principle requirements.	56
FS12	Voting policy(ies) applied to environmental or social issues for shares over which the reporting organisation holds the right to vote shares or advises on voting.	Environmental and social issues are included in all voting decisions.	—
FS13	Access points in low-populated or economically disadvantaged areas by type.	Absa has an extensive distribution footprint that includes low-populated and economically disadvantaged areas.	104
FS14	Initiatives to improve access to financial services for disadvantaged people.	Absa aims to enhance access to financial services for previously unbanked or underbanked individuals by taking banking to the people, while still maintaining Absa's strong position in the more traditional markets. The design and implementation of various alternative solutions has enabled Absa to deliver the right mix of representation.	52, 104
FS15	Policies for the fair design and sale of financial products and services.	Treating Customers Fairly principles and outcomes form part of the new product approval policy and procedures.	52, 175
FS16	Initiatives to enhance financial literacy by type of beneficiary.	Absa has a number of financial literacy initiatives aimed at both customers and consumers.	66

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GRI Indi-cator	Index	Disclosure	Page
HIV/Aids reporting 2010			
1	Describe the organisation's HIV/Aids policy.	Absa has an internal HIV/Aids and life-threathening disease policy in place, which is available to employees on the Absa intranet and reviewed every six months to align with new information and related policies.	171
2	Describe the overall strategy for managing the HIV/Aids risk.	Absa is committed to creating and maintaining a safe and non-discriminating working environment for all employees. The Group undertakes to deal with HIV infected employees and/or an employee with Aids in the same manner as with employees suffering from any other life-threatening disease, with due consideration to all stakeholders. However, it is recognised that the HIV/Aids epidemic poses certain unique challenges and thus requires a specific focus.	171
3	Describe the extent of preparedness and contingency planning in anticipation of expected HIV/Aids impacts.	The Group is committed to: creating and maintaining a safe working environment for all employees; providing employee assistance programme support to all employees who are diagnosed as being HIV positive or with any other life threatening disease, so that they may be able to continue to offer productive work for as long as possible; implementing an overall HIV/Aids management strategy; providing resources and support to the implementation of an appropriate response programme, within budgetary constraints; implementing initiatives to limit the spread of HIV/Aids/sexually transmitted diseases and other life-threatening diseases among employees; and developing and implementing these initiatives on the bases of a collaborative framework with all other stakeholders internally and externally.	171
4	Describe how the organisation monitors its progress and reports in terms of indicators 1 – 3.	Absa offers an integrated health and wellness programme that has developed a data warehouse that tracks all behavioural risks including HIV and Aids from all service providers. The reports are generated monthly and submitted to Exco and departmental/cluster heads to provide a collaborative network and commitment in the management of HIV and Aids. Absa aligns its information with national data to provide a holistic strategy and extends its programmes to family members where applicable and partners with Absa's CSI department to extend the programmes to the community.	171

GRI Indicator	Index	Disclosure	Page
5	Describe how the organisation involves stakeholders in the formulation of policy, strategy and implementation.	Internal and external experts are involved and communication is undertaken through numerous channels. These include all service providers, union, alignment with government initiatives and data gathered on an ongoing basis.	—
6	Indicate current and projected future HIV/Aids prevalence and incidence rates among relevant populations.	Not disclosed.	—
7	Report current HIV/Aids-associated costs and exposures to the organisation.	Absa has an integrated health and wellness programme that incorporates HIV/Aids management. The direct costs for 2010 amounted to R12 million. Absa also has an external HIV/Aids spend, which resides with the Group's CSI department.	—
8	Indicate total assumed future HIV/Aids associated costs and exposures.	Not disclosed.	—
9	Describe the workplace and workplace-related HIV/Aids programmes and interventions, and the extent to which they maintain a workplace environment respectful of human and legal rights.	Absa has focused on various HIV/Aids initiatives. The most significant was the 'I know' health programme, which ran for 18 months. Absa implemented a three phase project in the management of HIV/Aids in 2010 which will continue in 2011: 1. A health and wellness survey to assess the knowledge, attitudes and perception within Absa of all chronic diseases including HIV/Aids. The information is used to develop training information on gaps identified. 2. WAD using the Vuvuzela to 'Blow away the stigma' which was addressed by the senior management. 3. Implementing the HCT campaign which aligns and will contribute to the national campaign of testing 15 million individuals.	—
10	Indicate total allocated budget dedicated to HIV/Aids programmes per annum.	Absa no longer budgets for HIV/Aids separately. The Group launched the integrated health and wellness programme that addresses employee wellness holistically. HIV/Aids is included.	171, 61
11	Detail the organisation's voluntary counselling and testing (VCT) programme.	All wellness practitioners in the regions are trained in conducting VCT and employees can and are tested in the various wellness centres. Bankmed provides for this service on the insured benefit in its commitment to promote preventative health.	171, 61
12	Describe other support and counselling programmes and measures.	This includes ICAS, weekly visits by medical practitioners at the wellness centres, health risk assessments, as well as the relevant referrals for early and optimal treatment, care and support.	171, 61

Global Reporting Initiative (GRI) G3 Index

GRI Indi-cator	Index	Disclosure	Page
13	Describe the organisation's HIV/Aids education and training programmes.	Information, education and communication activities are provided through e-care, a health education, wellness website, wellness days, WAD campaigns and a network of wellness champions.	171, 61
14	Describe the organisation's condom and femidom distribution programme.	Absa provides and distributes condoms at appropriate and convenient sites.	—
15	Describe the organisation's general health care and wellness provision of employees and their families.	Absa has a comprehensive HIV/Aids treatment programme in partnership with Bankmed where benefits are available and additional to the normal benefits.	171, 61
16	Describe additional benefits and support for employees sick, dying or deceased from Aids-related conditions.	HIV-positive Absa empoyees and their dependants can participate in a specialised disease management programme, consult ICAS for counselling services, visit the e-care and wellness website and visit wellness centres to consult with a medical doctor and/or a wellness practitioner. The disability policy offers employees an opportunity to recover at home without jeopardising employment opportunities.	—

Glossary

Abbreviations and acronyms used in the Absa Group annual report for the year ended 31 December 2010

A

Abacas	Asset Backed Collaterised Securities (Proprietary) Limited
ABB	Absa Business Bank
AbCap	Absa Capital
Absa Devco	Absa Development Company Holdings (Proprietary) Limited
ADI	Absa Development Initiative
AEaR	annual earnings at risk
AFS	Absa Financial Services
AGCC	Absa Group Credit Committee
AGM	annual general meeting
AIC	Absa Insurance Company LImited
Aids	acquired immune deficiency syndrome
AIMS	Absa Investment Management Services (Proprietary) Limited
AIRB	Advanced Internal Ratings Based
AIRMS	Absa Insurance Risk Management Services Limited
ALD	Accelerated Leadership Development Programme
Alco	Group Alco and Balance Sheet Management Committee
AllPay	AllPay Consolidated Investment Holdings Limited
AMA	Advanced Measurement Approach
AMP	Advanced Management Programme
Amrich	Amrichprop 49 Properties (Proprietary) Limited
ANW	adjusted net worth
ASSA	Actuarial Society of South Africa
ATM	automated teller machine
AUM	assets under management

B

BankSeta	Banking Sector Education and Training Authority
Basel II	Basel II Capital Accord
BBBEE	broad-based black economic empowerment
BBM	Barclays Bank Mozambique S.A.
BEE	black economic empowerment
BESA	Bond Exchange South Africa
BFC	Board Finance Committee
BIA	Basic Indicator Approach
bps	basis points
BU	business unit

C

CA	Companies Act, 2008
CAF	Commercial Asset Finance
CAGR	compound annual growth rate
CAPM	capital asset pricing model
CAR	capital adequacy requirement
Carries	loans granted under resale agreements
Cars	Collateralised Auto Receivables Securitisation (Proprietary) Limited
CDP	Carbon Disclosure Project
CEM	Current Exposure Method
CFLP	contingency funding and liquidity plan
CGU	cash generating unit
CIT	cash in transit
CMMC	Credit Model Monitoring Committee
CO_2	carbon dioxide
CoBit	Control Objectives for Information related Technology
COC	cost of required capital
CODM	chief operating decision maker
CoE	cost of equity
CoGP	Codes of Good Practice
COO	Chief Operating Officer
CoRC	Concentration Risk Committee
CPA	Consumer Protection Act
CPF	Commercial Property Finance
CPI	consumer price index
CPIX	consumer price index excluding interest rates on mortgage bonds
CRC	Credit Risk Committee
CRES	Corporate Real Estate Services
CRM	credit risk mitigation
CRO	Chief Risk Officer
CRTC	Credit Risk Technical Committee

Glossary

CSI	corporate social investment
CTC	cost-to-company

D

DAC	Directors' Affairs Committee
DAP	Deferred Award Plan
DG	default grade
Devco	Absa Development Company Holdings (Proprietary) Limited
DRL	deferred revenue liability
DTI	Department of Trade and Industry
DVaR	daily value at risk

E

EAD	exposure at default
EAP	Employee Assistance Programme
EC	economic capital
ECAI	external credit assessment institution
ECSAFA	Eastern, Central and Southern African Federation of Accountants
EL	expected loss
EMC	Executive Model Committee
EOS	employee opinion survey
EPS	earnings per share
ERMD	Environmental Risk Management department
ESAS	Executive Share Award Scheme
ESC	Environmental Steering Committee
ESIA	environmental and social assessment
EVE	economic value of equity
EWL	early warning lists
Exco	Executive Committee

F

FAIS	Financial Advisory and Intermediary Services Act, No 37 of 2002
FASSA	Fellow of the Actuarial Society of South Africa
FFA	Fellow of the Faculty of Actuaries
FIA	Financial Intermediaries Association
FICA	Financial Intelligence Centre Act, No 38 of 2001
FIRB	Foundation Internal Ratings Based
FSA	Financial Services Authority
FSB	Financial Services Board
FSV	financial soundness valuation
FX	foreign exchange

G

GAAP	Generally Accepted Accounting Practice
GACC	Group Audit and Compliance Committee
GBP	sterling/Great British pounds
GCE	Group Chief Executive
GGCC	Group Governance and Control Committee
GIC	Group Investment Committee
GMSLA	Global Master Securities Lending Arrangement
GMV	guaranteed maturity value
GRCMC	Group Risk and Capital Management Committee
GRHRC	Group Remuneration and Human Resources Committee
GRI	Global Reporting Initiative
GRPC	Group Recruitment and Promotions Committee
GWh	gigawatt hour

H

HCT	HIV counselling and testing
HDSA	historically disadvantaged South-African
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
IBNR	incurred but not reported
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
ITSC	Information Technology Steering Committee

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
KLR	Key Leaders Retention Programme
KPI	key performance indicators
KRSs	key risk scenarios

L

LERC	Legal Entity Review Committee
LGD	loss given default
Life	life insurance
LTV	loan-to-value

M

MEF	micro-enterprise finance
MRC	Market Risk Committee
MRP	market risk policy
MT	Metical/Meticals
MTM	mark-to-market

N

NAV	net asset value
NBC	National Bank of Commerce Limited
NCA	National Credit Act, No 34 of 2005
NCDs	Negotiable certificates of deposits
NGA	National Gambling Act
NGO	Non-governmental organisation
NPL	non-performing loan
NRF	New Regulatory Forum
NWP	net written premium

O

OCR	outstanding claims reserve
OG	Ovation Group
ORC	Operational Risk Committee
OTC	over-the-counter

P

PAT	profit after taxation
PBT	profit before taxation
PD	probability of default
P/E	price-to-earnings ratio
PGN	Professional Guidance Note
PIT	point-in-time
PLC	public listed company
POPI	Protection of Personal Information
PRO	Principal Risk Owner
PRP	principal risks policy
PSP	Performance Share Plan
PPG	Pinnacle Point Group
PVIF	present value of in-force business

R

R	rand
RC	regulatory capital
R&CC	Risk and Control Committee
RoA	return on average assets
RoE	return on average equity
RoEC	return on average economic capital
RoRC	return on regulatory capital
RSA	Republic of South Africa
RWAs	risk-weighted assets

Glossary

S

SA	Standardised Approach
SAICA	South African Institute of Chartered Accountants
Sanlam	Sanlam Life Insurance Limited
SARB	South African Reserve Bank
SARS	South African Revenue Service
SASDC	South African Supplier Diversity Council
SED	socio-economic development
SENS	Securities Exchange News Service
SHL	Sanlam Home Loans
SIC	Standard Industry Classification or Standing Interpretations Committee
SIP	Share Incentive Plan
SME	small and medium enterprises
SOX	Sarbanes-Oxley
SPE	special purpose entity
STC	secondary taxation on companies
STIC	Short-Term Insurance Committee

T

TCF	Treating Customers Fairly
TCTS	Teach Children to Save
TDC	Technical Disclosure Committee
TPRR	Trading Position Risk Review Forum
TRC	Trading Risk Committee
TTC	through-the-cycle
TZS	Tanzanian shilling

U

UK	United Kingdom
UK Code	UK Corporate Governance Code
UL	unexpected loss
USD/US$	United States dollar

V

VAF	Vehicle and Asset Finance
VAS	value at stake
VAT	value added tax
VESAS	Voluntary Executive Share Award Scheme
VMSA	Virgin Money South Africa (Proprietary) Limited
VNB	Value of new business

W

WFS	Woolworths Financial Services (Proprietary) Limited

Z

ZAR	South African rand

Administration and contact details

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