Absa Group Limited

Financial results

for the year ended 31 December 2010

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Member of the BARCLAYS Group

ABSA

Contents

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Group performance

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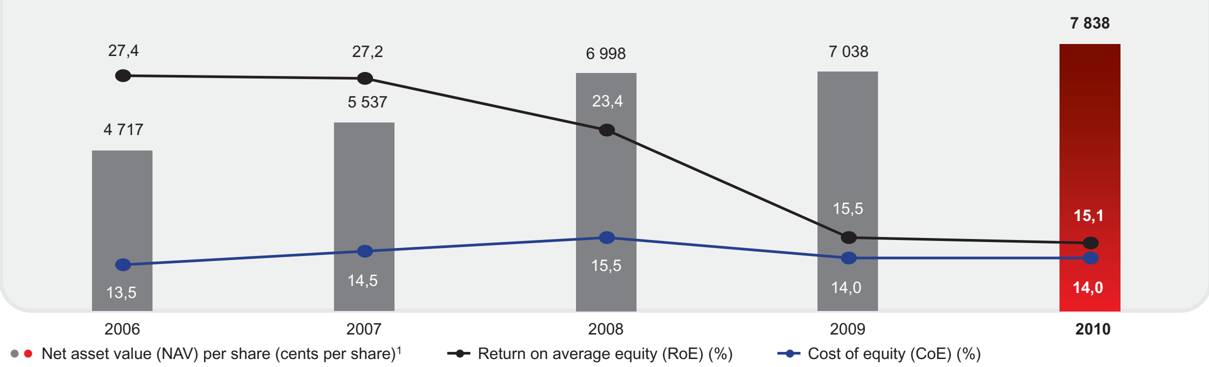
"As expected, 2010 was a difficult operating environment given the slow, uneven economic recovery both globally and domestically. In particular, retail and corporate credit demand and transaction volumes remained muted, making it challenging to grow revenue. Nonetheless, Absa managed to report 6% higher headline earnings, while continuing to invest significantly in our strategic growth initiatives required for the implementation of the One Absa strategy."

– Maria Ramos, Group Chief Executive

2010 Highlights

- » Achieved headline and attributable earnings growth of 6% and 19% respectively in a difficult operating environment.
- » Balance sheet well managed through the cycle, with high levels of capital and improved liquidity.
- » Early successes in key elements of the One Absa strategy implementation.
- » Continued diversification of the earnings base.
- » Increased cross-collaboration resulting in an improved customer experience and more engaged employees.
- » Absa was voted number 1 Banking Brand (business-to-customer category) in 2010 by the *Sunday Times* Top Brands survey.

Net asset value (cents and %)



Note

[1]5 year compound annual growth rate of 15%.

Implementation of the One Absa strategy

In the wake of the global financial crises Absa launched the One Absa strategy which comprises four key pillars to position the Group for sustainable growth. The tough business environment have tested and proven the robust quality of Absa's strategy.

Strategic themes	Highlights
1. Sustainable growth in target markets » The Group aims to become the number 1 bank in South Africa and selected African markets, measured in terms of profitability and return on equity.	» Net interest income growth of 7% » Growth in attributable earnings of 19% » Return on average equity of 15,1% » Return on risk-weighted assets of 1,99%
2. Balance sheet optimisation and proactive risk management » To have a strong and resilient balance sheet that can withstand economic and financial instability.	» Group total capital adequacy ratio of 15,5% » Tier I capital adequacy ratio of 12,8% » Risk-weighted assets of R422,7 billion (+9%) » Impairment losses ratio of 1,20%
3. Simple, streamlined Group for customer delivery » Instilling a culture within the Group 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.	» Cost-to-income ratio of 56,2% » R156 million invested in delivery footprint (+11%) » 5 year compound annual growth rate of 11% for operating expenses » 1 007 staffed outlets[1] » 8 963 ATMs[1]
4. Customer and people centred organisation » Delivery of a leading-edge customer service, using the most talented and motivated people.	» Banking customer-base of 11,8 million (+1%) » Contractual financial services relationships of 5,8 million (+3%) » Internet users of 1,1 million (+9%) » Cellphone banking customers of 2,5 million (+50%) » 36 770 number of employees (+2%)

Note

[1] *Including African operations.*

Consolidated salient features

31 December

	2010 (Audited)	2009[1] (Audited)	Change %
Statement of comprehensive income (Rm)			
Headline earnings[2]	**8 041**	7 621	6
Profit attributable to ordinary equity holders of the Group	**8 118**	6 840	19
Statement of financial position			
Total assets (Rm)	**716 470**	710 796	1
Loans and advances to customers (Rm)	**498 635**	506 163	(1)
Deposits due to customers (Rm)	**378 111**	356 365	6
Loans-to-deposits ratio (%)	**91,9**	95,9	
Off-statement of financial position (Rm)			
Assets under management and administration	**168 313**	155 114	9
» Financial Services[3]	**163 415**	145 453	12
› Money market	**66 256**	55 320	20
› Non-money market	**97 159**	90 133	8
Financial performance (%)			
Return on average equity	**15,1**	15,5	
Return on average assets	**1,12**	1,02	
Return on risk-weighted assets[4]	**1,99**	1,97	
Operating performance (%)			
Net interest margin on average interest-bearing assets	**4,01**	3,74	
Impairment losses on loans and advances as % of average loans and advances to customers	**1,20**	1,74	
Non-performing advances as % of loans and advances to customers[4]	**7,7**	7,0	
Non-interest income as % of total operating income	**45,5**	48,1	
Cost-to-income ratio	**56,2**	49,6	
Effective tax rate, excluding indirect taxation	**27,5**	23,8	
Share statistics (million)			
Number of ordinary shares in issue	**718,2**	718,2	
Weighted average number of ordinary shares in issue	**716,3**	693,2	
Weighted average diluted number of ordinary shares in issue	**720,7**	711,5	
Share statistics (cents)			
Headline earnings per share	**1 122,6**	1 099,4	2
Diluted headline earnings per share	**1 115,7**	1 072,0	4
Basic earnings per share	**1 133,3**	986,7	15
Diluted earnings per share	**1 126,4**	962,2	17
Dividends per ordinary share relating to income for the year	**455**	445	2
Dividend cover (times)	**2,5**	2,5	
Net asset value per share	**7 838**	7 038	11
Tangible net asset value per share	**7 588**	6 865	11
Capital adequacy (%)[4 + 5]			
Absa Group	**15,5**	15,6	
Absa Bank	**14,8**	14,7	

Notes

[1] *Comparatives have been reclassified. Refer to pages 95 – 98.*

[2] *After allowing for **R320 million** (31 December 2009: R421 million) profit attributable to preference equity holders of the Group.*

[3] *The segmentation of assets under management and administration is unaudited.*

[4] *These ratios are unaudited.*

[5] *Refer to pages 72 – 94 for the capital and risk management section reflecting the Tier I and Tier II capital ratios.*

Consolidated salient features

31 December

	2010	2009[1]	Change %
Headline earnings by segment (Rm)			
Retail Banking	**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)
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)
Loans and advances to customers by segment (Rm)			
Retail Banking	**325 790**	322 034	1
Absa Business Bank	**123 618**	125 181	(1)
Absa Capital	**50 044**	58 301	(14)
Financial Services	**242**	268	(10)
Head office, inter-segment eliminations and Other[2]	**(1 059)**	379	>(100)
Deposits due to customers by segment (Rm)			
Retail Banking	**115 046**	110 433	4
Absa Business Bank	**136 619**	127 161	7
Absa Capital	**127 462**	118 371	8
Head office, inter-segment eliminations and Other[3]	**(1 016)**	400	>(100)
Net interest margin on average interest-bearing assets (%)			
Retail Banking	**2,86**	3,02	
Absa Business Bank	**5,09**	4,85	
Impairment losses on loans and advances as % of average loans and advances to customers (%)			
Retail Banking	**1,49**	2,30	
» Home Loans	**0,98**	1,76	
» Vehicle and Asset Finance	**2,16**	2,05	
» Card	**2,57**	7,13	
» Personal Loans	**4,78**	10,45	
» Retail Bank	**2,55**	1,23	
Absa Business Bank	**0,90**	0,91	
Absa Capital	**0,20**	0,49	

Notes

[1] *Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank. Also refer to pages 95 – 98 for additional reclassifications.*

[2] *Includes inter-group eliminations which offset with loans and advances in other segments. Higher transaction volumes were experienced between segments during the year under review.*

[3] *Includes inter-group eliminations which offset with deposits in other segments. Higher transaction volumes were experienced between segments during the year under review.*

Salient features

» Headline earnings per share (HEPS) increased by 2% to 1 122,6 cents.

» Diluted HEPS increased by 4% to 1 115,7 cents.

» Final dividend of 230 cents per share, up 5% year-on-year.

» Net interest margin on average interest-bearing assets improved to 4,01% from 3,74%. Credit impairments fell 33% to R6 005 million, resulting in a 1,20% credit loss ratio.

» Cost-to-income ratio increased to 56,2%.

» Return on average equity (RoE) of 15,1%.

» Return on risk-weighted assets of 1,99%.

» Net asset value (NAV) per share grew by 11% to 7 838 cents.

» Core tier I capital adequacy ratio for the Group of 11,7%, well above regulatory requirements.

Overview

In a challenging operating environment, the Group's headline earnings increased by 6% to R8 041 million (31 December 2009: R7 621 million). HEPS grew by 2% to 1 122,6 cents (31 December 2009: 1 099,4 cents) and fully diluted HEPS increased by 4% to 1 115,7 cents (31 December 2009: 1 072,0 cents). The Group's RoE of 15,1% remained above its cost of equity.

Lower credit impairments, particularly in Retail Banking, and a wider net interest margin on average interest-bearing assets, were the primary reasons for the Group's higher headline earnings. These outweighed muted loan and transaction volume growth, a higher effective tax rate and a 15% rise in operating expenses.

Retail Banking and Absa Capital grew their headline earnings by 85% and 20% respectively, whereas Absa Business Bank's headline earnings fell by 11% and those of Financial Services declined marginally.

Operating environment

The global economy grew around 5% in 2010, a better performance after the acute global economic stress of the two previous years. Emerging markets led the way out of recession, although the USA and Germany also experienced stronger-than-expected growth. However, some European economies experienced difficulties, particularly in their financial sectors. South Africa also recovered in 2010, buoyed by stronger external demand, interest rates at 36-year lows and a recovery in business confidence in most consumer facing sectors. Despite improved growth, business confidence remains generally restrained and many industries continued to shed labour in 2010. Subdued confidence, along with high levels of household indebtedness, has been an important moderating factor in private sector credit growth.

Group performance

Statement of financial position

The Group's total assets of R716,5 billion as at 31 December 2010 increased 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 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 1%, given 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 a 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 to lengthen its funding saw it increase fixed deposits by 6%. Consequently, Absa's overall loans-to-deposits ratio declined to 91,9% from the 95,9% of the previous year.

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 11% year-on-year to 7 838 cents (31 December 2009: 7 038 cents) and has grown by 15% compound over the past five years.

Group performance *(continued)*

Statement of financial position *(continued)*

Capital to risk-weighted assets

Despite a 9% growth in risk-weighted assets due to recalibrating credit models to reflect the recent downturn, Absa maintained its healthy capital levels, which remain well above regulatory requirements. As at 31 December 2010, Absa Group's core tier I and tier I capital adequacy ratios were 11,7% (31 December 2009: 11,5%) and 12,8% (31 December 2009: 12,7%) respectively. The Group's total capital ratio declined slightly to 15,5% (31 December 2009: 15,6%). Absa Bank's tier I ratio improved marginally to 11,9% (31 December 2009: 11,6%) and its total ratio was 14,8% (31 December 2009: 14,7%).

Statement of comprehensive income

Net interest income

Net interest income increased 7% to R23 340 million (31 December 2009: R21 854 million) despite negative loan growth and 1,02% 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%.

Credit impairments

After almost quadrupling between 2007 and 2009, Absa's credit impairments improved 33% to R6 005 million (31 December 2009: R8 967 million). Retail Banking, where credit impairments 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 sound credit policy became evident. ABB's credit impairments declined by 3% to R1 075 million.

The Group's credit impairments ratio improved by 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 and 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 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.

Non-interest income

Absa's non-interest income declined by 4% to R19 474 million (31 December 2009: R20 232 million), largely because of a revaluation loss of R128 million on its Visa stake (31 December 2009: R272 million profit) and non-recurrence of gains from selling holdings in MasterCard and NuPay (31 December 2009: R271 million). Net fee and commission income grew a modest 1% to R14 391 million (31 December 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 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 (31 December 2009: R623 million loss). Income due to realisations of R40 million (31 December 2009: nil) is also included in non-interest income.

Operating expenses

Absa's operating expenses grew by 15% to R24 070 million (31 December 2009: R20 857 million) as the Group continued to invest for future growth. This included 19% growth in information technology costs from the previous year. Staff costs, the largest component, increased by 16% to R12 537 million (31 December 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% (31 December 2009: 49,6%).

Taxation

The Group's taxation increased 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 due to a lower proportion of exempt income.

Segmental performance

Retail Banking

Headline earnings increased 85% to R3 232 million (31 December 2009: R1 749 million), largely because of lower credit impairments. Attributable earnings grew by 72% to R3 353 million (31 December 2009: R1 945 million). Retail Banking's credit loss ratio fell to 1,49% from 2,30%, due to improving early stage delinquencies and a successful collections strategy. Revenue grew by 1%, 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% (31 December 2009: 53,2%). Headline earnings from Card, Home Loans and Personal Loans improved significantly, while Retail Bank declined 50% due to higher impairments. Retail Banking's return on regulatory capital improved to 20,7%.

Absa Business Bank

Headline earnings dropped by 11% to R2 848 million (31 December 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 credit impairments. Net interest income rose 2%, reflecting solid deposit growth, which partially offset lower customer advances and pressure on deposit margins from lower interest rates. Fee income increased 7% driven by ABB's enhanced transactional capabilities. Operating expenses grew by 14% to R6 397 million (December 2009: R5 624 million), as the business continues 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 (31 December 2009: R1 272 million) and attributable earnings increased to R1 480 million (31 December 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 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 the reduced client flows. With client activity levels below 2009, 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%.

Financial Services

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%).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 increased business volumes and new mandates secured, increased operating costs by 16% year-on-year.

Prospects

Global growth is expected to slow to 4% in 2011, as emerging markets and the US sustain momentum. Although slightly slower, global economic growth is likely to maintain upward pressure on commodity prices, which would be generally positive for South Africa. We expect GDP growth to continue improving as the economy responds to lower interest rates.

Executing its One Absa strategy positions the Group to capture future growth as the economy improves. Nonetheless, revenue growth is likely to remain subdued in 2011, particularly as moderate advances growth is anticipated. However, stronger non-interest revenue growth is expected this year, particularly in key target areas. Credit impairments should improve, albeit at a slower pace than for 2010. Management is committed to containing cost growth, maintaining strong capital levels and improving liquidity further.

Basis of presentation and changes in accounting policies

Absa Group Limited is a company domiciled in South Africa. Its registered office is the 3rd floor, Absa Towers East, 170 Main Street Johannesburg, 2001.

The Group's condensed results have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and contain the information required by International Accounting Standard (IAS) 34.The accounting policies applied in preparing the financial results for the year ended 31 December 2010 are the same as the accounting policies in place for the year ended 31 December 2009 with the exceptions mentioned below.

Revised IFRS 3 – *Business Combinations* affects acquisitions that are achieved in stages and acquisitions where less than 100% of the equity is acquired. In addition, all acquisition-related costs are expensed. The revised IFRS 3 has been applied prospectively to all business combinations from 1 January 2010. The impact of this amendment on the Group was not significant during the year under review.

Basis of presentation and changes in accounting policies *(continued)*

Revised IAS 27 – *Consolidated and Separate Financial Statements* specifies that changes in a parent's ownership interest in a subsidiary that does not result in the loss of control must be accounted for as equity transactions. The requirements of IAS 27 have been applied prospectively to transactions with non-controlling interests from 1 January 2010. The impact of this amendment on the Group was not significant during the year under review.

Reclassifications

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 also aligned to industry practice. This has resulted in comparatives being reclassified for December 2009 and December 2008.

Auditors' report

Ernst & Young Inc. and PricewaterhouseCoopers Inc., Absa Group Limited's independent auditors, have audited the consolidated annual financial statements of Absa Group Limited from which the condensed consolidated financial results have been derived. The auditors have expressed an unqualified audit opinion on the consolidated annual financial statements. The condensed consolidated financial results comprise the condensed consolidated statement of financial position at 31 December 2010, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the year then ended, and selected explanatory notes. The audit report of the consolidated annual financial statements is available for inspection at Absa Group Limited's registered office.

On behalf of the board

G Griffin
Group Chairman

M Ramos
Group Chief Executive

Johannesburg
15 February 2011

Declaration of final ordinary dividend number 49

Shareholders are advised that a final ordinary dividend of 230 cents per ordinary share was declared today, Tuesday, 15 February 2011, for the six month period ending 31 December 2010, bringing the total dividend for the year to 455 cents per ordinary share. The final ordinary dividend is payable to shareholders recorded in the register of members of the Group at the close of business on Friday, 11 March 2011.

In compliance with the requirements of Strate, the electronic settlement and custody system used by the JSE Limited, the following salient dates for the payment of the dividend are applicable:

Last day to trade cum dividend	Friday, 4 March 2011
Shares commence trading ex dividend	Monday, 7 March 2011
Record date	Friday, 11 March 2011
Payment date	Monday, 14 March 2011

Share certificates may not be dematerialised or rematerialised between Monday, 7 March 2011 and Friday, 11 March 2011, both dates inclusive.

On Monday, 14 March 2011, the dividend will be electronically transferred to the bank accounts of certificated shareholders who use this facility. In respect of those who do not, cheques dated 14 March 2011 will be posted on or about that date. The accounts of those shareholders who have dematerialised their shares (which are held at their participant or broker) will be credited on Monday, 14 March 2011.

On behalf of the board

S Martin
Group Secretary

Johannesburg
15 February 2011

Consolidated profit analysis – banking and Financial Services

Year ended 31 December

	Note	2010 Rm	2009 Rm	Change %
Income from banking and other activities		**39 216**	38 696	1
Net interest income	2	**23 340**	21 854	7
Non-interest income	4	**15 876**	16 842	(6)
Net fee and commission income		**13 461**	13 376	1
Gains and losses from banking and trading activities		**2 349**	2 575	(9)
Other income		**66**	891	(93)
Income from Financial Services	4	**7 004**	6 029	16
Net insurance premium income		**4 468**	3 845	16
Gains and losses from investment activities		**1 606**	1 271	26
Net fee and commission income		**930**	913	2
Total operating income		**46 220**	44 725	3
Impairment losses on loans and advances	3	**(6 005)**	(8 967)	33
Benefits due to policyholders from Financial Services	4	**(3 406)**	(2 639)	(29)
Net insurance claims and benefits paid		**(2 406)**	(2 217)	(9)
Changes in investment and insurance liabilities		**(1 045)**	(560)	(87)
Other income		**45**	138	(67)
Operating profit before operating expenditure		**36 809**	33 119	11
Operating expenditure in banking activities		**(23 073)**	(21 580)	(7)
Operating expenses	5	**(22 273)**	(19 308)	(15)
Other impairments	6	**(109)**	(1 436)	92
Indirect taxation		**(691)**	(836)	17
Operating expenditure in Financial Services		**(1 876)**	(1 647)	(14)
Operating expenses	5	**(1 797)**	(1 549)	(16)
Other impairments	6	**1**	(21)	>100
Indirect taxation		**(80)**	(77)	(4)
Share of post-tax results of associates and joint ventures		**(9)**	(50)	82
Operating profit before income tax		**11 851**	9 842	20
Taxation expense		**(3 262)**	(2 340)	(39)
Profit for the year		**8 589**	7 502	14
Profit attributable to:				
Ordinary equity holders of the Group		**8 118**	6 840	19
Non-controlling interest – ordinary shares		**151**	241	(37)
Non-controlling interest – preference shares		**320**	421	(24)
		8 589	7 502	14
Headline earnings	1	**8 041**	7 621	6

Consolidated statement of comprehensive income

Year ended 31 December

	Note	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Net interest income	2	**23 340**	21 854	7
Interest and similar income		**54 241**	65 247	(17)
Interest expense and similar charges		**(30 901)**	(43 393)	29
Impairment losses on loans and advances	3	**(6 005)**	(8 967)	33
Net interest income after impairment losses on loans and advances		**17 335**	12 887	35
Non-interest income	4	**19 474**	20 232	(4)
Net fee and commission income		**14 391**	14 289	1
Fee and commission income		**16 454**	16 301	1
Fee and commission expense		**(2 063)**	(2 012)	(3)
Net insurance premium income		**4 602**	3 787	22
Net insurance claims and benefits paid		**(2 405)**	(2 215)	(9)
Changes in investment and insurance liabilities		**(1 059)**	(560)	(89)
Gains and losses from banking and trading activities		**2 349**	2 575	(9)
Gains and losses from investment activities		**884**	1 464	(40)
Other operating income		**712**	892	(20)
Operating profit before operating expenditure		**36 809**	33 119	11
Operating expenditure		**(24 949)**	(23 227)	(7)
Operating expenses	5	**(24 070)**	(20 857)	(15)
Other impairments	6	**(108)**	(1 457)	93
Indirect taxation		**(771)**	(913)	16
Share of post-tax results of associates and joint ventures		**(9)**	(50)	82
Operating profit before income tax		**11 851**	9 842	20
Taxation expense		**(3 262)**	(2 340)	(39)
Profit for the year		**8 589**	7 502	14
Profit attributable to:				
Ordinary equity holders of the Group		**8 118**	6 840	19
Non-controlling interest – ordinary shares		**151**	241	(37)
Non-controlling interest – preference shares		**320**	421	(24)
		8 589	7 502	14
Earnings per share:				
Basic earnings per share (cents per share)	1	**1 133,3**	986,7	15
Diluted earnings per share (cents per share)	1	**1 126,4**	962,2	17

Consolidated statement of comprehensive income

Year ended 31 December

	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Profit for the year	**8 589**	7 502	14
Other comprehensive income			
Exchange differences on translation of foreign operations	**(371)**	(668)	44
Movement in cash flow hedging reserve	**1 152**	(665)	>100
Fair value gains/(losses) arising during the year	**3 421**	(148)	>100
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income	**(1 820)**	(776)	>(100)
Deferred tax	**(449)**	259	>(100)
Movement in available-for-sale reserve	**166**	(326)	>100
Fair value gains/(losses) arising during the year	**146**	(306)	>100
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income	**—**	(205)	100
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income	**92**	104	(12)
Deferred tax	**(72)**	81	>(100)
Movement in retirement benefit asset and liabilities	**21**	52	(60)
Increase in retirement benefit surplus	**27**	104	(74)
Decrease/(increase) in retirement benefit deficit	**2**	(33)	>100
Deferred tax	**(8)**	(19)	58
Total comprehensive income for the year	**9 557**	5 895	62
Total comprehensive income attributable to:			
Ordinary equity holders of the Group	**9 138**	5 238	74
Non-controlling interest – ordinary shares	**99**	236	(58)
Non-controlling interest – preference shares	**320**	421	(24)
	9 557	5 895	62

Consolidated statement of financial position

As at 31 December

	Note	2010 (Audited) Rm	2009[1] (Audited) Rm	Change %	2008[1] (Audited) Rm
Assets					
Cash, cash balances and balances with central banks		**24 361**	20 597	18	24 828
Statutory liquid asset portfolio		**48 215**	33 943	42	33 043
Loans and advances to banks		**24 877**	36 032	(31)	44 893
Trading portfolio assets		**62 047**	52 302	19	77 132
Hedging portfolio assets		**4 662**	2 558	82	3 139
Other assets		**16 131**	17 777	(9)	16 925
Current tax assets		**196**	234	(16)	23
Non-current assets held for sale		**—**	—	—	2 495
Loans and advances to customers	7	**498 635**	506 163	(1)	532 819
Reinsurance assets		**860**	719	20	903
Investment securities		**23 826**	29 564	(19)	26 980
Investments in associates and joint ventures		**416**	487	(15)	2 144
Goodwill and intangible assets		**1 794**	1 245	44	963
Investment properties		**2 523**	2 195	15	661
Property and equipment		**7 493**	6 606	13	6 127
Deferred tax assets		**434**	374	16	241
Total assets		**716 470**	710 796	1	773 316
Liabilities					
Deposits from banks		**15 406**	36 541	(58)	54 616
Trading portfolio liabilities		**47 454**	44 245	7	70 990
Hedging portfolio liabilities		**1 881**	565	>100	1 080
Other liabilities		**11 239**	12 212	(8)	12 618
Provisions		**1 808**	1 684	7	2 113
Current tax liabilities		**965**	59	>100	385
Non-current liabilities held for sale		**—**	—	—	408
Deposits due to customers	8	**378 111**	356 365	6	383 204
Debt securities in issue	8	**164 545**	171 376	(4)	165 900
Liabilities under investment contracts		**13 964**	12 446	12	10 377
Policyholder liabilities under insurance contracts		**3 001**	3 136	(4)	3 076
Borrowed funds	9	**13 649**	13 530	1	12 296
Deferred tax liabilities		**2 298**	2 147	7	2 960
Total liabilities		**654 321**	654 306	0	720 023
Equity					
Capital and reserves					
Attributable to ordinary equity holders of the Group:					
Share capital	9	**1 433**	1 432	0	1 354
Share premium	9	**4 590**	4 784	(4)	2 251
Other reserves		**2 309**	1 178	96	3 010
Retained earnings		**47 958**	43 153	11	40 992
		56 290	50 547	11	47 607
Non-controlling interest – ordinary shares		**1 215**	1 299	(6)	1 042
Non-controlling interest – preference shares		**4 644**	4 644	—	4 644
Total equity		**62 149**	56 490	10	53 293
Total equity and liabilities		**716 470**	710 796	1	773 316

Note

[1] *Comparatives have been reclassified. Refer to pages 95 – 98.*

Consolidated statement of financial position – IAS 39 classification

As at 31 December

	2010 (Audited)		2009[1] (Audited)	
	Assets Rm	Liabilities and equity Rm	Assets Rm	Liabilities and equity Rm
Fair value through profit or loss	**111 530**	**84 146**	99 074	79 880
Designated at fair value	**45 260**	**34 811**	44 435	35 070
Cash, cash balances and balances with central banks	**3 013**	—	2 271	—
Statutory liquid asset portfolio	**3 463**	—	3 636	—
Loans and advances to banks	**7 047**	—	2 403	—
Loans and advances to customers	**9 990**	—	9 374	—
Investment securities	**21 731**	—	26 751	—
Other assets	**16**	—	—	—
Deposits from banks	—	**1 679**	—	7 319
Other liabilities	—	**12**	—	294
Deposits due to customers	—	**16 856**	—	12 552
Debt securities in issue	—	**1 561**	—	1 741
Liabilities under investment contracts	—	**13 964**	—	12 446
Borrowed funds	—	**739**	—	718
Held for trading	**61 608**	**47 454**	52 081	44 245
Investment securities	**215**	—	410	—
Trading portfolio assets	**61 393**	—	51 671	—
Trading portfolio liabilities	—	**47 454**	—	44 245
Hedging instruments	**4 662**	**1 881**	2 558	565
Hedging portfolio assets	**4 662**	—	2 558	—
Hedging portfolio liabilities	—	**1 881**	—	565
Available-for-sale	**46 702**	—	32 955	—
Designated as available-for-sale	**28 606**	—	20 552	—
Cash, cash balances and balances with central banks	**458**	—	653	—
Statutory liquid asset portfolio	**26 656**	—	17 904	—
Investment securities	**1 492**	—	1 995	—
Hedged items				
Statutory liquid asset portfolio	**18 096**	—	12 403	—
Amortised cost	**540 299**	**559 952**	563 023	565 609
Held at amortised cost	**539 552**	**549 209**	562 377	553 972
Cash, cash balances and balances with central banks	**20 334**	—	16 985	—
Loans and advances to banks	**17 830**	—	33 629	—
Other assets	**13 490**	—	15 620	—
Loans and advances to customers	**487 898**	—	496 143	—
Deposits from banks	—	**13 727**	—	29 222
Other liabilities	—	**9 076**	—	10 127
Deposits due to customers	—	**361 255**	—	343 813
Debt securities in issue	—	**157 711**	—	163 589
Borrowed funds	—	**7 440**	—	7 221
Hedged items	**747**	**10 743**	646	11 637
Loans and advances to customers	**747**	—	646	—
Debt securities in issue	—	**5 273**	—	6 046
Borrowed funds	—	**5 470**	—	5 591
Held-to-maturity	**944**	—	1 096	—
Cash, cash balances and balances with central banks	**556**	—	688	—
Investment securities	**388**	—	408	—
Non-financial assets and liabilities	**16 995**	**10 223**	14 648	8 817
Total equity	—	**62 149**	—	56 490
	716 470	**716 470**	710 796	710 796

Note

[1] *Comparatives have been reclassified. Refer to pages 95 – 98.*

Condensed consolidated statement of changes in equity

Year ended 31 December

	Note	2010 (Audited) Total equity attributable to ordinary equity holders of the Group Rm	Non-controlling interest – ordinary shares Rm
Balance at the beginning of the year		50 547	1 299
Shares issued		—	—
Repurchase of preference shares held by Batho Bonke Capital (Proprietary) Limited		—	—
Costs incurred		—	—
Transfer from share-based payment reserve		59	—
Share buy-back in respect of Absa Group Limited Share Incentive Trust		(234)	—
Elimination of the movement in gains from derivative instruments on own shares		—	—
Elimination of the movement in treasury shares held by Absa Group companies		(49)	—
Elimination of the movement in treasury shares held by Absa Group Limited Employee Share Ownership Administrative Trust		—	—
Elimination of the movement in treasury shares held by Absa Group Limited Share Incentive Trust		31	—
Other reserves		1 131	—
Transfer from share-based payment reserve		(61)	—
Share-based payments for the year		48	—
Other comprehensive income	1	999	—
Movement in general credit risk reserve		39	—
Movement in insurance contingency reserve		55	—
Movement in associates' and joint ventures' retained earnings reserve		(9)	—
Disposal of associates and joint ventures – release of reserves		60	—
Retained earnings		4 805	—
Repurchase of preference shares held by Batho Bonke Capital (Proprietary) Limited		—	—
Transfer from share-based payment reserve		2	—
Transfer to general credit risk reserve		(39)	—
Transfer to insurance contingency reserve		(55)	—
Transfer to associates' and joint ventures' retained earnings reserve (loss)		9	—
Disposal of associates and joint ventures – release of reserves		(60)	—
Profit attributable to ordinary equity holders of the Group	1	8 118	—
Other comprehensive income – movement in retirement benefit asset and liabilities	1	21	—
Ordinary dividends paid during the year		(3 191)	—
Dilution of non-controlling equity holders' interest		0	(0)
Increase in the non-controlling equity holders' interest		—	37
(Disposal)/acquisition of businesses		—	(78)
Profit attributable to non-controlling equity holders of the Group	1	—	151
Other comprehensive income – foreign currency translation effects	1	—	(52)
Dividends paid during the year		—	(142)
Profit attributable to preference equity holders of the Group	1	—	—
Preference dividends paid during the year		—	—
Balance at the end of the year		56 290	1 215

Note

1. Total comprehensive income

Profit for the year	8 118	151
Other comprehensive income	1 020	(52)
	9 138	99

Condensed consolidated statement of changes in equity

Year ended 31 December

2010 (Audited)		2009 (Audited)				
Non-controlling interest – preference shares Rm	**Total equity Rm**	Total equity attributable to ordinary equity holders of the Group Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total equity Rm	Total equity change %
4 644	**56 490**	47 607	1 042	4 644	53 293	6
—	**—**	2 571	—	—	2 571	(100)
—	**—**	3	—	—	3	(100)
—	**—**	(0)	—	—	(0)	100
—	**59**	67	—	—	67	(12)
—	**(234)**	(86)	—	—	(86)	>(100)
—	**—**	2	—	—	2	(100)
—	**(49)**	38	—	—	38	>(100)
—	**—**	0	—	—	0	(100)
—	**31**	16	—	—	16	94
—	**1 131**	(1 832)	—	—	(1 832)	>100
—	**(61)**	(68)	—	—	(68)	10
—	**48**	47	—	—	47	2
—	**999**	(1 654)	—	—	(1 654)	>100
—	**39**	(23)	—	—	(23)	>100
—	**55**	25	—	—	25	>100
—	**(9)**	(50)	—	—	(50)	82
—	**60**	(109)	—	—	(109)	>100
—	**4 805**	2 161	—	—	2 161	>100
—	**—**	(1 089)	—	—	(1 089)	100
—	**2**	1	—	—	1	100
—	**(39)**	23	—	—	23	>(100)
—	**(55)**	(25)	—	—	(25)	>(100)
—	**9**	50	—	—	50	(82)
—	**(60)**	109	—	—	109	>(100)
—	**8 118**	6 840	—	—	6 840	19
—	**21**	52	—	—	52	(60)
—	**(3 191)**	(3 800)	—	—	(3 800)	16
—	**—**	—	—	—	—	—
—	**37**	—	—	—	—	100
—	**(78)**	—	72	—	72	>(100)
—	**151**	—	241	—	241	(37)
—	**(52)**	—	(5)	—	(5)	>(100)
—	**(142)**	—	(51)	—	(51)	>(100)
320	**320**	—	—	421	421	(24)
(320)	**(320)**	—	—	(421)	(421)	24
4 644	**62 149**	50 547	1 299	4 644	56 490	10
320	**8 589**	6 840	241	421	7 502	14
—	**968**	(1 602)	(5)	—	(1 607)	>100
320	**9 557**	5 238	236	421	5 895	62

Condensed consolidated statement of cash flows

Year ended 31 December

	Note	2010 (Audited) Rm	2009[1] (Audited) Rm	Change %
Net cash generated from operating activities		**2 202**	4 822	(54)
Net cash generated/(utilised) from investing activities		**1 500**	(2 029)	>100
Net cash utilised in financing activities		**(4 263)**	(1 419)	>(100)
Net (decrease)/increase in cash and cash equivalents		**(561)**	1 374	>(100)
Cash and cash equivalents at the beginning of the year	1	**6 976**	5 600	25
Effect of exchange rate movements on cash and cash equivalents		**2**	2	0
Cash and cash equivalents at the end of the year	2	**6 417**	6 976	(8)

Notes

		2010 (Audited) Rm	2009[1] (Audited) Rm	Change %
1. Cash and cash equivalents at the beginning of the year				
Cash, cash balances and balances with central banks		**5 176**	4 726	10
Loans and advances to banks		**1 800**	874	>100
		6 976	5 600	25
2. Cash and cash equivalents at the end of the year				
Cash, cash balances and balances with central banks		**4 939**	5 176	(5)
Loans and advances to banks		**1 478**	1 800	(18)
		6 417	6 976	(8)

Note

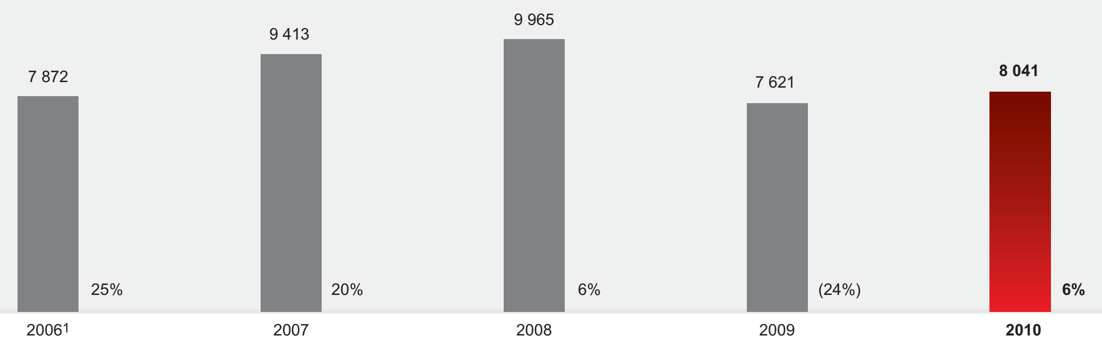
[1]*Comparatives have been reclassified. Refer to pages 95 – 98.*

Performance indicators and condensed notes to the financial statements

Year ended 31 December

1. Headline earnings and earnings per share

Headline earnings (Rm and change %)



Headline earnings

	2010 (Audited) Gross Rm	2010 (Audited) Net Rm	2009 (Audited) Gross Rm	2009 (Audited) Net Rm	Net Change %
Headline earnings[2] is determined as follows:					
Profit attributable to ordinary equity holders of the Group		**8 118**		6 840	19
Adjustments for:					
IFRS 3 (gain on bargain purchase) and goodwill impairment	**(72)**	**(72)**	37	37	>(100)
IAS 16 profit on disposal of property and equipment	**(41)**	**(37)**	(68)	(58)	36
IAS 21 recycled foreign currency translation reserve, disposal of investments in foreign operations	**—**	**—**	(23)	(23)	100
IAS 27 loss on disposal of subsidiaries	**—**	**—**	10	10	(100)
IAS 28 headline earnings component of share of post-tax results of associates and joint ventures	**(1)**	**(1)**	10	11	>(100)
IAS 28 and 31 net (profit)/loss on disposal of investments in associates and joint ventures	**(42)**	**(42)**	43	35	>(100)
IAS 28 and 31 impairment of investments in associates and joint ventures	**29**	**21**	1 328	956	(98)
IAS 36 impairment of equipment and leasehold improvements	**13**	**9**	9	6	50
IAS 38 impairment and net profit on disposal of intangible assets	**4**	**3**	(46)	(42)	>100
IAS 39 release of available-for-sale reserves	**92**	**66**	(105)	(115)	>100
IAS 39 impairment and net profit on disposal of available-for-sale instruments	**25**	**18**	25	16	13
IAS 40 change in fair value of investment properties	**(50)**	**(42)**	(66)	(52)	19
		8 041		7 621	6

Performance

The Group's headline earnings increased by 6% from R7 621 million in 2009 to R8 041 million for the year ended 31 December 2010.

Core drivers of headline earnings

» Average advances (calculated on a daily weighted average basis) declined by 2% in an economic environment that remains challenging.

» The margin was, however, well protected and improved by 27 basis points during the year under review.

» The impairment losses ratio showed a strong improvement from 1,74% for the year ended 31 December 2009 to 1,20% for the year under review.

Notes

[1] *Growth calculated on December 2005 figures (pro forma 12 months).*

[2] *The net amount is reflected after taxation and non-controlling interest.*

1. Headline earnings and earnings per share *(continued)*

Performance *(continued)*

Core drivers of headline earnings *(continued)*

» Growth in non-interest income was affected by slower than anticipated economic activity as well as once-off gains in the 2009 base and showed negative growth of 4%.

» Operating expenses increased by 15%, owing to investments undertaken in order to optimally position the Group for future growth.

At a segment level

» **Retail Banking** showed a considerable improvement and increased headline earnings by 85%, which can largely be attributed to lower impairment losses on loans and advances.

» **Absa Business Bank** reported a decrease of 11% in headline earnings for the year under review. This was due to subdued revenue growth of 1% and operating expenses growth of 14% in respect of investments undertaken to enhance capacity.

» **Absa Capital** recorded growth of 20% in headline earnings. The large growth is due to single stock futures impairments from the prior year. Revenues were negatively impacted by the slow down in volumes, low corporate activity and the lack of balance sheet growth (due to a lack in demand). The performance from listed equity investments showed a recovery, coupled with lower funding costs. Operating expenses increased by 23%, year-on-year, from an exceptionally low base in the prior year that was caused by lower incentives in line with performance.

» **Financial Services** maintained 2009 headline earnings levels. Net insurance premium income showed strong growth of 16%, but this was partially offset by the impact of new business strain, which relates to capacity building in Absa *idirect* Limited and Absa Consultants and Actuaries (Proprietary) Limited.

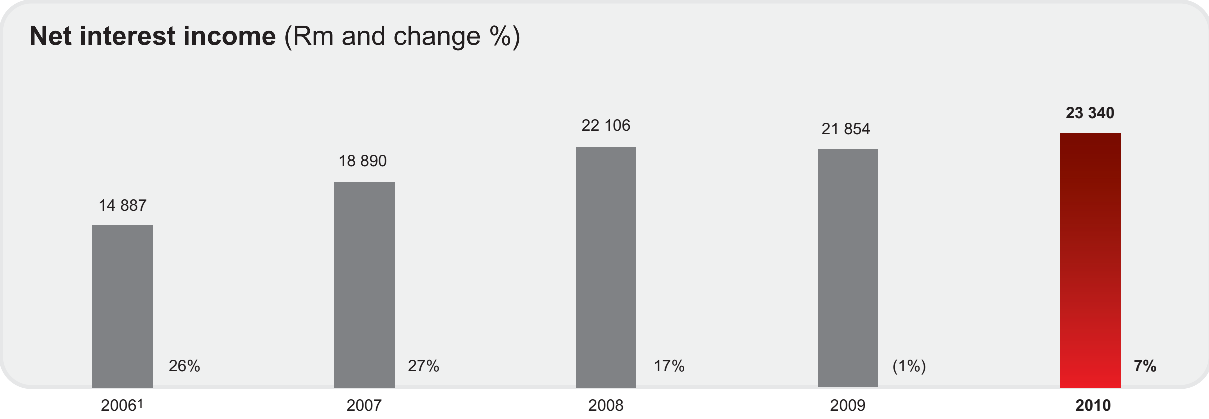
Earnings per share

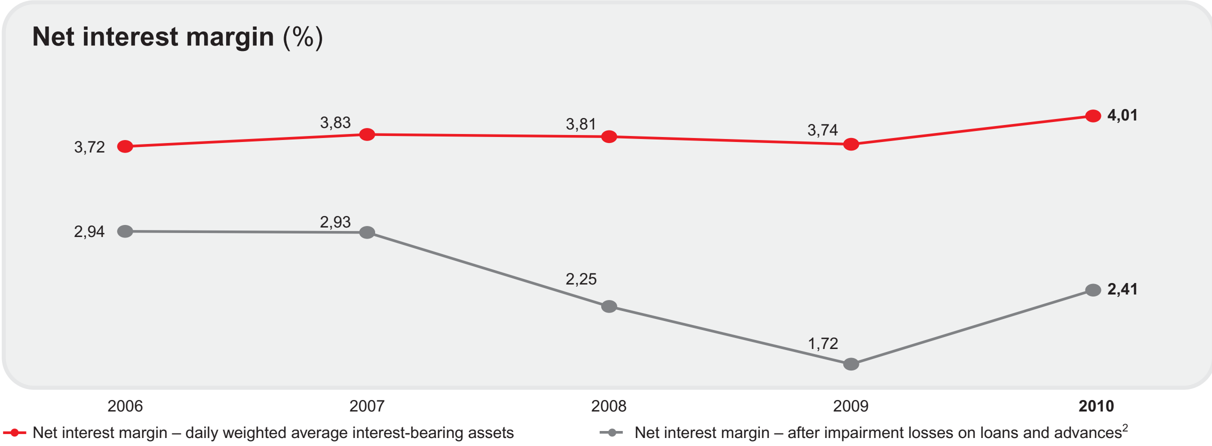
	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Profit attributable to ordinary equity holders of the Group	**8 118**	6 840	19
Interest expense on convertible debt (net of taxation)	**—**	6	(100)
Diluted earnings	**8 118**	6 846	19

As at 31 December

	2010 (Audited) Number of shares (millions)	2009 (Audited) Number of shares (millions)	Change value/%
Issued shares at the beginning of the year	**718,2**	680,2	38,0
Effect of shares issued during the year	**—**	15,5	(15,5)
Treasury shares held by Absa Group companies	**(0,6)**	(0,4)	(0,2)
Treasury shares held by Absa Group Limited Employee Share Ownership Administrative Trust	**—**	(0,0)	0,0
Treasury shares held by Absa Group Limited Share Incentive Trust	**(1,3)**	(2,1)	0,8
Weighted average number of ordinary shares in issue	**716,3**	693,2	23,1
Basic earnings per share (cents)	**1 133,3**	986,7	15
Weighted average number of ordinary shares in issue	**716,3**	693,2	23,1
Adjustments for shares issued at no value:			
Options linked to redeemable cumulative option-holding preference shares	**—**	13,9	(13,9)
Share options	**4,4**	4,4	0,0
Weighted average diluted number of ordinary shares in issue	**720,7**	711,5	9,2
Diluted earnings per share (cents)	**1 126,4**	962,2	17

2. Net interest income





Performance

The Group managed to maintain margins of its retail and commercial businesses similar to prior year levels, in spite of the negative endowment impact of lower interest rates and pressure on commercial deposit margins. This was achieved through:

» improved pricing for credit risk;

» the Group's hedging strategies; and

» a change in composition of advances in favour of higher margin unsecured loans.

The improvement in the Group's margin is also attributable to an improvement in Absa Capital's net interest, which was primarily as a result of a reduction in Private Equity funding costs and a reduction in the equity exposures in respect of single stock futures.

It is the Group's strategy to hedge its margin against changes in interest rates as far as possible. The Group employs a hedging policy whereby structural positions (rate insensitive assets and liabilities as well as the endowment impact on equity) are hedged on a programme basis by continuously entering into receive fixed swaps over the entire interest rate cycle. The hedge programme reduces volatility and increases margin stability over an interest rate cycle, notably enhancing the margin in a downward cycle and sacrificing margin in an upward cycle. It is important to note that the prime/JIBAR reset risk cannot be hedged, so a degree of interest rate sensitivity will remain.

Cash flow hedge accounting is applied to account for the interest rate swaps executed as part of the hedge programme whereby the change in mark-to-market value is deferred to the cash flow hedging reserve (other reserves) from where it is released to the income statement on an accrual basis. The cash flow hedging reserve increased during the year as a result of positive mark-to-market movements on receive fix swaps, totalling R3,2 billion before tax, which will be released to the income statement over the life of the underlying hedged items should market rates prevail at year end.

Notes

[1] *Growth calculated on December 2005 figures (pro forma 12 months).*

[2] *Calculated on the daily weighted average assets.*

2. Net interest income *(continued)*

Performance *(continued)*

With interest rates at historical low levels, a relaxation in the hedge programme to allow for a more dynamic hedging programme is justified. The Group is currently delaying replacing hedges as they mature to avoid locking in very low fixed rates, which would negatively impact future margins. Importantly, any relaxation of the policy will be temporary in nature and will be subject to risk limits given the Group's interest rate risk appetite.

Consolidated average statement of financial position

	2010			2009		
	Average balance Rm	Average rate[1] %	Interest income/ (expense) Rm	Average balance Rm	Average rate[1] %	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 from banks and due to customers	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-bearing assets		4,01			3,74	

Daily averages have been used to calculate the average balances.

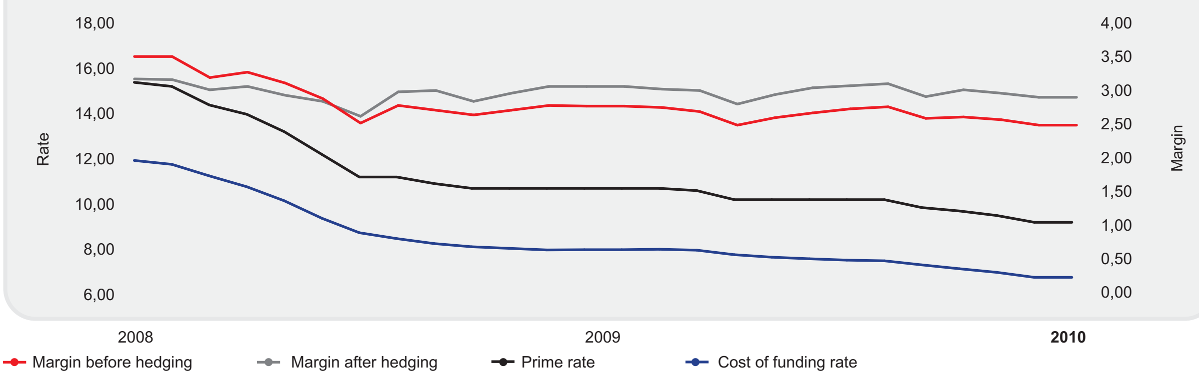
Notes

[1]*Average prime rate for the year was* ***9,87%*** *(31 December 2009: 10,89%).*

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

2. Net interest income *(continued)*

Hedging impact on margin[1] (%)



Net interest margin

	2010 basis points
Loans and advances to customers(i)	9
Change in client rates	4
Change in composition	5
Deposits due to customers(ii)	(2)
Client pricing/endowment	(14)
Change in composition	12
Capital	(12)
Interest rate risk management (hedging)	25
Other	7
Change in margin	**27**

(i) *Loans and advances to customers*

» The increased focus on the pricing of credit risk resulted in an improvement in margins on most products.

» Stronger growth in high margin products improved the composition of the advances portfolio, further adding to asset margins.

(ii) *Deposits due to customers*

» The negative impact of declining interest rates on non-rate sensitive deposits was the biggest contributor to the reduction in deposit margins. Margin pressure continues to be experienced across most customer products due to liquidity constraints and fierce competition.

» The continued concentration on growing higher margin deposits at the expense of low margin deposits largely offset the negative pricing impact, due to the positive impact on the composition of the deposit base.

Note

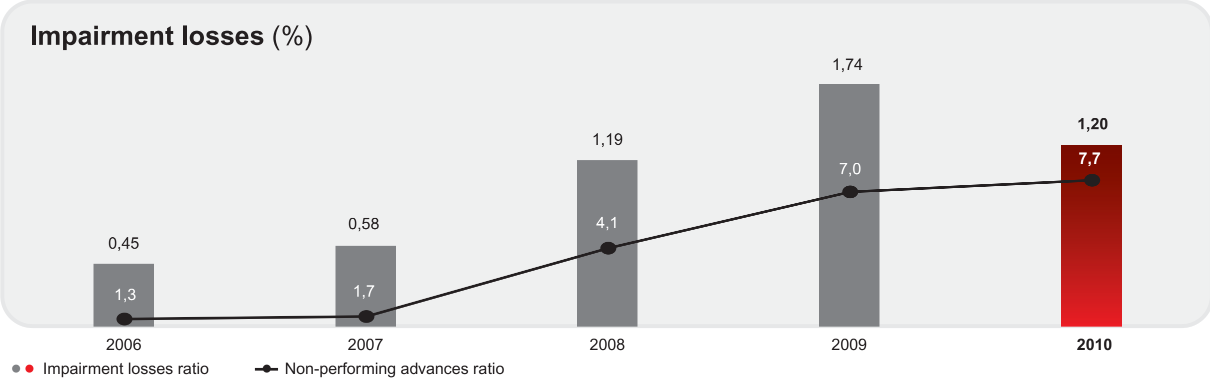
[1] *Absa's hedging strategy:*

» *the hedging programme provides greater margin stability from an interest rate risk perspective over the entire cycle;*

» *in a decreasing rate scenario the hedging programme enhances the margin whilst the opposite is true for an increasing ratio scenario; and*

» *basis risk still remains between prime assets and three-month JIBAR repricing liabilities after hedging.*

3. Impairment losses on loans and advances



Performance

The impairment losses ratio improved to 1,20% from 1,74% for the year under review. The impairment charge decreased by 33%, from the prior year, to R6 005 million.

Retail Banking (↓36%)

- Retail Banking's impairment losses ratio improved from the 2,30% recorded in 2009 to 1,49% for the year under review.
- Significant improvements were experienced during the year under review on impairment losses on loans and advances for Card, Personal Loans and Home Loans of 64%, 49% and 44% respectively compared to the prior year.
- Impairment losses on loans and advances for Vehicle and Asset Finance, of R941 million, remained flat for the year under review in spite of improved arrears trends.
- Retail Bank's impairment losses on loans and advances increased by 92%, mainly due to aligning the impairment policies of the African operations to those of the Group.

Absa Business Bank (↓3%)

- The impairment losses ratio improved from 0,91% recorded in 2009 to 0,90% for the year under review.
- Excluding Absa Small Business, the impairment losses ratio for the year ending 31 December 2010 was 0,77% compared to 0,75% recorded in the prior year.

Non-performing advances (↑9%)

Non-performing advances (NPAs) increased from R36,1 billion in 31 December 2009 to R39,4 billion and represents 7,7% of total advances to customers. Retail mortgages increased in spite of lower new inflows, mainly due to the impact of debt counselling.

Charge to the statement of comprehensive income

	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Impairments raised during the year	**6 729**	9 883	(32)
Identified impairments	**6 919**	10 151	(32)
Unidentified impairments	**(190)**	(268)	29
Recoveries of loans and advances previously written off	**(724)**	(916)	21
	6 005	8 967	(33)

Impairment losses on loans and advances by segment

	2010 Rm	2009 Rm	Change %
Retail Banking[1]			
Home Loans	**2 202**	3 946	(44)
Vehicle and Asset Finance	**941**	944	(0)
Card	**466**	1 287	(64)
Personal Loans[2]	**510**	1 005	(49)
Retail Bank[2]	**701**	365	92
Total charge	**4 820**	7 547	(36)
Impairment losses ratio (%)	**1,49**	2,30	

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.*

Year ended 31 December

3. Impairment losses on loans and advances *(continued)*

Impairment losses on loans and advances by segment *(continued)*

	2010 Rm	2009 Rm	Change %
Absa Business Bank[1]			
Total charge	**1 075**	1 103	(3)
Impairment losses ratio (%)	**0,90**	0,91	
Absa Capital[1]			
Total charge	**108**	318	(66)
Impairment losses ratio (%)	**0,20**	0,49	
Other			
Total charge	**2**	(1)	>100
Impairment losses ratio (%)	**n/a**	n/a	
Charge to the statement of comprehensive income	**6 005**	8 967	(33)
Impairment losses on loans and advances ratio (%)	**1,20**	1,74	

As at 31 December

Statement of financial position

	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Balance at the beginning of the year	**13 158**	8 858	49
Amounts written off during the year	**(5 219)**	(4 635)	(13)
Exchange differences	**(2)**	(3)	33
Interest on impaired assets	**(764)**	(945)	19
	7 173	3 275	>100
Impairments raised during the year	**6 729**	9 883	(32)
Balance at the end of the year	**13 902**	13 158	6
Comprising:			
Identified impairments	**12 949**	11 999	8
Unidentified impairments	**953**	1 159	(18)
	13 902	13 158	6

Note

[1] *Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank. Also refer to pages 95 – 98 for additional reclassifications.*

3. Impairment losses on loans and advances *(continued)*

Non-performing advances

Balances

	2010			
	Outstanding balance Rm	Expected recoveries and fair value of collateral Rm	Net exposure Rm	Total identified impairment Rm
Cheque accounts	220	110	110	110
Credit cards	2 822	797	2 025	2 025
Instalment credit agreements	3 492	2 036	1 456	1 456
Micro loans	445	84	361	361
Mortgages	25 642	20 740	4 902	4 902
Personal loans	1 413	442	971	971
Retail Banking	34 034	24 209	9 825	9 825
Corporate	950	840	110	110
Large and Medium Business	2 612	1 734	878	878
Small Business	468	390	78	78
Commercial Asset Finance	648	169	479	479
Other	380	276	104	104
Absa Business Bank	5 058	3 409	1 649	1 649
Absa Capital	549	208	341	341
Non-performing advances	39 641	27 826	11 815	11 815
Non-performing advances ratio	7,7			

	2009			
	Outstanding balance Rm	Expected recoveries and fair value of collateral Rm	Net exposure Rm	Total identified impairment Rm
Cheque accounts	148	96	52	52
Credit cards	2 959	672	2 287	2 287
Instalment credit agreements	2 635	1 488	1 147	1 147
Micro loans	510	207	303	303
Mortgages	23 687	19 589	4 098	4 098
Personal loans	568	194	374	374
Retail Banking[1]	30 507	22 246	8 261	8 261
Corporate	945	845	100	100
Large and Medium Business	2 444	1 713	731	731
Small Business	465	362	103	103
Other	923	425	498	498
Absa Business Bank[1]	4 777	3 345	1 432	1 432
Absa Capital	805	562	243	243
Non-performing advances	36 089	26 153	9 936	9 936
Non-performing advances ratio	7,0			

Note

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

3. Impairment losses on loans and advances *(continued)*

Non-performing advances *(continued)*

Debt counselling

	2010					
	New applications		Terminations		Portfolio balance	
	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm
Cheque accounts	**6 401**	**122**	**7 118**	**227**	**8 029**	**281**
Credit cards	**20 121**	**263**	**18 378**	**266**	**38 193**	**481**
Instalment credit agreements	**5 087**	**604**	**8 748**	**970**	**8 218**	**842**
Mortgages	**6 527**	**3 207**	**6 285**	**3 531**	**9 386**	**4 691**
Personal loans	**10 717**	**313**	**11 287**	**320**	**16 058**	**493**
Other	**18 703**	**296**	**15 625**	**367**	**15 692**	**217**
Retail Banking	**67 556**	**4 805**	**67 441**	**5 681**	**95 576**	**7 005**

Impairment coverage ratios

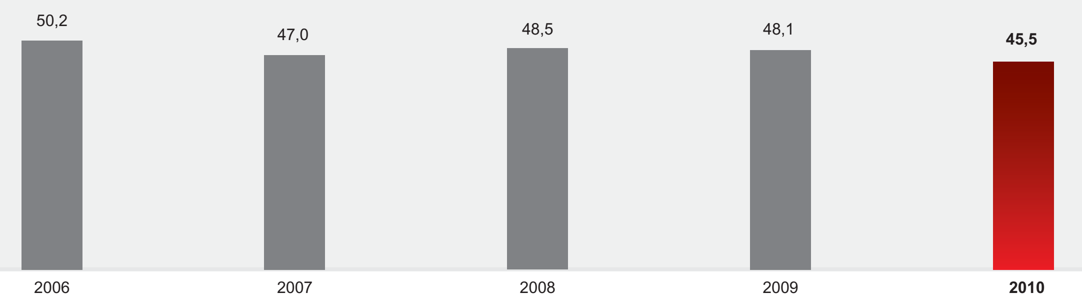
	2010 %	2009 %
Retail Banking		
Secured lending	**19,1**	17,1
Unsecured lending	**69,0**	66,3
Other	**37,6**	10,6

Performance

- The debt counselling portfolio increased in the first half of 2010, but started to reduce in size as a result of the termination strategy becoming operational.
- The debt counselling portfolio construct has improved somewhat mainly as a result of the high delinquency loans being terminated.

4. Non-interest income

Non-interest income as a % of operating income (%)[1]



Performance

Non-interest income decreased by 4% to R19 474 million for the year ended 31 December 2010.

Note

[1] *Excluding impairment losses in loans and advances.*

4. Non-interest income *(continued)*

Performance *(continued)*

Banking operations (↓6%)

» Net fee and commission income, which constitutes 74% of non-interest income, increased by 1% to R14 391 million for the year under review.

» Retail Banking achieved growth of 1% in net fee and commission income. Transaction volumes grew marginally and no fee increases were implemented during the year under review.

» Absa Business Bank performed well and their improved electronic banking offering contributed to a 7% increase in net fee and commission income. Fee income from cheque accounts also increased following the focus on primary banking relationships.

» Absa Capital's net trading results declined by R223 million, representing a decrease of 10% from the prior year whereas total Markets revenue decreased by 7% from the prior year. The difference in growth rates was due to an increase in net interest income in the Markets business, specifically in the second half of the financial year. Investments held in Private Equity experienced positive revaluations during the year under review with a fair value increase of R48 million compared to the fair value decrease in the prior year of R623 million. Net gains on investments also includes income from realisations and dividends in addition to fair value movements on investments.

» Included in the prior year's results, were realised and unrealised gains from MasterCard (R217 million) and Visa (R272 million). The value of the Group's investment in Visa declined by R128 million during 2010.

Financial Services (↑7%)

» Net insurance premium income were 16% higher for the year under review following strong performance in both Life (up 23%) and short-term (up 13%). New business strain (expensing of certain acquisition cost whilst revenue recognition is deferred) resulting from the strong new business growth in Life negatively impacting net revenue.

» Net insurance claims and benefits paid increased by 9% compared to the prior year.

» The average claims ratio in short-term remained high relative to historical trends at 68,5%, which was slightly lower than the 69,9% reported in 2009. Both years were impacted by high levels of weather-related claims.

» Investment income from shareholder funds increased from R317 million in 2009 to R332 million for the year under review.

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. Higher transaction volumes were experienced between segments during the year under review.*

4. Non-interest income *(continued)*

	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Fee and commission income			
Asset management and other related fees	**105**	103	2
Consulting and administration fees	**510**	428	19
Credit-related fees and commissions	**12 855**	12 494	3
Cheque accounts	**3 198**	3 231	(1)
Credit cards[1]	**1 938**	1 860	4
Electronic banking	**3 828**	3 501	9
Savings accounts	**2 417**	2 301	5
Other	**1 474**	1 601	(8)
Insurance commission received	**950**	1 088	(13)
Pension fund payment services	**497**	545	(9)
Project finance fees	**209**	262	(20)
Trust and other fiduciary services	**1 029**	1 182	(13)
Portfolio and other management fees	**783**	947	(17)
Trust and estate income	**246**	235	5
Other	**299**	199	50
	16 454	16 301	1
Fee and commission expense			
Cheque processing fees	**(173)**	(193)	10
Commission paid	**(867)**	(867)	0
Debt collecting fees	**(85)**	(261)	67
Transaction-based legal fees	**(192)**	(148)	(30)
Valuation fees	**(185)**	(176)	(5)
Other	**(561)**	(367)	(53)
	(2 063)	(2 012)	(3)
Net insurance premium income			
Insurance premium revenue	**5 365**	4 390	22
Premiums ceded to reinsurers	**(763)**	(603)	(27)
	4 602	3 787	22
Net insurance claims and benefits paid			
Gross claims and benefits paid on insurance contracts	**(2 864)**	(2 521)	(14)
Reinsurance recoveries	**459**	306	50
	(2 405)	(2 215)	(9)
Changes in investment and insurance liabilities			
Investment contracts	**(1 014)**	(620)	(64)
Insurance liabilities	**(45)**	60	>(100)
	(1 059)	(560)	(89)

Note

[1]*Includes merchant, acquiring and issuing fees.*

4. Non-interest income *(continued)*

	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Gains and losses from banking and trading activities[1]			
Associates and joint ventures	**87**	(13)	>100
Dividends received	**45**	45	—
Profit/(loss) realised on disposal	**42**	(58)	>100
Available-for-sale unwind from reserve	**(92)**	115	>(100)
Investment securities – unlisted equity and hybrid instruments	**—**	219	(100)
Statutory liquid asset portfolio	**(92)**	(104)	12
Financial instruments designated at fair value through profit or loss	**(316)**	(63)	>(100)
Debt securities in issue	**(28)**	(125)	78
Deposits from banks and due to customers	**(1 315)**	(434)	>(100)
Investment securities	**180**	(130)	>100
Debt instruments	**26**	(31)	>100
Listed equity instruments	**86**	466	(82)
Unlisted equity and hybrid instruments	**68**	(565)	>100
Loans and advances to banks and customers	**840**	614	37
Statutory liquid asset portfolio	**7**	12	(42)
Financial instruments held for trading			
Derivatives and trading instruments	**2 570**	2 555	1
Ineffective hedges	**100**	(19)	>100
Cash flow hedges	**115**	(3)	>100
Fair value hedges	**(15)**	(16)	6
	2 349	2 575	(9)
Gains and losses from investment activities[1]			
Associates and joint ventures			
Profit realised on disposal	**—**	15	(100)
Available-for-sale unwind from reserves			
Investment securities – unlisted equity and hybrid instruments	**0**	1	(62)
Financial instruments designated at fair value through profit or loss	**908**	1 499	(39)
Cash, cash balances and balances with central banks	**217**	313	(31)
Investment securities	**477**	518	(8)
Debt instruments	**125**	78	60
Listed equity instruments	**344**	393	(12)
Unlisted equity and hybrid instruments	**8**	47	(83)
Investments linked to investment contracts	**214**	668	(68)
Cash, cash balances and balances with central banks	**(51)**	(50)	(2)
Debt instruments	**(24)**	(5)	>(100)
Listed equity instruments	**289**	722	(60)
Unlisted equity and hybrid instruments	**0**	1	(97)
Financial instruments held for trading			
Investments linked to investment contracts – derivative instruments	**(24)**	(41)	41
Subsidiaries			
Loss realised on disposal	**—**	(10)	100
	884	1 464	(40)

Note

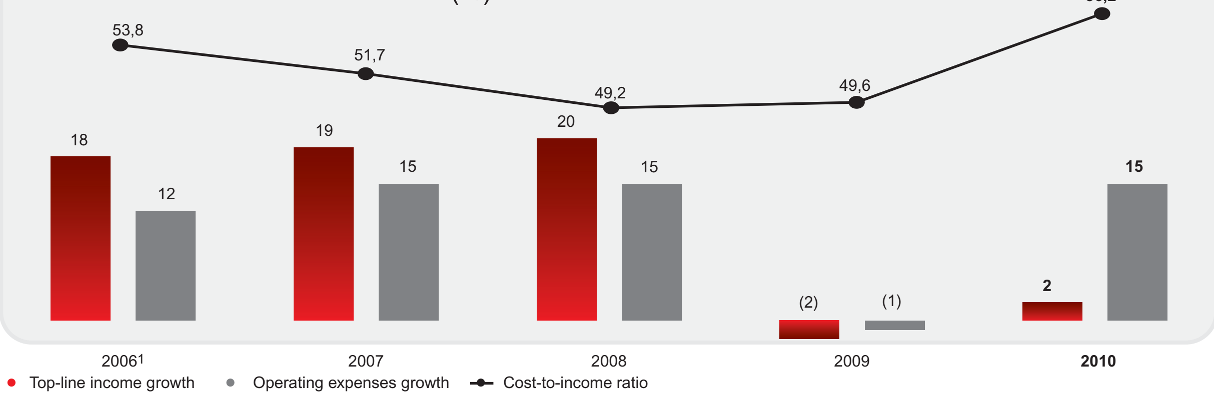
[1]*Refer to segment views on page 43 – 71 for additional disclosures.*

4. Non-interest income *(continued)*

	2010 (Audited) Rm	2009 (Audited Rm	Change %
Other operating income			
Exchange differences	**59**	40	48
Income from investment properties	**61**	74	(18)
Income from maintenance contracts	**15**	26	(42)
Profit on disposal of intangible assets	**—**	65	(100)
Profit on disposal of property and equipment	**41**	68	(40)
Profit on sale of developed properties	**28**	50	(44)
Profit on disposal of repossessed properties	**6**	8	(25)
Rental income	**253**	218	16
Sundry income	**249**	343	(27)
	712	892	(20)
Total non-interest income	**19 474**	20 232	(4)

5. Operating expenses

Growth and cost-to-income ratio (%)



Operating expenses breakdown

	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Amortisation of intangible assets	**165**	116	42
Auditors' remuneration	**159**	134	19
Cash transportation	**729**	467	56
Depreciation	**1 147**	1 129	2
Equipment costs	**271**	278	(3)
Information technology[2]	**2 085**	1 753	19
Investment property charges	**4**	4	(0)
Marketing costs	**1 070**	875	22
Operating lease expenses on properties	**978**	910	7
Printing and stationery	**272**	283	(4)
Professional fees[2]	**1 096**	897	22
Staff costs	**12 537**	10 816	16
Bonuses	**1 101**	644	71
Current service costs on post-retirement benefits	**635**	551	15
Salaries	**9 707**	8 872	9
Share-based payments	**297**	223	33
Training costs	**269**	195	38
Other staff costs[3]	**528**	331	60
Telephone and postage	**820**	837	(2)
Other operating costs[4]	**2 737**	2 358	16
	24 070	20 857	15

Notes
[1] *Growth calculated on December 2005 figures (pro forma 12 months).*
[2] *Includes research and development costs of **R133 million** (31 December 2009: R146 million).*
[3] *Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.*
[4] *Other operating costs include accommodation, travel and entertainment costs.*

5. Operating expenses *(continued)*

Performance

Operating expenses increased by 15% compared to 2009. The increase in operating expenses combined with a 2% increase in revenue resulted in the Group's cost-to-income ratio to increase to 56,2%.

Information technology (IT) costs (↑19%)

Significant investment in improving systems and IT capacity drove cost growth to its high levels. The amount of the spend included the cost of the implementation of systems for the adoption of the Basel II Advanced Internal Ratings Based (AIRB) approach, the replacement of legacy systems and the enhancement of end-to-end processes.

Staff costs (↑16%)

Salaries increased by 9%, following increases that varied between 5% for senior staff up to 10% for unionised staff and in addition an increase in staff numbers. Staff numbers increased by 620 to improve front-line sales capacity, service levels and the control and compliance environments. The 71% increase in bonusses mainly relates to the reversal of a R235 million provision in the prior year (due to a change in the accounting treatment), relating to the Absa Group Limited Executive Share Award Scheme.

Breakdown of information technology costs included in operating expenses

	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

Share-based payments

During the year, **R48 million** (31 December 2009: R123 million) and **R249 million** (31 December 2009: R100 million) were charged to the statement of comprehensive income in respect of equity-settled and cash-settled share-based payment transactions, respectively.

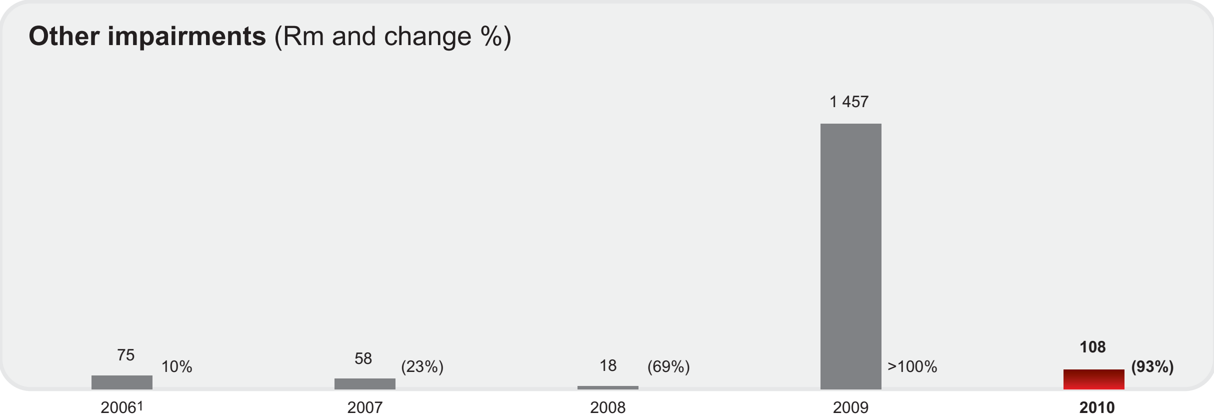
	2010 (Audited) Number of options/shares	2010 (Audited) Rm	2009 (Audited) Number of options/shares	2009 (Audited) Rm	Value change %
Staff costs					
The share-based payments charge to the statement of comprehensive income is as follows:					
Equity-settled arrangements					
Absa Group Limited Executive Share Award Scheme	**2 074 693**	**55**	2 184 286	78	(29)
Absa Group Limited Performance Share Plan	**3 218 197**	**(19)**	3 417 488	19	>(100)
Absa Group Limited Share Incentive Trust	**3 235 857**	**12**	6 298 491	26	(54)
Cash-settled arrangements					
Absa Group Limited Deferred Award Plan[1]	**2 468 193**	**162**	—	—	100
Absa Group Limited Phantom Executive Share Award Scheme	**153 404**	**(9)**	455 471	40	>(100)
Absa Group Limited Phantom Joiners Share Award Plan	**1 182 608**	**72**	923 489	51	41
Absa Group Limited Phantom Performance Share Plan[2]	**—**	**—**	1 185 948	9	(100)
Absa Group Limited Retention Plan[1]	**595 709**	**24**	—	—	100
		297		223	33

Notes

[1] *The plan was implemented during the year under review.*

[2] *The plan vested during the year under review.*

6. Other impairments



Performance

The investment in Pinnacle Point Group Limited was disposed of during the year under review. As a result of the continued decline in the market price of the remaining single stock futures companies, the value of these investments was impaired by a further R54 million. The remaining exposure amounts to R96 million.

Other impairments breakdown

	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Financial instruments	**37**	38	(3)
Amortised cost instruments	**12**	2	>100
Available-for-sale instruments	**25**	36	(31)
Other	**71**	1 419	(95)
Computer software development costs	**4**	19	(79)
Equipment and leasehold improvements	**13**	9	44
Goodwill[2]	**—**	37	(100)
Investments in associates and joint ventures[3]	**29**	1 328	(98)
Repossessed properties	**25**	26	(4)
	108	1 457	(93)

Single stock futures

	2010 Impairment Rm	2009 Impairment Rm	31 December 2010 Remaining equity exposure Rm
Investments in associates and joint ventures			
Pinnacle Point Group Limited[4]	**—**	931	**—**
Blue Financial Services Limited[5]	**26**	394	**—**
Sekunjalo Investments Limited	**3**	3	**41**
Investment securities			
Blue Financial Services Limited[5]	**—**	—	**38**
ConvergeNet Holdings Limited	**25**	36	**17**
	54	1 364	**96**

Notes

[1] *Growth calculated on December 2005 figures (pro forma 12 months).*

[2] *During the prior year, the Group sold contractual rights it had generated in Ambit Management Services (Proprietary) Limited. The company was dormant and consequently the goodwill previously recognised on this investment has been written off.*

[3] *During the prior year, indications existed that the carrying amount of the investments in associates, that arose as a result of client defaults on single stock futures within Absa Capital, would not be recoverable. The recoverable amount is the fair value less cost to sell and was based on the Group's best estimate of the price the Group would achieve in an arm's length sale transaction of these investments. These investments have consequently been impaired in the current and prior year.*

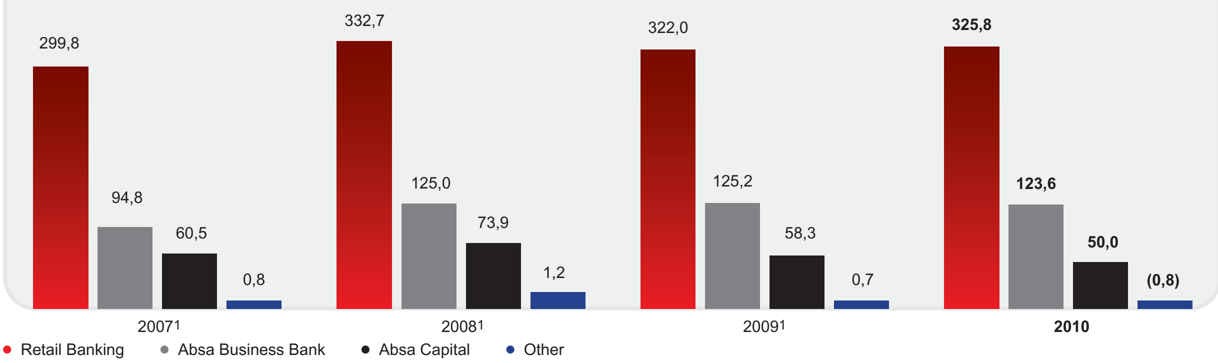
[4] *Disposed during the year.*

[5] *The investment in Blue Financial Services Limited was transferred from investments in associates and joint ventures to investment securities designated at fair value through profit or loss during the year, due to the dilution of the Group's shareholding.*

As at 31 December

7. Loans and advances to customers

Loans and advances to customers (Rbn)



Loans and advances mix

	2010 %	2009[1] %	2008[1] %
Retail Banking	**65,3**	63,7	63,4
Absa Business Bank	**24,8**	24,7	22,6
Absa Capital	**10,0**	11,5	13,9
Other[2]	**(0,1)**	0,1	0,1
	100,0	100,0	100,0

Performance

The Group's loans and advances to customers declined by 1% for the year ended 31 December 2010. The majority of the Group's loans and advances reside within the Group's retail and business banking operations, with Absa Capital only comprising 10% of the Group's loans and advances book. The retail operations recorded a marginal increase in loans and advances while Absa Business Bank showed a slight decline in balances by year-end. The lack of credit demand combined with increased risk aversion had a negative impact on both of these segments. Absa Capital, however, experienced a larger decline in gross loans and advances of 14% for the year.

Retail Banking (↑1% increase in gross advances)

» During the year under review, the Group increased its stake in Sanlam Home Loans to 100% and acquired Alexander Forbes' pension-backed book, resulting in an increase of R4,6 billion in mortgage advances and contributing to the growth of 2% in this category. However, excluding this acquisition, the mortgage book would have remained flat due to lower demand for credit and the focus on pricing for risk on a customer level.

» Instalment credit agreements increased by 1% for the year ended 31 December 2010 due to lower customer demand and tight credit scorecards. The Group continues to focus on unsecured lending due to higher returns. Credit card advances levels increased by 2%, while personal loans increased by 23% year-on-year.

Absa Business Bank (↓1% decrease in gross advances)

» The main focus during the year under review was to grow primary banking relationships and expand the specialised finance business. Furthermore, the Group decided not to increase its exposure to commercial property finance during the year under review.

» Corporate overdrafts and specialised finance loans still showed some growth, increasing by 8% year-on-year, cheque accounts declined by 26% year-on-year due to an increasing amount of businesses remaining cash positive due to a lack of credit appetite.

» A significant decline in the demand for commercial vehicles resulted in instalment credit agreements reducing by 15% since 31 December 2009.

Absa Capital (↓14% decrease in gross advances)

» This decline was mostly in respect of overnight finance and corporate loans.

Notes

[1] *Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank. Also refer to pages 95 – 98 for additional reclassifications.*

[2] *Includes inter-group eliminations which offset with loans and advances in other segments. Higher transaction volumes were experienced between segments during the year under review.*

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

Loans and advances to customers by segment

	2010 Rm	2009 Rm	Change %
Retail Banking[1]			
Cheque accounts	**2 351**	2 401	(2)
Credit cards[2]	**20 507**	20 076	2
Instalment credit agreements	**41 128**	40 872	1
Loans to associates and joint ventures	**4 827**	6 187	(22)
Micro loans	**2 069**	2 936	(30)
UniFer book	**54**	155	(65)
New business	**2 015**	2 781	(28)
Mortgages (including commercial property finance)	**251 569**	247 711	2
Personal loans	**14 292**	11 663	23
Other	**30**	318	(91)
Gross loans and advances	**336 773**	332 164	1
Impairment losses on loans and advances	**(10 983)**	(10 130)	(8)
	325 790	322 034	1
Absa Business Bank[1]			
Cheque accounts	**20 710**	28 127	(26)
Corporate overdrafts and specialised finance loans	**16 891**	15 653	8
Foreign currency loans	**2 351**	2 628	(11)
Instalment credit agreements	**15 763**	18 462	(15)
Loans to associates and joint ventures	**1 998**	1 691	18
Mortgages (including commercial property finance)	**47 634**	49 134	(3)
Term loans	**13 406**	9 576	40
Wholesale overdrafts	**4 232**	0	>100
Other	**3 093**	2 380	30
Gross loans and advances	**126 078**	127 651	(1)
Impairment losses on loans and advances	**(2 460)**	(2 470)	0
	123 618	125 181	(1)
Absa Capital[1]			
Cheque accounts	**3 207**	3 060	5
Corporate loans	**22 447**	26 621	(16)
Foreign currency loans	**4 247**	4 998	(15)
Loans granted under resale agreements (Carries)	**3 063**	1 988	54
Mortgages (including commercial property finance)	**7 490**	7 495	(0)
Overnight finance	**3 581**	7 442	(52)
Preference shares	**5 804**	5 774	1
Other	**664**	1 470	(55)
Gross loans and advances	**50 503**	58 848	(14)
Impairment losses on loans and advances	**(459)**	(547)	16
	50 044	58 301	(14)

Notes

[1]*Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank. Also refer to pages 95 – 98 for additional reclassifications.*

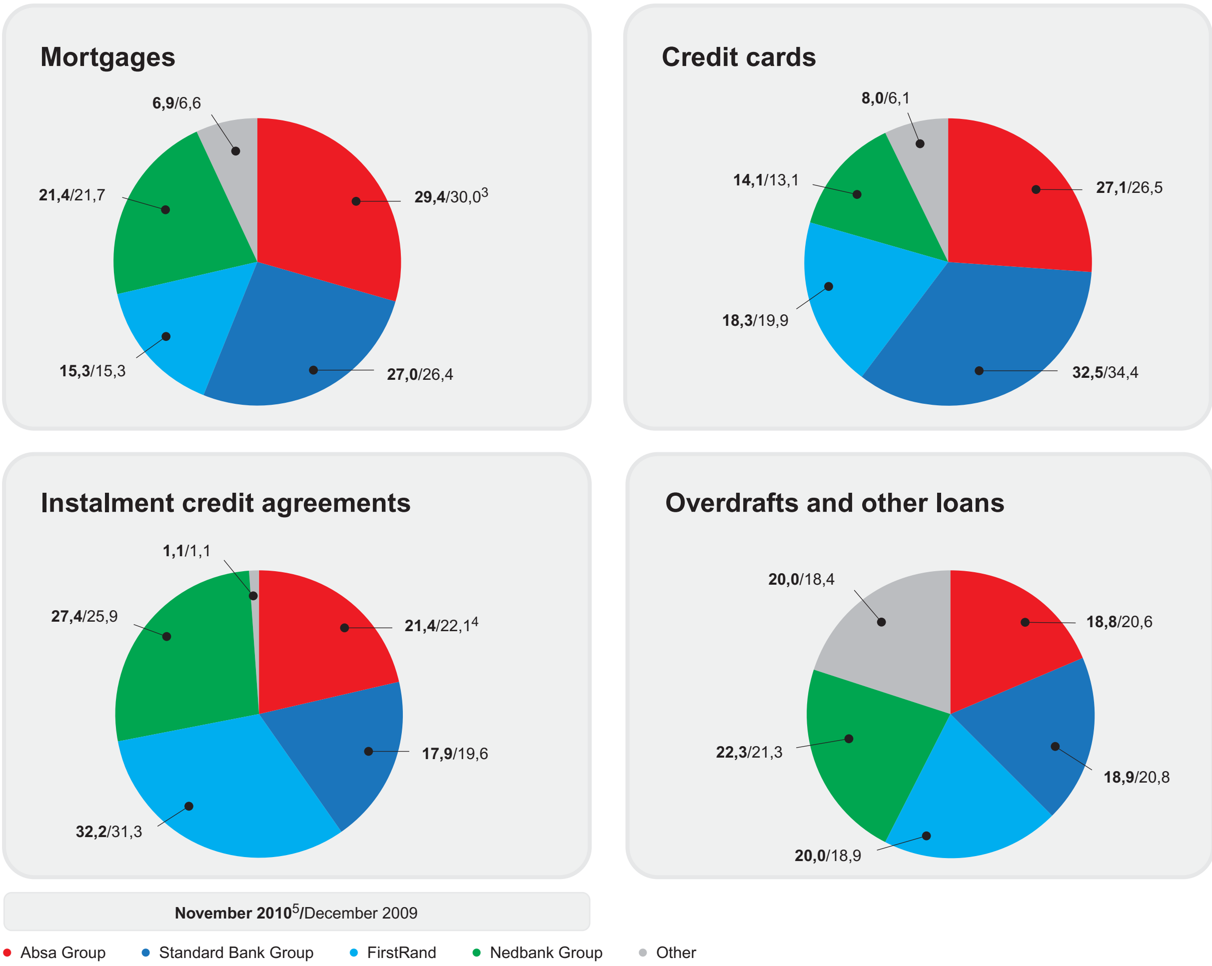
[2]*Include a balance of* ***R5 306 million*** *(31 December 2009: R5 407 million) relating to Woolworths Financial Services (Proprietary) Limited.*

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

Loans and advances to customers by segment *(continued)*

	2010 Rm	2009 Rm	Change %
Other			
Other	**477**	675	(29)
Inter-group eliminations[1]	**(1 294)**	(17)	>(100)
Gross loans and advances	**(817)**	658	>(100)
Impairment losses on loans and advances	**—**	(11)	100
	(817)	647	>(100)
Gross loans and advances	**512 537**	519 321	(1)
Impairment losses on loans and advances	**(13 902)**	(13 158)	(6)
Net loans and advances[2]	**498 635**	506 163	(1)

Market share (%)



Performance

The Group lost market share, particularly in respect of secured lending, as part of its pricing philosophy of ensuring adequate returns at a customer level are generated for shareholders on all new business.

Notes

[1] *Inter-group eliminations which offset with loans and advances in other segments. Higher transaction volumes were experienced between segments during the year under review.*

[2] *Comparatives have been reclassified. Refer to pages 95 – 98.*

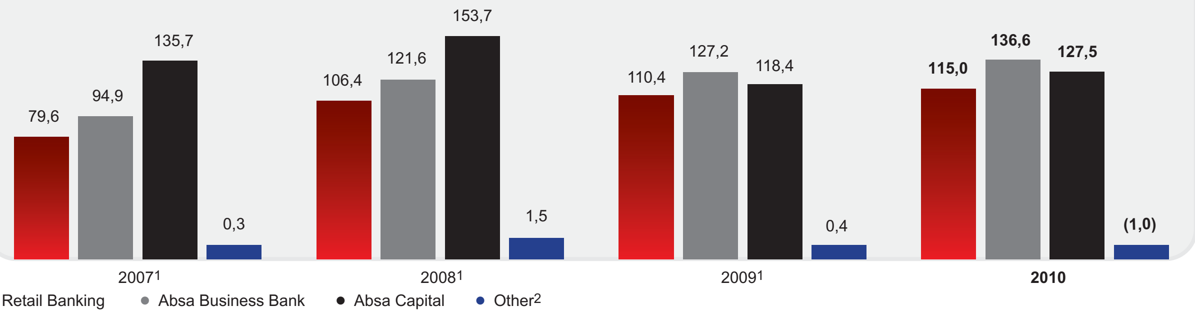
[3] *Securitisation of **R4,4 billion – 0,4% of market share** (31 December 2009: R3,2 billion – 0,3% of market share) has been excluded from the Absa mortgages book.*

[4] *At 31 December 2009 securitisation of R1,2 billion – 0,5% of market share was excluded from the Absa's instalment credit agreements book.*

[5] *Owing to the early results announcement, the market share information for December 2010 was not available for publication.*

8. Deposits due to customers and debt securities in issue

Deposits due to customers (Rbn)



Total funding mix

	2010 %	2009[1] %	2008[1] %
Deposits due to customers	**67,7**	63,1	63,4
Retail Banking	**20,6**	19,6	21,2
Absa Business Bank	**24,5**	22,5	16,6
Absa Capital	**22,8**	20,9	25,5
Other[2]	**(0,2)**	0,1	0,1
Deposits from banks	**2,8**	6,5	9,1
Debt securities in issue	**29,5**	30,4	27,5
	100,0	100,0	100,0

Total funding composition

	2010 Rm	2009[1] Rm	Change %	2008[1] Rm
Retail deposits	**115 046**	110 433	4	127 953
Low margin	**53 154**	51 913	2	56 723
High margin	**61 892**	58 520	6	71 230
Commercial deposits	**136 619**	127 161	7	100 046
Corporate and institutional funding	**306 397**	326 688	(6)	375 721
	558 062	564 282	(1)	603 720

Performance

Retail Banking and Absa Business Bank increased their contribution to the Group's funding base from 42,1% at 31 December 2009 to 45,1% at 31 December 2010.

Retail Banking (↑4% increase)

» Retail deposits reflected solid growth across the core product categories.

» Cheque accounts and notice deposits increased by 10%, while savings and transmissions deposits increased by 4% for the year.

Notes

[1]*Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank. Also refer to pages 95 – 98 for additional reclassifications.*

[2]*Includes inter-group eliminations which offset with deposits in other segments. Higher transaction volumes were experienced between segments during the year under review.*

8. Deposits due to customers and debt securities in issue *(continued)*

Performance *(continued)*

Absa Business Bank (↑7% increase)

» Fierce competition for commercial funding was evident and margins came under pressure during the year.

» Solid growth was achieved in respect of cheque accounts (14%), fixed deposits (6%), foreign currency (8%) and savings and transmissions accounts (including investment products) (9%) year-on-year.

Absa Capital (↑8% increase in deposits)

» Absa Capital's customer deposits increased by 8% during 2010, which coupled with increased funding raised by Retail Banking and Absa Business Bank reduced the reliance on wholesale funding. This reduced reliance resulted in a decrease of 5% in debt securities in issue of Absa Capital.

Deposits due to customers by segment

	2010 Rm	2009 Rm	Change %
Retail Banking[1]			
Call	**488**	740	(34)
Cheque accounts	**16 161**	14 745	10
Credit card accounts	**1 825**	1 864	(2)
Fixed	**27 596**	27 048	2
Investment products	**24 631**	23 673	4
Notice	**9 706**	8 810	10
Savings and transmissions	**33 712**	32 361	4
Other	**927**	1 192	(22)
	115 046	110 433	4
Absa Business Bank[1]			
Call	**19 023**	20 098	(5)
Cheque accounts	**64 092**	56 337	14
Fixed	**37 052**	34 953	6
Foreign currency	**4 325**	4 020	8
Investment products	**6 070**	3 648	66
Notice	**1 634**	1 467	11
Savings and transmissions	**2 941**	4 598	(36)
Other	**1 482**	2 040	(27)
	136 619	127 161	7
Absa Capital[1]			
Call	**35 196**	41 263	(15)
Cheque accounts	**29 126**	21 183	37
Fixed	**49 532**	44 934	10
Foreign currency	**4 490**	3 920	15
Repurchase agreements	**7 035**	1 712	>100
Other	**2 083**	5 359	(61)
	127 462	118 371	8
Other			
Other	**576**	555	4
Inter-group eliminations[2]	**(1 592)**	(155)	>(100)
	(1 016)	400	>(100)
Deposits[1]	**378 111**	356 365	6

Notes

[1]Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank. Also refer to pages 95 – 98 for additional reclassifications.

[2]Inter-group eliminations which offset with deposits in other segments. Higher transaction volumes were experienced between segments during the year under review.

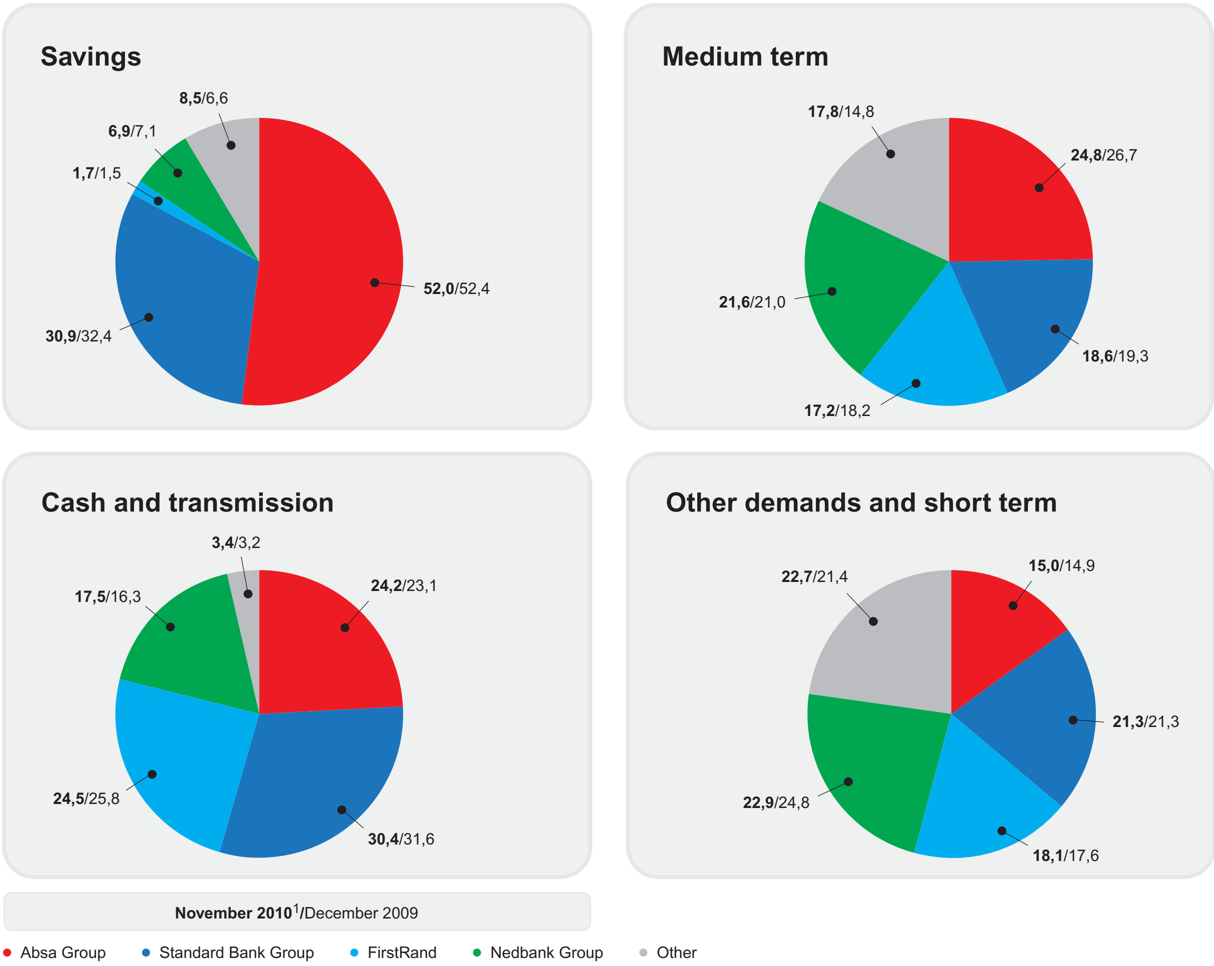
As at 31 December

8. Deposits due to customers and debt securities in issue *(continued)*

Debt securities in issue

	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Abacas – commercial paper and floating rate notes	**1 789**	4 936	(64)
Credit linked notes	**6 360**	8 025	(21)
Floating rate notes	**75 740**	84 925	(11)
Liabilities arising from securitised special purpose entities (SPEs)	**4 216**	4 810	(12)
Negotiable certificates of deposit	**64 271**	59 354	8
Promissory notes	**1 811**	1 855	(2)
Replica bonds	**1 220**	1 534	(20)
Senior notes	**9 138**	5 922	54
Other	**—**	15	(100)
	164 545	171 376	(4)

Market share (%)



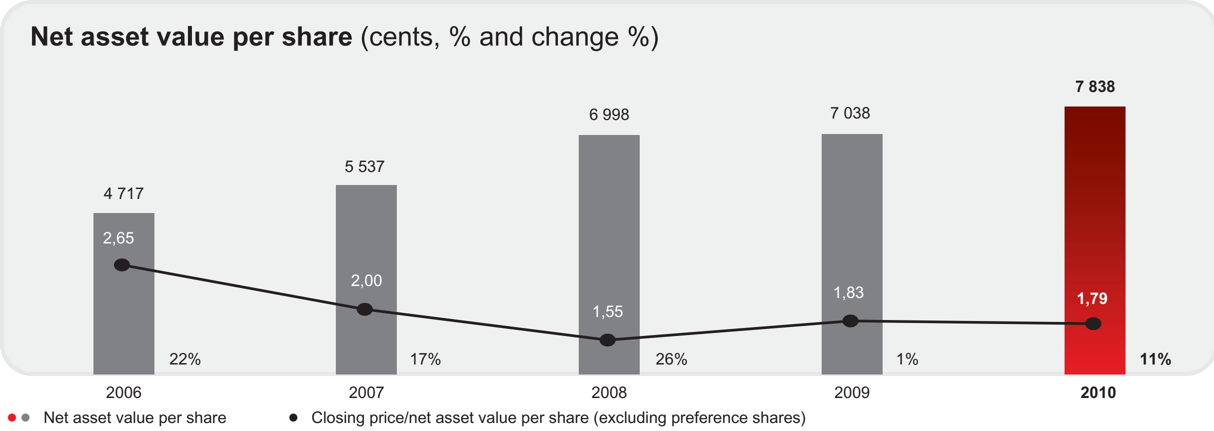
Performance

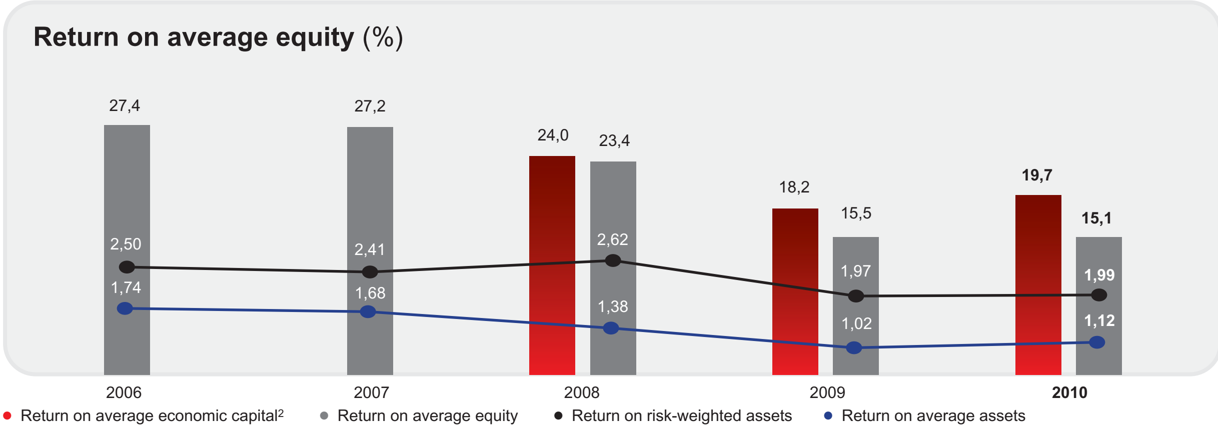
The Group showed marginal changes in market share in the various categories.

Note

[1]*Owing to the early results announcement, the market share information for December 2010 was not available for publication.*

9. Equity and borrowed funds[1]





Performance

The Group's return on average equity (RoE) deteriorated from 15,5% in 2009 to 15,1% for the year but remains higher than the Group's cost of equity (CoE) of 14,0%.

The lower RoE is mainly as a result of a reduction in the gearing ratio from 15,2 times to 13,5 times, due to the strong growth in average equity over the year. The return on average assets (RoA) improved from 1,02% to 1,12%.

The return on average economic capital (RoEC) for the year was 19,7%, improving from the 18,2% recorded in the prior year.

The Group improved its return on risk-weighted assets from 1,97% for the prior year to 1,99% for the year under review.

Total qualifying capital

	2010		
	Shareholders' equity Rm	Economic capital Rm	Tier I regulatory capital Rm
Ordinary share capital and share premium	6 023	6 023	6 023
Preference share capital and share premium	—	4 644	4 644
Other reserves	2 309	247	—
Retained earnings	47 958	47 958	45 011
Non-controlling interest – ordinary shares	—	—	1 215
Expected loss adjustment	—	—	(1 214)
Other deductions	—	(1 794)	(1 618)
	56 290	57 078	54 061
Average capital for the year	53 419	42 525[3]	51 516

Notes

[1] *Refer to pages 72 – 95 for the capital and risk management section containing additional information.*

[2] *Basel II and the amended Bank's Act became effective during 2008, which was the first year the Group published the return on average economic capital.*

[3] *Represents average required economic capital.*

9. Equity and borrowed funds *(continued)*

Capital demand – closing balance

	2010 Risk-weighted assets Rm	2010 Economic capital Rm	2009 Risk-weighted assets Rm	2009 Economic capital Rm
Credit risk	**316 967**	**25 519**	276 172	30 580
Retail Banking	**145 635**	**13 657**	124 370	17 674
Absa Business Bank	**113 358**	**8 304**	87 124	9 819
Absa Capital	**55 816**	**3 558**	61 959	3 087
Other	**2 158**	**—**	2 719	—
Equity investment risk	**25 911**	**4 036**	28 657	4 721
Market risk	**9 013**	**999**	9 662	1 064
Operational risk	**54 317**	**4 472**	53 032	3 838
Other	**16 505**	**5 893**	18 741	2 079
	422 713	**40 919**	386 264	42 282

Share capital and share premium

	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Authorised			
Ordinary shares of R2,00 each[1]	**1 761**	1 761	—
Issued			
Ordinary shares of R2,00 each	**1 437**	1 437	—
Treasury shares held by Absa Group companies	**(1)**	(1)	(0)
Treasury shares held by Absa Group Limited Share Incentive Trust	**(3)**	(4)	25
	1 433	1 432	0
Total issued capital			
Share capital	**1 433**	1 432	0
Share premium	**4 590**	4 784	(4)
	6 023	6 216	(3)

Note

[1] *The authorised share capital was increased, from 800 000 000 to 880 467 500, during the second half of 2009, 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 aspects with the authorised ordinary shares.*

9. Equity and borrowed funds *(continued)*

Issued number of shares

	2010 Number of shares (millions)	2009 Number of shares (millions)	Change value
Ordinary shares in issue of R2,00 each	**718,2**	718,2	—
Treasury shares held by Absa Group companies	**(0,6)**	(0,6)	0,0
Treasury shares held by Absa Group Limited Share Incentive Trust	**(1,0)**	(1,8)	0,8
Number of ordinary shares in issue (after deduction of treasury shares)	**716,6**	715,8	0,8

Borrowed funds

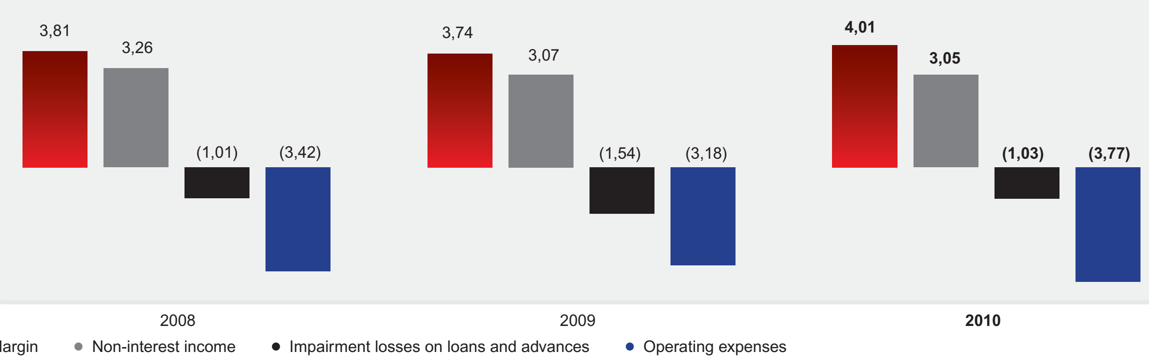
		2010 (Audited) Rm	2009 (Audited) Rm	Change %
Subordinated callable notes				
Interest rate	**Final maturity date**			
10,75%	26 March 2015	**—**	1 100	(100)
8,75%	1 September 2017	**1 500**	1 500	—
8,80%	7 March 2019	**1 725**	1 725	—
8,10%	27 March 2020	**2 000**	2 000	—
10,28%	3 May 2022	**600**	—	100
Three-month JIBAR + 0,75%	26 March 2015	**—**	400	(100)
Three-month JIBAR + 2,10%	3 May 2022	**400**	—	100
CPI-Linked notes, fixed at the following coupon rates:				
6,25%	31 March 2018	**1 886**	1 886	—
6,00%	20 September 2019	**3 000**	3 000	—
5,50%	7 December 2028	**1 500**	1 500	—
Accrued interest		**826**	575	44
Fair value adjustment		**212**	(156)	>100
		13 649	13 530	1

10. RoE[1] decomposition

In order to obtain a thorough understanding of factors contributing to the Group's performance, an RoE[1] decomposition is provided below.

		2010 %		2009 %
Margin (average interest-bearing assets)		4,01	↑	3,74
	less			
Impairment losses on loans and advances/average interest-bearing assets		1,03	↑	1,54
	equals			
Net margin (average interest-bearing assets)		2,98	↑	2,20
	multiply			
Average interest-bearing assets/average banking assets		0,91	↑	0,89
	equals			
Banking interest yield		2,71	↑	1,96
	plus			
Banking non-interest yield		3,05	↓	3,07
	equals			
Banking revenue yield		5,76	↑	5,03
	less			
Operating expenses/average banking assets		3,77	↓	3,18
	equals			
Net banking return		1,99	↑	1,85
	less			
Other[2]		0,73	↓	0,69
	equals			
Banking return		1,26	↑	1,16
	multiply			
Average banking assets/total average assets		0,89	↑	0,88
	equals			
Return on average assets (RoA)		1,12	↑	1,02
	multiply			
Gearing (times)		13,48	↓	15,24
	equals			
Return on average equity (RoE)		15,1	↓	15,5

Major drivers of RoE[1] (%)



Notes

[1]*RoE: Return on average equity.*

[2]*Includes other impairments, indirect taxation, share of post-tax results of associates and joint ventures, taxation expense and headline earnings adjustments.*

11. Off-statement of financial position items

	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Assets under management and administration			
Deceased estates	**2 153**	2 247	(4)
Participation bond schemes	**2 315**	2 105	10
Portfolio management	**21 145**	17 770	19
Trusts	**6 482**	5 803	12
Unit trusts	**125 320**	115 632	8
Other	**10 898**	11 557	(6)
	168 313	155 114	9
Financial guarantee contracts			
Financial guarantee contracts	**599**	1 007	(41)
Commitments			
Authorised capital expenditure			
Contracted but not provided for[1]	**1 061**	928	14
Contingencies			
Guarantees[2]	**11 051**	10 484	5
Irrevocable facilities[3]	**45 989**	54 517	(16)
Letters of credit	**4 979**	5 007	(1)
Other	**44**	5	>100
	62 063	70 013	(11)

Notes

[1] *The Group has capital commitments in respect of computer equipment and property development. Management is confident that future net revenue and funding will be sufficient to cover these commitments.*

[2] *Guarantees include performance guarantee contracts and payment guarantee contracts.*

[3] *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.*

Business unit performance

Contents

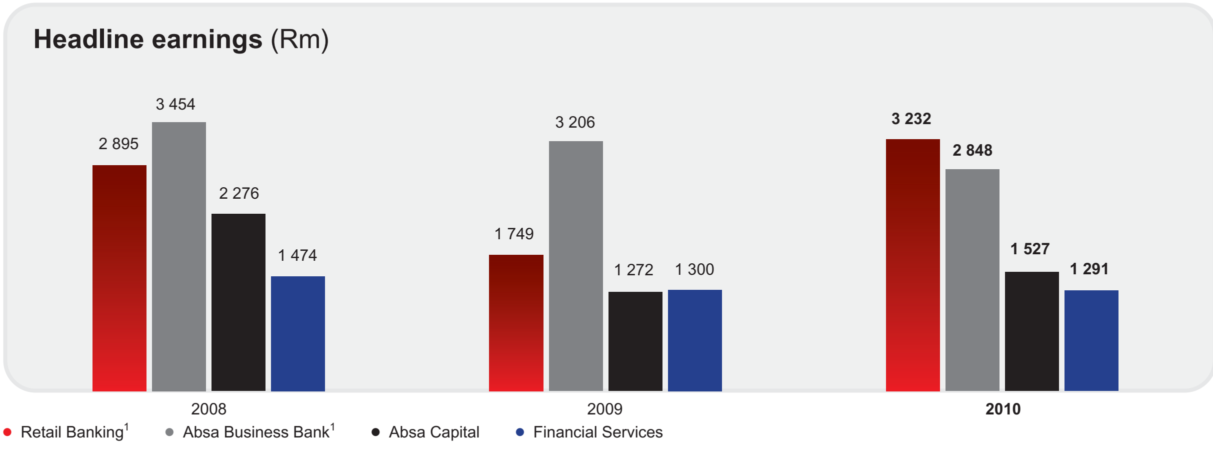
Business unit performance overview

Year ended 31 December

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.

2010 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.
- » There was progress on implementing the One Absa work streams, 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 7% to R165 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.



Note

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

Financial reporting structure

As at 31 December 2010

Absa Group Limited

Retail banking

- Home Loans (including Repossessed Properties)[1]
- Vehicle and Asset Finance (VAF)
- Card[2]
- Personal Loans
- Retail Bank (including Absa Private Bank)[2]
- Woolworths Financial Services (Proprietary) Limited[3]

African operations[4]

- Barclays Bank Mozambique (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 (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 (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 Real Estate Services (CRES)

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 Commercial banking.*

[7] *Absa Small Business was moved from Retail banking to Commercial banking 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 all of 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.*

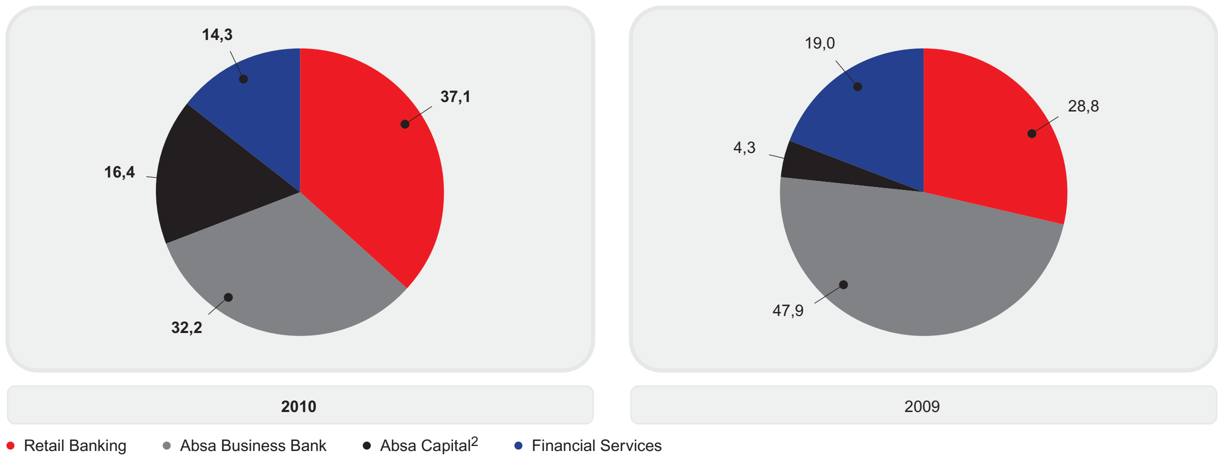
[11] *The Group established Commissioner Street (Proprietary) Limited (Commissioner Street) during the year under review. Commissioner Street is consolidated as part of the Group due to the requirements of SIC-12 and the Group's interest in Commissioner Street.*

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

Profit contribution by business area

Year ended 31 December

Attributable earnings[1] (%)



	2010 (Audited) Rm	2009[3] (Audited) 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.*

Segmental reporting per market segment

Year ended 31 December

	Retail Banking			Absa Business Bank		
	2010	2009[1]	Change %	**2010**	2009[1]	Change %
Statement of comprehensive income (Rm)						
Net interest income	**12 923**	12 669	2	**7 205**	7 090	2
Impairment losses on loans and advances	**(4 820)**	(7 547)	36	**(1 075)**	(1 103)	3
Non-interest income	**10 368**	10 307	1	**4 421**	4 408	0
Operating expenses	**(13 301)**	(12 225)	(9)	**(6 397)**	(5 624)	(14)
Other impairments	**(25)**	(25)	0	**(1)**	(52)	98
Indirect taxation	**(228)**	(313)	27	**(62)**	(54)	(15)
Share of post-tax results of associates and joint ventures	**(2)**	(49)	96	**(12)**	4	>(100)
Operating profit before income tax	**4 915**	2 817	74	**4 079**	4 669	(13)
Taxation expense	**(1 470)**	(709)	>(100)	**(1 156)**	(1 395)	17
Profit for the year	**3 445**	2 108	63	**2 923**	3 274	(11)
Profit attributable to:						
Ordinary equity holders of the Group	**3 353**	1 945	72	**2 903**	3 235	(10)
Non-controlling interest – ordinary shares	**92**	163	(44)	**19**	38	(50)
Non-controlling interest – preference shares	**—**	—	—	**1**	1	0
	3 445	2 108	63	**2 923**	3 274	(11)
Headline earnings	**3 232**	1 749	85	**2 848**	3 206	(11)
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 % of average loans and advances to customers	**1,49**	2,30		**0,90**	0,91	
Non-interest income as % 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	
As at 31 December						
Statement of financial position (Rm)						
Loans and advances to customers	**325 790**	322 034	1	**123 618**	125 181	(1)
Investment securities	**0**	0	—	**2 226**	2 355	(5)
Other assets	**143 253**	127 747	12	**40 994**	36 674	12
Total assets	**469 043**	449 781	4	**166 838**	164 210	2
Deposits due to customers	**115 046**	110 433	4	**136 619**	127 161	7
Debt securities in issue	**4 216**	4 810	(12)	**—**	—	—
Other liabilities	**345 883**	331 274	4	**27 247**	33 980	(20)
Total liabilities	**465 145**	446 517	4	**163 866**	161 141	2
Financial performance (%)						
Return on average economic capital[3+4]	**17,9**	9,6		**23,9**	24,3	
Return on average assets	**0,68**	0,40		**1,82**	2,01	
Other						
Banking customer base by segment (millions)[5]	**11,3**	11,1	2	**0,5**	0,6	(4)
Attributable income from the rest of Africa (Rm)	**(85)**	49	>(100)	**(23)**	20	>(100)

Notes

[1] *Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank. Also refer to pages 95 – 98 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.*

[3] *Financial Services' return on average equity is **34,8%** (31 December 2009: 37,9%) and Absa Group's return on average equity is **15,1%** (31 December 2009: 15,5%).*

[4] *These ratios are unaudited.*

[5] *Includes African operations.*

Segmental reporting per market segment

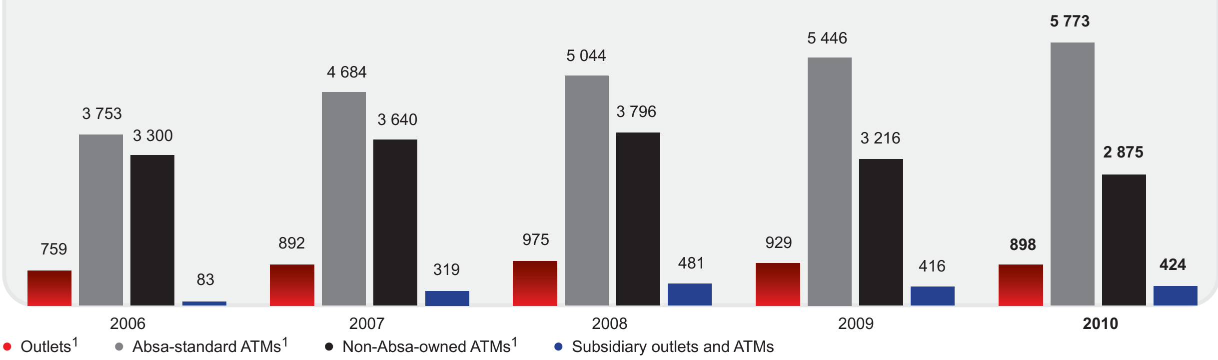
Year ended 31 December

Absa Capital			Financial Services			Head office, inter-segment eliminations and Other			Absa Group		
2010	2009[1]	Change %	2010	2009[1]	Change %	2010	2009	Change %	2010	2009[1]	Change %
2 730	2 042	34	10	21	(52)	472	32	>100	23 340	21 854	7
(108)	(318)	66	(6)	(3)	(100)	4	4	(0)	(6 005)	(8 967)	33
2 496	2 404	4	3 594	3 372	7	(1 405)	(259)	>(100)	19 474	20 232	(4)
(2 836)	(2 309)	(23)	(1 797)	(1 549)	(16)	261	850	(69)	(24 070)	(20 857)	(15)
(66)	(1 371)	95	1	(21)	>100	(17)	12	>(100)	(108)	(1 457)	93
(82)	(79)	(4)	(80)	(77)	(4)	(319)	(390)	18	(771)	(913)	16
2	—	100	—	—	—	3	(5)	>100	(9)	(50)	82
2 136	369	>100	1 722	1 743	(1)	(1 001)	244	>(100)	11 851	9 842	20
(616)	(41)	>(100)	(432)	(459)	6	412	264	56	(3 262)	(2 340)	(39)
1 520	328	>100	1 290	1 284	0	(589)	508	>(100)	8 589	7 502	14
1 480	288	>100	1 290	1 284	0	(908)	88	>(100)	8 118	6 840	19
40	40	(0)	—	—	—	—	—	—	151	241	(37)
—	—	—	—	—	—	319	420	(24)	320	421	(24)
1 520	328	>100	1 290	1 284	0	(589)	508	>(100)	8 589	7 502	14
1 527	1 272	20	1 291	1 300	(1)	(857)	94	>(100)	8 041	7 621	6
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		1,20	1,74	
47,8	54,1		99,7	99,4		n/a	n/a		45,5	48,1	
18	(21)		6	(2)		n/a	n/a		2	(2)	
23	(5)		16	13		n/a	n/a		15	(1)	
54,3	51,9		49,9	45,7		n/a	n/a		56,2	49,6	
0,8	0,5		5,3	4,5		n/a	n/a		3,3	2,8	
50 044	58 301	(14)	242	268	(10)	(1 059)	379	>(100)	498 635	506 163	(1)
10 611	14 403	(26)	10 541	12 016	(12)	448	790	(43)	23 826	29 564	(19)
304 653	292 875	4	12 164	21 669	(44)	(307 055)	(303 896)	(1)	194 009	175 069	11
365 308	365 579	(0)	22 947	33 953	(32)	(307 666)	(302 727)	(2)	716 470	710 796	1
127 462	118 371	8	—	—	—	(1 016)	400	>(100)	378 111	356 365	6
148 061	156 534	(5)	—	—	—	12 268	10 032	22	164 545	171 376	(4)
86 455	87 886	(2)	18 975	30 525	(38)	(366 895)	(357 100)	(3)	111 665	126 565	(12)
361 978	362 791	(0)	18 975	30 525	(38)	(355 643)	(346 668)	(3)	654 321	654 306	0
16,5	14,9		n/a	n/a		n/a	n/a		19,7	18,2	
0,41	0,30		3,81	3,74		n/a	n/a		1,12	1,02	
0,0	0,0	5	—	—	—	—	—	—	11,8	11,7	1
219	192	14	3	0	>100	(22)	24	>(100)	92	285	(68)

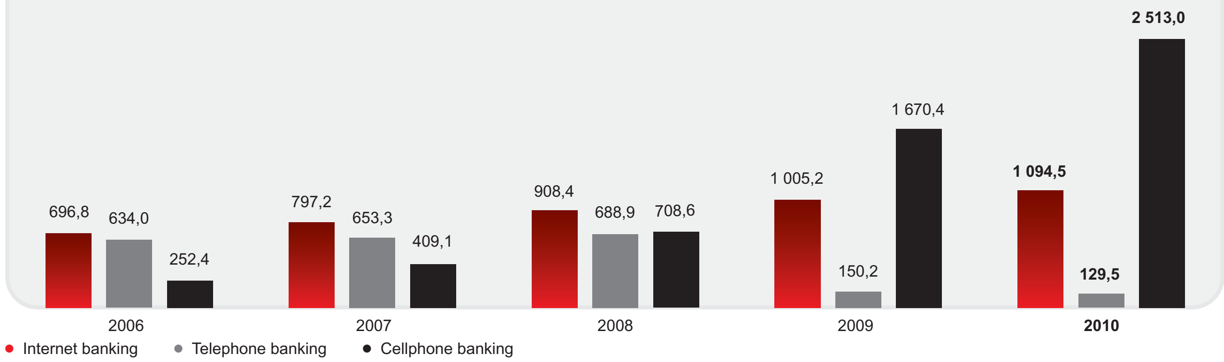
Operational key performance indicators

As at 31 December

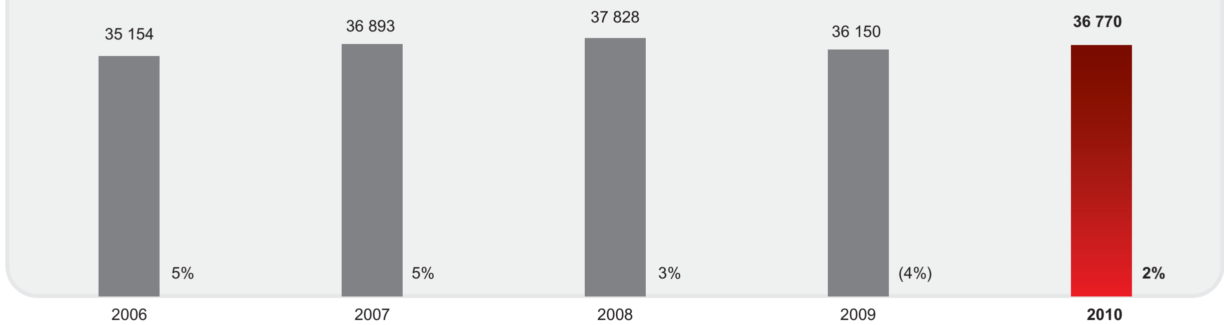
Delivery footprint (number)



Internet, telephone and cellphone banking (number of customers ('000))



Employee complement[2] (number of employees)



Notes

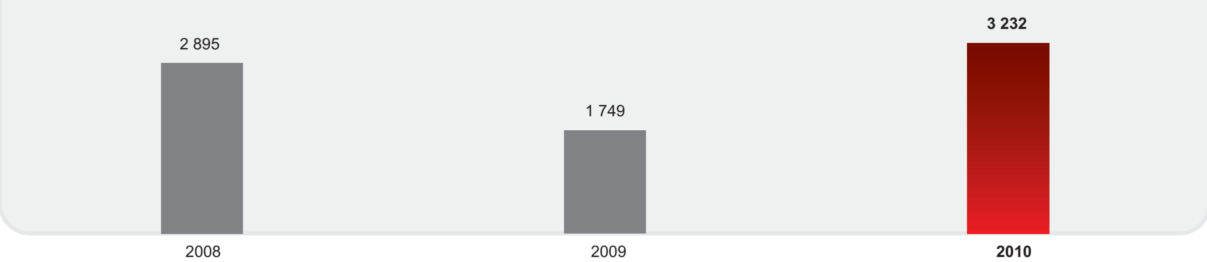
[1]*South Africa.*

[2]*The employee complement figures exclude contract workers.*

2010 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 50% to over 2,5 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, a short-term loan via Absa ATMs.
- » Launched flagship concept outlets for simpler, more affordable entry level banking.
- » Expanded Islamic Banking offerings.

Headline earnings (Rm)



Salient features

	2010	2009	Change %
Revenue (Rm)	**23 291**	22 976	1
Attributable earnings (Rm)	**3 353**	1 945	72
Return on regulatory capital (%)	**20,7**	11,7	
Cost-to-income ratio (%)	**57,1**	53,2	
Impairment losses ratio (%)	**1,49**	2,30	
Customers (million)	**11,3**	11,1	2

Business unit scope

Retail Banking offers individuals a comprehensive suite of retail banking products and services. It provides these products and services through an extensive branch and ATM network and via relationship managers, internet and cellphone banking facilities.

Key business areas

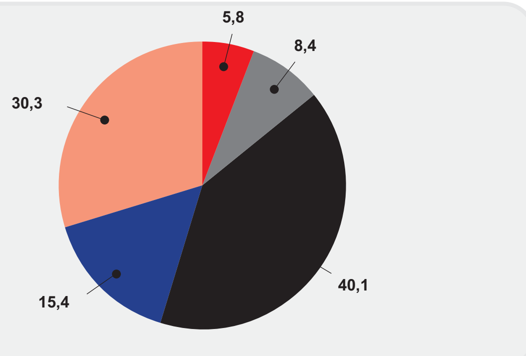
- » **Home Loans ➔** offers residential property-related ownership solutions.
- » **Vehicle and Asset Finance (VAF) ➔** offers customised vehicle and asset finance products and services.
- » **Card ➔** provides both credit and debit cards and merchant acquiring across South Africa. Woolworths Financial Services is part of the business area offering in-store 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.

Retail Banking

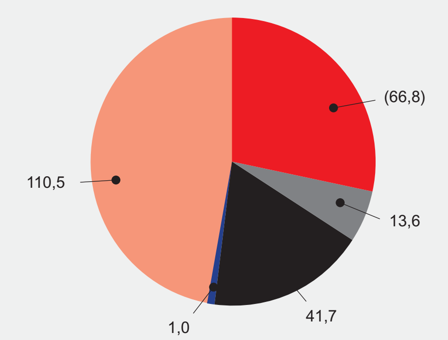
Year ended 31 December

	Home Loans			Vehicle and Asset Finance		
	2010	2009	Change %	2010	2009	Change %
Statement of comprehensive income (Rm)						
Net interest income	**3 204**	2 860	12	**1 830**	1 961	(7)
Impairment losses on loans and advances	**(2 202)**	(3 946)	44	**(941)**	(944)	0
Non-interest income	**327**	273	20	**363**	318	14
Operating expenses	**(1 090)**	(1 005)	(8)	**(906)**	(842)	(8)
Other	**12**	(62)	>100	**21**	(79)	>100
Operating profit before income tax	**251**	(1880)	>100	**367**	414	(11)
Taxation expense	**(55)**	581	>(100)	**(87)**	(149)	42
Profit for the year	**196**	(1 299)	>100	**280**	265	6
Profit attributable to:						
Ordinary equity holders of the Group	**196**	(1 299)	>100	**280**	265	6
Non-controlling interest – ordinary shares	**—**	—	—	**—**	—	—
	196	(1 299)	>100	**280**	265	6
Headline earnings	**125**	(1 299)	>100	**280**	265	6
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	
As at 31 December						
Statement of financial position (Rm)						
Loans and advances to customers	**226 137**	222 905	1	**44 247**	43 843	1
Total assets	**247 881**	241 457	3	**51 020**	50 543	1
Deposits due to customers	**—**	—	—	**9**	7	29
Total liabilities	**247 676**	242 171	2	**50 264**	49 834	1
Financial performance (%)						
Return on average economic capital[3]	**1,6**	(18,3)		**8,5**	7,4	

Attributable earnings (%)



2010



2009

● Home Loans ● Vehicle and Asset Finance ● Card ● Personal Loans ● Retail Bank

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.

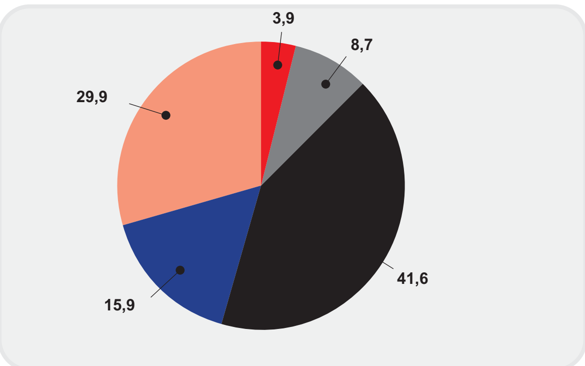
[3]These ratios are unaudited.

Retail Banking

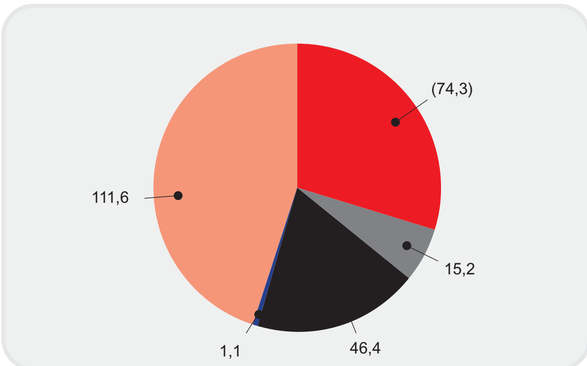
Year ended 31 December

Card			Personal Loans[1]			Retail Bank[1]			Total		
2010	2009	Change %	2010	2009	Change %	2010	2009[2]	Change %	2010	2009[2]	Change %
2 304	2 284	1	1 652	1 538	7	3 933	4 026	(2)	12 923	12 669	2
(466)	(1 287)	64	(510)	(1 005)	49	(701)	(365)	(92)	(4 820)	(7 547)	36
2 051	1 977	4	284	215	32	7 343	7 524	(2)	10 368	10 307	1
(1 732)	(1 644)	(5)	(673)	(711)	5	(8 900)	(8 023)	(11)	(13 301)	(12 225)	(9)
(66)	(65)	(2)	(9)	(8)	(13)	(213)	(173)	(23)	(255)	(387)	34
2 091	1 265	65	744	29	>100	1 462	2 989	(51)	4 915	2 817	74
(643)	(389)	(65)	(229)	(9)	>(100)	(456)	(743)	39	(1 470)	(709)	>(100)
1 448	876	65	515	20	>100	1 006	2 246	(55)	3 445	2 108	63
1 346	811	66	515	20	>100	1 016	2 148	(53)	3 353	1 945	72
102	65	57	—	—	—	(10)	98	>(100)	92	163	(44)
1 448	876	65	515	20	>100	1 006	2 246	(55)	3 445	2 108	63
1 344	811	66	515	20	>100	968	1 952	(50)	3 232	1 749	85
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	10	11 843	9 697	22	24 299	28 015	(13)	325 790	322 034	1
26 609	24 146	10	12 887	9 488	36	130 646	124 147	5	469 043	449 781	4
1 826	1 711	7	4	—	100	113 207	108 715	4	115 046	110 433	4
25 143	23 044	9	12 578	9 475	33	129 484	121 993	6	465 145	446 517	4
44,4	28,1		33,3	1,3		36,8	62,0		17,9	9,6	

Headline earnings (%)



2010



2009

● Home Loans ● Vehicle and Asset Finance ● Card ● Personal Loans ● Retail Bank

Retail Banking

31 December

Financial performance

Headline earnings increased by 85% to R3 232 million (31 December 2009: R1 749 million), largely because of lower impairment losses on loans and advances. Attributable earnings grew by 72% to R3 353 million (31 December 2009: R1 945 million). Retail Banking's impairment losses ratio fell to 1,49% from 2,30% due to an improvement in early stage delinquencies and a successful collections strategy. Revenue grew by 1%, 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% (31 December 2009: 53,2%). Headline earnings from Card, Home Loans and Personal Loans improved significantly, while Retail Bank's headline earnings declined by 50%, due 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 automated teller machines 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.

Awards and accolades

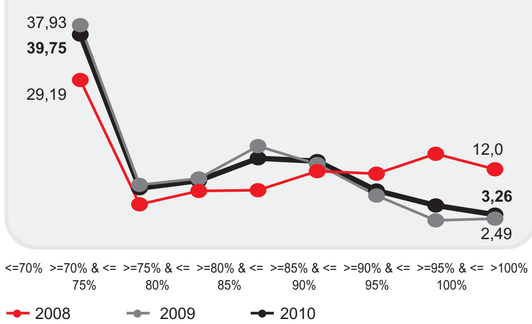
- The *Sunday Times* Top Brands survey voted Absa the Number 1 Banking Brand (business-to-consumer category) in 2010.
- *Global Finance* rated Absa the Best Internet Bank in South Africa.
- *Islamic Finance News* rated Absa the Best Islamic Bank in South Africa three years in a row.
- *Global Finance 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 (31 December 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 acquiring 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. Absa continues to write comparatively low loan-to-value new business.

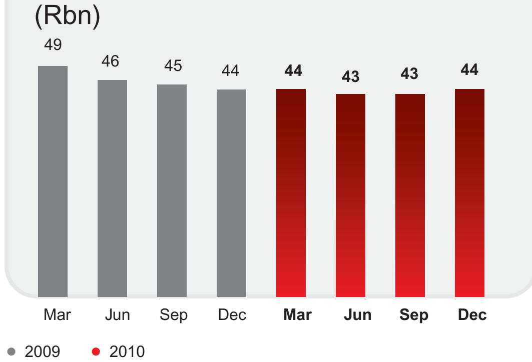
New business loan-to-value percentage spread (%)



Vehicle and Asset Finance (VAF)

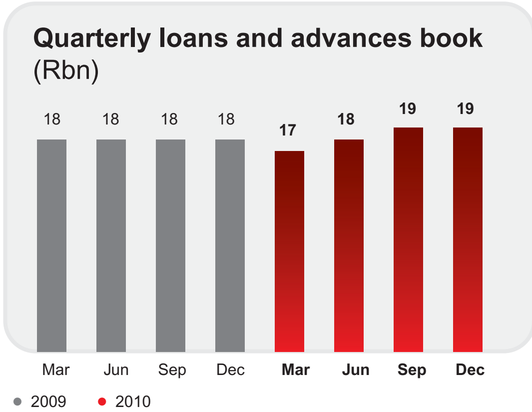
Motor vehicle sales increased by 25% during 2010, according to the National Association of Automobile Manufacturers of South Africa. The industry also benefitted from the 2010 Fifa Soccer World Cup which increased economic activity in the tourism, car rental and transportation industry. VAF's headline 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.

Quarterly loans and advances book (Rbn)



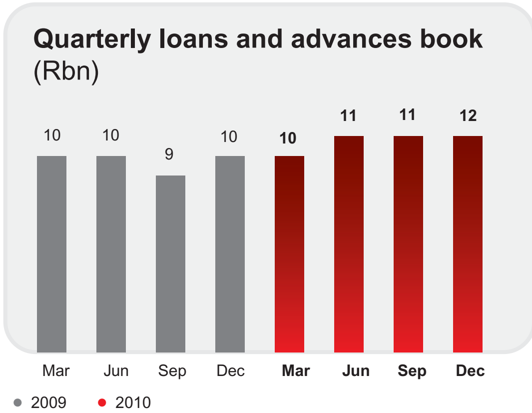
Card

Headline earnings increased by 66% to R1 344 million largely due to the inclusion of Virgin'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.



Personal Loans

Headline earnings increased exponentially to R515 million. This was primarily due 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 due 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 due 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 Absa'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. Tanzania and Mozambique's system's were also replaced.

Strategic focus

Further entrenching Retail Banking's leadership position is a key element of the One Absa strategy. Based on Retail Banking's customers segmentation it 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 held in utilisation. An optimal distribution footprint as well as a change to the sales and service model is critical in attaining these goals. The focus is to continue creating value for customers and the bank, while managing costs, focusing on operational risk and fraud, in an appropriate manner.

Retail Banking aims to strenghten its operations by continuing to apply prudent risk management approach and policy – including the further enhancement of 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.

2010 Highlights

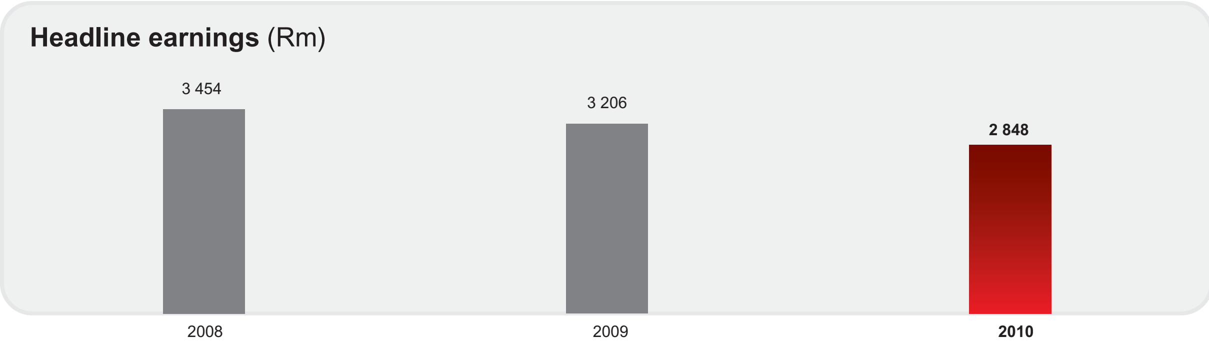
» Solid growth in transactional fee income.

» 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.



Salient features

	2010	2009	Change %
Revenue (Rm)	**11 626**	11 498	1
Attributable earnings (Rm)	**2 903**	3 235	(10)
Return on regulatory capital (%)	**22,8**	28,9	
Cost-to-income ratio (%)	**55,0**	48,9	
Impairment losses ratio (%)	**0,90**	0,91	

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

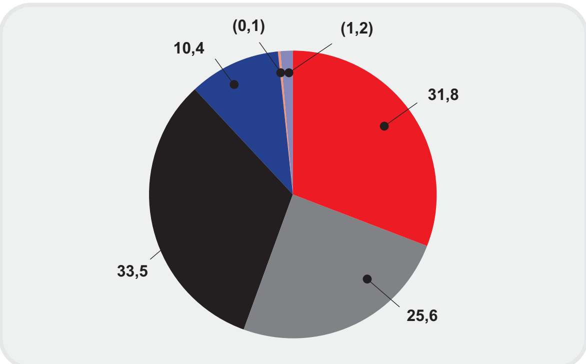
» **Corporate** ➔ predominantly includes groups with an annual turnover exceeding R750 million.
» **Large Business** ➔ largely consists of groups with an annual turnover of R100 million to R750 million.
» **Medium Business** ➔ predominantly serves groups with an annual turnover of between R10 million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

Year ended 31 December

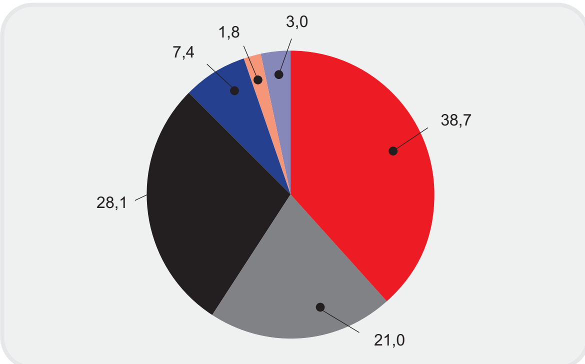
	2010 Rm	2010 Excluding real estate investment portfolio[2] Rm	2009[1] Rm	2009[1] Excluding real estate investment portfolio[2] Rm	Change %	Change Excluding real estate investment portfolio %
Statement of comprehensive income						
Net interest income	**7 205**	**7 624**	7 090	7 511	2	2
Impairment losses on loans and advances	**(1 075)**	**(1 075)**	(1 103)	(1 103)	3	3
Non-interest income	**4 421**	**3 951**	4 408	3 714	0	6
Operating expenses	**(6 397)**	**(6 296)**	(5 624)	(5 480)	(14)	(15)
Other	**(75)**	**(78)**	(102)	(114)	26	32
Operating profit before income tax	**4 079**	**4 126**	4 669	4 528	(13)	(9)
Taxation expense	**(1 156)**	**(1 169)**	(1 395)	(1 353)	17	14
Profit for the year	**2 923**	**2 957**	3 274	3 175	(11)	(7)
Profit attributable to:						
Ordinary equity holders of the Group	**2 903**	**2 937**	3 235	3 136	(10)	(6)
Non-controlling interest – ordinary shares	**19**	**19**	38	38	(50)	(50)
Non-controlling interest – preference shares	**1**	**1**	1	1	0	0
	2 923	**2 957**	3 274	3 175	(11)	(7)
Headline earnings	**2 848**	**2 882**	3 206	3 107	(11)	(7)

	2010 Rm	2009[1+2] Rm	Change %
Operating profit before income tax by business area			
Large	**1 293**	1 808	(28)
Medium	**1 046**	982	7
Small	**1 367**	1 311	4
Corporate	**425**	345	23
Africa	**(5)**	82	>(100)
Real estate investment portfolio[3]	**(47)**	141	>(100)
Commercial property finance (CPF) equities	**23**	152	(85)
Absa Development Company (Devco)	**(70)**	(11)	>(100)
	4 079	4 669	(13)

Profit before tax (%)



2010



2009

Large · Medium · Small · Corporate · Africa · Real estate investment portfolio[2]

Notes

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

[2] *Devco is now disclosed as part of the real estate investment portfolio together with CPF equities.*

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

Financial performance

Headline earnings declined by 11% to R2 848 million (31 December 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 (31 December 2009: R5 624 million), as the business continues to invest in growth initiatives. ABB's return on regulatory capital remained a credible 22,8%.

Business overview

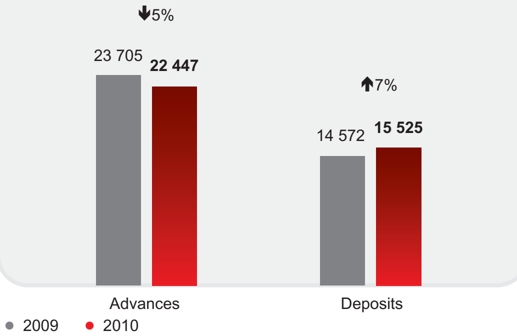
During the year, ABB focused on:

» 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 %)



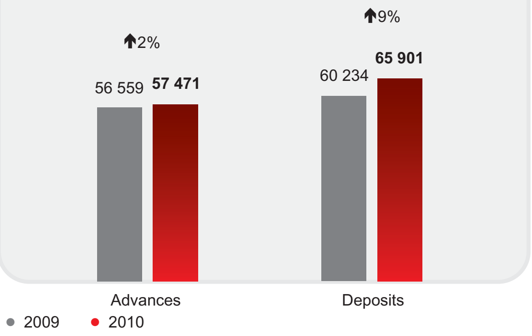
Corporate

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 (31 December 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' profit before tax fell by 28% to R1 293 million (31 December 2009: R1 808 million). The business gained primary banking relationships, which offer further opportunities, particularly in transactional banking.

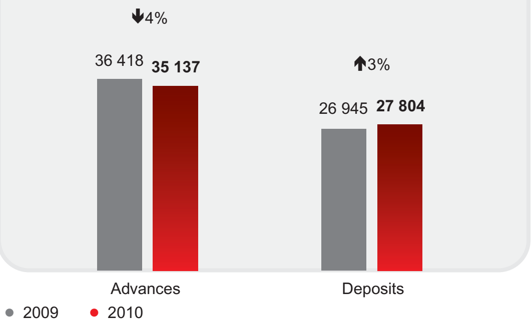
Large Business advances and deposits (Rm and change %)



Medium Business

Medium Business' revenue grew in all regions, with the result that profit before tax rose by 7% to R1 046 million (31 December 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.

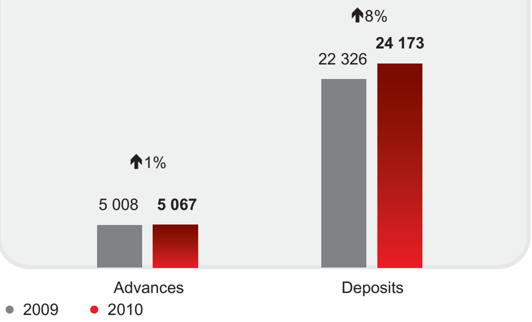
Medium Business advances and deposits (Rm and change %)



Small Business

Small Business' profit before tax grew by 4% to R1 367 million (31 December 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.

Small Business advances and deposits (Rm and change %)



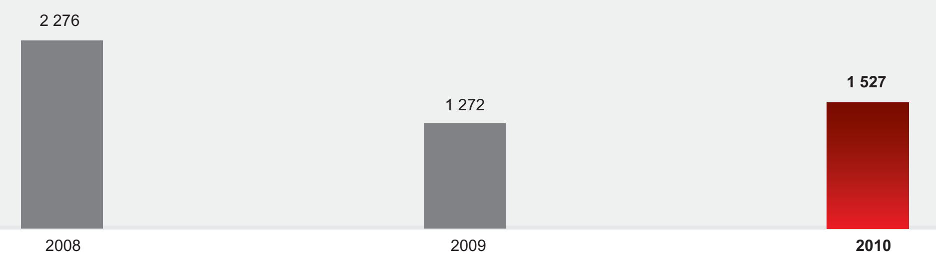
Strategic focus

ABB aims to unlock further value from the existing client base through cross-selling and up-selling. 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.

2010 Highlights

- Received Best Overall Investment Bank in South Africa from *Risk Magazine* and came first in 12 out of 18 categories for the *Spire* awards.
- 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 the National Bank of Commerce (Tanzania) 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.

Headline earnings (Rm)



Salient features

	2010	2009	Change %
Revenue (Rm)	**5 226**	4 446	18
Attributable earnings (Rm)	**1 480**	288	>100
Return on regulatory capital (Rm)	**16,0**	12,9	
Cost-to-income ratio (%)	**54,3**	51,9	

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 distributing risk.

Absa Capital remains the only 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 in the South African market.

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.
- **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.

Year ended 31 December

	2010 Rm	2009 Rm	Change %
Statement of comprehensive income			
Net interest income	**2 730**	2 042	34
Impairment losses on loans and advances	**(108)**	(318)	66
Non-interest income	**2 496**	2 404	4
Operating expenses	**(2 836)**	(2 309)	(23)
Other	**(146)**	(1 450)	90
Operating profit before income tax	**2 136**	369	>100
Taxation expense	**(616)**	(41)	>(100)
Profit for the year	**1 520**	328	>100
Profit attributable to:			
Ordinary equity holders of the Group	**1 480**	288	>100
Non-controlling interest – ordinary shares	**40**	40	(0)
	1 520	328	>100
Headline earnings	**1 527**	1 272	20
As at 31 December			
Statement of financial position[1]			
Loans and advances to customers	**50 044**	58 301	(14)
Total assets	**365 308**	365 579	(0)
Deposits due to customers	**127 462**	118 371	8
Total liabilities	**361 978**	362 791	(0)
Year ended 31 December			
Notes			
1. Net revenue contribution[2 + 3]			
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
Total Absa Capital revenue	**4 824**	3 865	25
Absa Wealth	**294**	263	12
	5 118	4 128	24
2. Gains and losses from banking and trading activities			
Net gains on investments	**136**	(619)	>100
Financial instruments designated at fair value through profit or loss	**136**	(621)	>100
Debt instruments	**26**	(31)	>100
Equity instruments	**110**	(590)	>100
Available-for-sale unwind from reserve	**—**	2	(100)
Net trading results(i)	**2 117**	2 340	(10)
Net trading income excluding impact of hedge accounting	**2 039**	2 349	(13)
Ineffective portion of fair value hedges	**(10)**	(10)	0
Ineffective portion of cash flow hedges	**88**	1	>100
Other(ii)	**(79)**	(166)	52
	2 174	1 555	40

(i)**"Net trading results"** includes gains and losses from instruments 'designated at fair value through profit or loss' as well as gains and losses from instruments classified as 'held for trading'. The net trading result of **R2 117 million** (31 December 2009: R2 340 million), includes net gains of **R705 million** (31 December 2009: R730 million) on financial assets designed at fair value through profit or loss and net losses of **R1 767 million** (31 December 2009: R604 million) relating to financial liabilities at fair value through profit or loss.

(ii)**"Other"** includes gains and losses from instruments 'designated at fair value through profit or loss' as well as gains and losses from instruments classified as 'held for trading'. Other losses of **R79 million** (31 December 2009: R166 million) includes net gains of **R158 million** (31 December 2009: net losses of R117 million) on financial assets designed at fair value through profit or loss.

Notes

[1]*Comparatives have been reclassified. Refer to pages 95 – 98.*

[2]*Net revenue includes net interest income and non-interest income, after deducting impairment losses on loans and advances.*

[3]*Notional interest has been allocated to the business units for the first time during 2010. Comparatives have been reclassified accordingly.*

Financial performance

Headline earnings increased by 20% to R1 527 million (31 December 2009: R1 272 million) and attributable earnings increased to R1 480 million (31 December 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.

Business overview

Awards and accolades

Absa Capital was recognised by 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 fund-raising 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 inter-bank lending and tighter spreads.

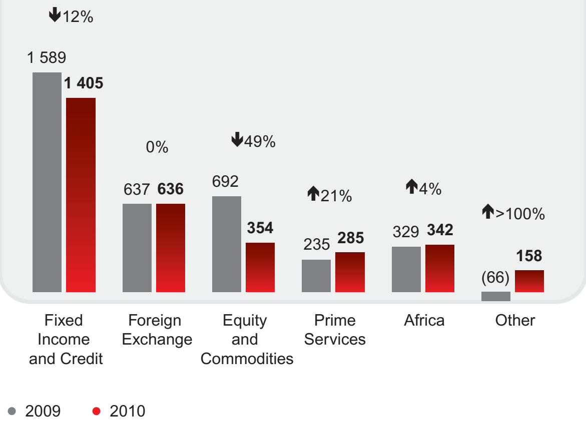
Salient features

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

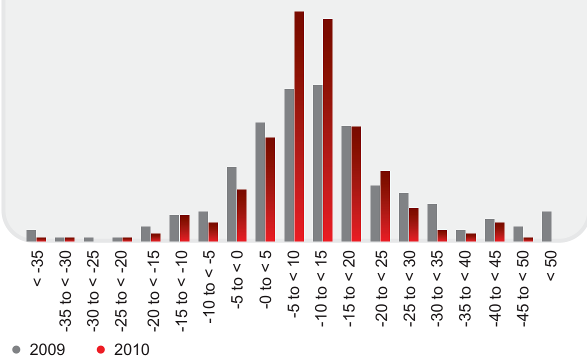
Markets

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 (31 December 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.

Revenue mix (Rm and change %)



Daily revenue distribution[1]

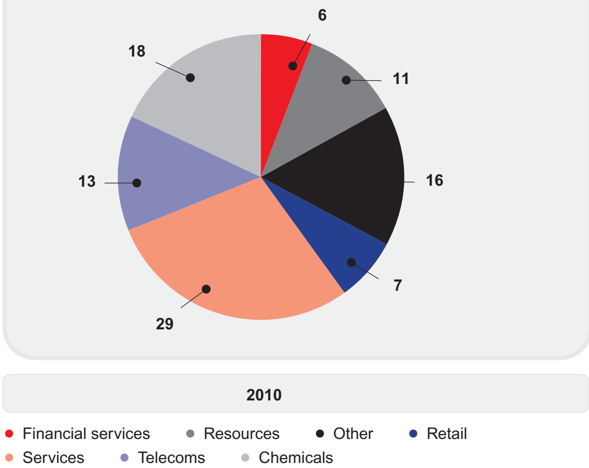


Private Equity and Infrastructure Investments

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.

Portfolio by industry (%)



Salient features

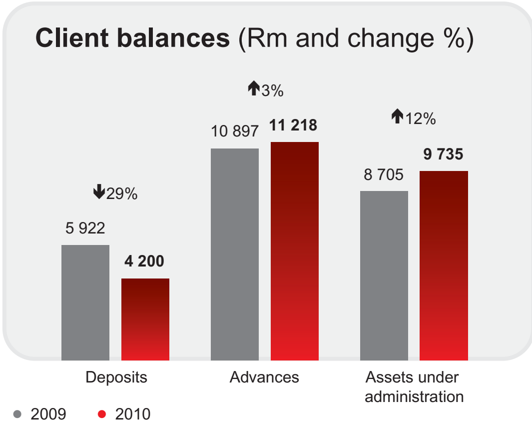
	2010	2009	Change %
Total portfolio size (Rbn)	6,1	6,7	(9)
Net revenue (Rm)	22	(1 012)	>100
» Revaluations	48	(623)	>100
» Realisations, dividends, interest and fees	165	39	>100
» Funding	(191)	(428)	55

Note

[1] *Daily revenue distribution demonstrates a more consistent pattern with lower volitility and fewer loss making days than in 2009.*

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

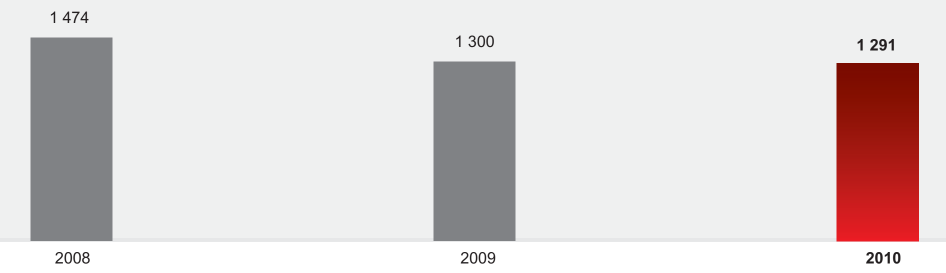
Absa Capital is well-positioned for growth, driven by franchise penetration and incremental deepening of the product offering. The efforts, in 2010, to focus on key business lines, such as cash equities, equity capital markets, prime services and mergers and acquisitions will provide the platform for 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.

2010 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 72% to R932 million from R543 million.
- » *idirect* is gaining traction.
- » Obtained a licence to operate in Botswana.

Headline earnings (Rm)



Salient features

	2010	2009	Change %
Attributable earnings (Rm)	**1 290**	1 284	0
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

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 financial services model with a pure distributor model. This integrated model enables Absa to efficiently provide financial services to all market segments in sub-Sahara Africa.

Key business areas

- » **Life insurance (Life)** ➔ offers life assurance 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, stock broking, participation bonds and linked investments.
- » **Fiduciary services** ➔ 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 a full spectrum of financial advisory services and acts as an intermediary between Absa customers and various other product providers.

Financial Services

Year ended 31 December

	Note	Life 2010 (Audited) Rm	Life 2009 (Audited) Rm	Life Change %	Insurance 2010 (Audited) Rm	Insurance 2009 (Audited) Rm	Insurance Change %
Statement of comprehensive income							
Net insurance premium income		**1 583**	1 291	23	**2 885**	2 554	13
Net insurance claims and benefits paid		**(429)**	(430)	0	**(1 977)**	(1 787)	(11)
Investment income	1						
Policyholder investment contracts		**957**	537	78	**—**	—	—
Policyholder insurance contracts		**167**	184	(9)	**67**	102	(34)
Changes in investment and insurance liabilities							
Policyholder investment contracts		**(954)**	(508)	(88)	**—**	—	—
Policyholder insurance contracts		**(31)**	60	>(100)	**—**	—	—
Other income		**(20)**	(27)	26	**18**	27	(33)
Gross operating income		**1 273**	1 107	15	**993**	896	11
Net commission paid by insurance companies[1]		**(280)**	(207)	(35)	**(448)**	(400)	(12)
Operating expenses		**(210)**	(175)	(20)	**(309)**	(269)	(15)
Other impairments and indirect taxation		**(64)**	(81)	21	**(2)**	(2)	—
Net operating income		**719**	644	12	**234**	225	4
Investment income on shareholder funds	1	**165**	149	11	**132**	127	4
Taxation expense		**(222)**	(206)	(8)	**(88)**	(87)	(1)
Profit attributable to ordinary equity holders		**662**	587	13	**278**	265	5
Note							
1. Investment income							
Policyholder investment contracts		**957**	537	78	**—**	—	—
Net interest income		**584**	228	>100	**—**	—	—
Dividend income		**33**	42	(21)	**—**	—	—
Fair value gains/(losses)		**340**	267	27	**—**	—	—
Policyholder insurance contracts		**167**	184	(9)	**67**	102	(34)
Net interest income		**49**	70	(30)	**67**	102	(34)
Dividend income		**7**	44	(84)	**—**	—	—
Fair value gains/(losses)		**111**	70	59	**—**	—	—
Shareholder funds		**165**	149	11	**132**	127	4
Net interest income		**29**	26	12	**99**	124	(20)
Dividend income		**24**	17	41	**32**	58	(45)
Fair value gains/(losses)		**112**	106	6	**1**	(55)	>100
Total		**1 289**	870	48	**199**	229	(13)
Net interest income		**662**	324	>100	**166**	226	(27)
Dividend income		**64**	103	(38)	**32**	58	(45)
Fair value gains/(losses)		**563**	443	27	**1**	(55)	>100

Net fee and commission income

	2010 Rm	2009 Rm	Change %
Employee benefit related fees	**309**	281	10
Investment management and related fees	**694**	617	12
Net commission from adviser business	**391**	372	5
Net fee and commission paid by insurance companies	**(728)**	(607)	(20)
Trust and estate income	**264**	250	6
	930	913	2

Note

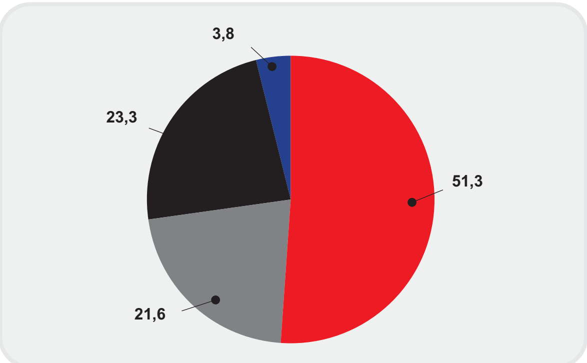
[1] *Net commission paid includes internal commission, eliminated on consolidation of Absa Group's results.*

Financial Services

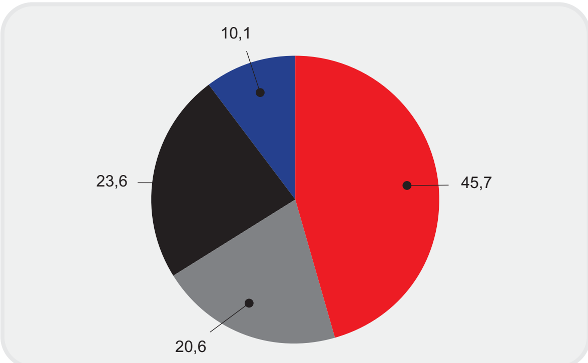
Year ended 31 December

Investments			Other			Total Financial Services		
2010 (Audited) Rm	2009 (Audited) Rm	Change %	2010 (Audited) Rm	2009 (Audited) Rm	Change %	2010 (Audited) Rm	2009 (Audited) Rm	Change %
—	—	—	—	—	—	4 468	3 845	16
—	—	—	—	—	—	(2 406)	(2 217)	(9)
—	—	—	83	131	(37)	1 040	668	56
—	—	—	—	—	—	234	286	(18)
—	—	—	(60)	(112)	46	(1 014)	(620)	64
—	—	—	—	—	—	(31)	60	>(100)
752	725	4	953	933	2	1 703	1 658	3
752	725	4	976	952	3	3 994	3 680	9
—	—	—	—	—	—	(728)	(607)	(20)
(362)	(311)	(16)	(916)	(794)	(15)	(1 797)	(1 549)	(16)
(2)	(6)	67	(11)	(9)	(22)	(79)	(98)	19
388	408	(5)	49	149	(67)	1 390	1 426	(3)
17	16	6	18	25	(28)	332	317	5
(105)	(121)	13	(17)	(45)	62	(432)	(459)	6
300	303	(1)	50	129	(61)	1 290	1 284	0
—	—	—	83	131	(37)	1 040	668	56
—	—	—	1	1	(0)	585	229	>100
—	—	—	14	13	8	47	55	(15)
—	—	—	68	117	(42)	408	384	6
—	—	—	—	—	—	234	286	(18)
—	—	—	—	—	—	116	172	(33)
—	—	—	—	—	—	7	44	(84)
—	—	—	—	—	—	111	70	59
17	16	6	18	25	(28)	332	317	5
10	16	(38)	1	1	(0)	139	167	(17)
—	—	—	3	1	>100	59	76	(22)
7	—	100	14	23	(39)	134	74	81
17	16	6	101	156	(35)	1 606	1 271	26
10	16	(38)	2	2	(0)	840	568	48
—	—	—	17	14	21	113	175	(35)
7	—	100	82	140	(41)	653	528	24

Attributable earnings (%)



2010



2009

● Life ● Insurance ● Investments ● Other

As at 31 December

Statement of financial position

	Note	2010 (Audited) Rm	2009 (Audited) Rm	Change %
Assets				
Cash balances and loans and advances to banks		**9 194**	5 975	54
Insurance operations	1	**8 330**	5 241	59
Other subsidiaries		**864**	734	18
Other assets[1 + 2]		**2 135**	14 960	(86)
Financial assets backing investment and insurance liabilities		**11 537**	12 970	(11)
Investment securities		**10 541**	12 016	(12)
Insurance operations	1	**10 418**	11 899	(12)
Other subsidiaries		**123**	117	5
Other assets backing shareholder and policyholder liabilities				
Insurance operations	1	**996**	954	5
Property and equipment		**81**	48	69
Total assets[2]		**22 947**	33 953	(32)
Liabilities				
Other liabilities[1 + 2]		**1 980**	15 150	(87)
Liabilities under investment contracts		**13 964**	12 446	12
Policyholder liabilities under insurance contracts[3]		**2 988**	2 898	3
Deferred tax liabilities		**43**	31	39
Total liabilities[2]		**18 975**	30 525	(38)
Total equity		**3 972**	3 428	16
Total equity and liabilities		**22 947**	33 953	(32)

Notes

[1] *Other assets and liabilities include settlement account balances in Absa Stockbrokers (Proprietary) Limited.*

[2] *Comparatives have been reclassified. Refer to pages 95 – 98.*

[3] *In managing the policyholder liability, certain assets have been allocated specifically for the purpose of backing this liability. The disclosure on the next page reflects the split of assets between policyholders and shareholders.*

As at 31 December

Note

1. Financial assets backing investment and insurance liabilities

	2010 (Audited)					
	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 (Audited)					
	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 **R854 million** (31 December 2009: R725 million) in unlisted insurance contracts representing Absa Life Limited's investment in the Absa General Fund. This fund is consolidated as an investment contract at an Absa Group level and disclosed as such in the consolidated financial statements.*

Reconciliation with Absa Group

	2010 Financial Services Rm	Inter-group balances and transactions Rm	Other[1] Rm	Absa Group Rm
Statement of financial position				
Investments linked to investment contracts	**7 012**	**835**	**—**	**7 847**
Policyholder liabilities under insurance contracts	**(2 988)**	**244**	**(257)**	**(3 001)**
Statement of comprehensive income				
Net insurance premium income	**4 468**	**(40)**	**174**	**4 602**
Net insurance claims and benefits paid	**(2 406)**	**136**	**(135)**	**(2 405)**
Investment income – policyholder investment contracts/Gains and losses from investment activities	**1 040**	**(826)**	**—**	**214**
Cash, cash and balances and balances with central banks	**450**	**(501)**	**—**	**(51)**
Debt instruments	**(24)**	**—**	**—**	**(24)**
Equity instruments	**614**	**(325)**	**—**	**289**

	2009 Financial Services Rm	Inter-group balances and transactions Rm	Other[1] Rm	Absa Group Rm
Statement of financial position				
Investments linked to investment contracts	8 366	627	—	8 992
Policyholder liabilities under insurance contracts	(2 898)	—	(238)	(3 136)
Statement of comprehensive income				
Net insurance premium income	3 845	(97)	39	3 787
Net insurance claims and benefits paid	(2 217)	30	(28)	(2 215)
Investment income – policyholder investment contracts/Gains and losses from investment activities	668	—	—	668
Cash, cash and balances and balances with central banks	(50)	—	—	(50)
Debt instruments	(5)	—	—	(5)
Equity instruments	723	—	—	723

Note

[1] *Consists of Absa Manx Insurance Company Limited and Woolworths Financial Services (Proprietary) Limited.*

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.

Business overview

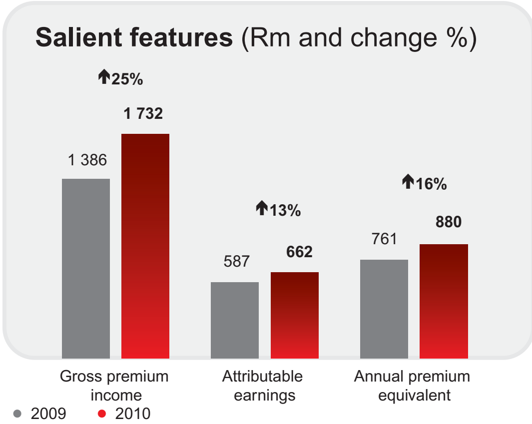
Awards and accolades

» Received the *Raging Bull* awards for the 5 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

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 25% to R1 732 million. The embedded value of new business increased 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.

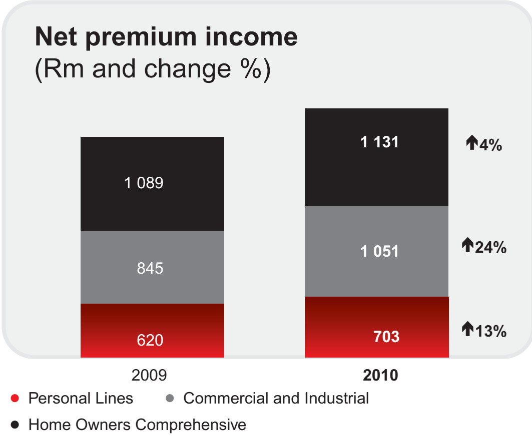


Embedded value and value of new business of Absa Life Limited

	2010	2009	Change %
Shareholders' net assets (Rm)	**1 525**	1 321	15
Cost of solvency capital (Rm)	**(457)**	(184)	>(100)
Value of business in force (Rm)	**1 765**	1 202	47
	2 813	2 339	20
Embedded value earnings (Rm)	**931**	543	71
Return on embedded value (%)	**39,8**	26,0	
Embedded value of new business (Rm)	**465**	294	58
Value of new business as a percentage of the present value of future premiums (%)	**9,5**	6,8	

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 2009's. The combined ratio of 94,8% improved from 2009's 96,2%. Attributable earnings increased by 5% to R278 million.

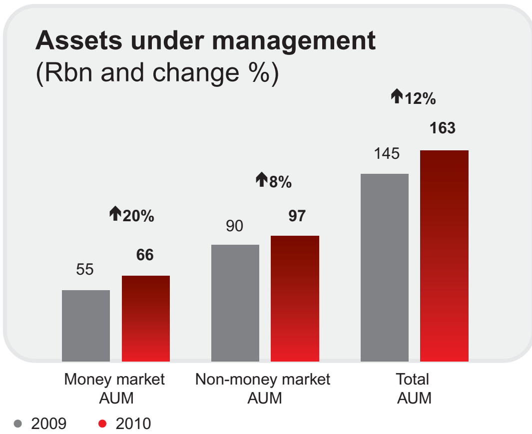


Salient features

	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	

Investments

Assets under management (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. The Absa Select Equity Fund and the Absa Balanced Fund received *Raging Bull* awards in January 2011 for the excellent returns achieved on these funds over the past five years.



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)

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.

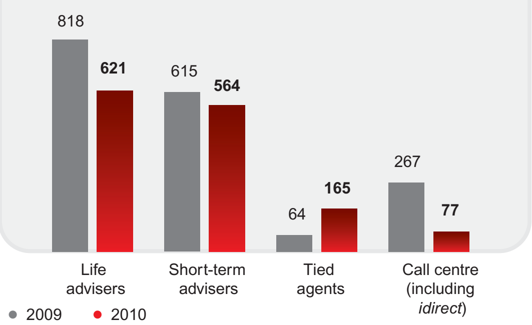
Salient features

	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

The economic environment remained challenging and impacted this business' 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. AIFA successfully implemented an academy to develop new adviser talent.

Distribution force (number)



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 of 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.

Capital and risk management

Contents

2010 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 because of 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.

Overview

In 2010, world financial markets found themselves operating under a cloud of uncertainty regarding the nature and timing of the expected economic recovery. In order to safeguard the interests of stakeholders during these times, the Group placed a high importance on ensuring that robust risk management processes were in place to allow the Group to respond effectively and timeously to the various pressures and demands of the environment.

The Group's 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 units responsible for managing the various risks and high level procedures for risk management.

Risk management activities

During the year, the Group Risk and Capital Management Committee (GRCMC) obtained sufficient and appropriate information regarding the performance of the principal risks against the relevant risk parameters set by the board and received all necessary information as to the process employed by executive management for monitoring and managing these risks.

The key highlights and achievements are listed below:

Capital management

In 2010, capital management remained a key Group focus area owing to global banking conditions and subdued growth. The capital management team ensured that capital levels were adequately maintained at all times and issued R1 billion in subordinated debt in May 2010, as part of the ongoing management of Tier II capital levels. The total targets set by the board for capital adequacy for 2011 were as follows:

- Absa Group: 12,0% – 14,0%
- Absa Bank: 11,6% – 13,5%

The current capital levels of the Group and the Bank are well above these target ranges.

Further focus areas were:

- revisions to the Group and Bank capital plans in response to the impact of the credit model refinements carried out on risk-weighted assets (RWA) during 2010;
- evaluating and planning for the impact of regulatory changes as proposed by the Basel amendments; and
- finalising the recapitalisation of Barclays Bank Mozambique S.A. in July 2010.

Credit risk

Wholesale and retail credit risks remained high on the risk management agenda during 2010.

In the retail credit environment, impairments reduced across the Group during the year. Impairment charges in 2010 were 1,20% (31 December 2009: 1,74%) of average advances. The retail credit teams reviewed and recalibrated existing credit models to reflect current economic conditions. The areas where the aforesaid improvements were implemented were card, cheque, unsecured loans, instalment credit agreements and mortgages.

The retail credit risk teams aligned credit risk management strategies with Absa retail business strategies (including entry level banking, customer centricity and Africa) in support of the One Absa strategy and, enhanced pricing, profitability modelling and RWA management.

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. The wholesale credit teams made significant progress in preparing for the Advanced Internal Ratings Based (AIRB) measurement approach for the wholesale portfolio.

The centralised Group credit team made improvements 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 set risk appetite. Traded market risk and revenue were down, because of muted market conditions and lower client volumes, but a favourable risk-adjusted return was achieved. Total daily value at risk (DVaR) reduced year-on-year from R31,65 million to R27,85 million. Traded market risk measurement systems were upgraded during the year to enhance performance and scalability.

For non-traded market risks, the focus of the market risk teams 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;

» the cash flow hedging reserve was further bolstered during the year, as a result of favourable mark-to-market movements; and

» equity investment risk exposure in the banking book was managed down. Valuations stabilised in line with portfolio movements and market conditions.

Liquidity risk

Management of liquidity risk received increasing attention in the year under review. Group Treasury focused on improving the liquidity position of the Group and achieved the following:

» a significant increase in the surplus liquid assets held over 2010. As at 31 December 2010, R17 billion of surplus liquid assets was held in respect of Absa Bank Limited, which is an increase of R13 billion on the amount held at 31 December 2009;

» 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

The operational risk management team focused on continuing the improvement of operational controls as well as operational risk management systems and processes. In addition, the team implemented a new financial crime operating model.

Insurance and underwriting risk

The insurance 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% and the return on shareholders' assets exceeded the expected benchmark rate. Insurance entities focused on the 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

2010 witnessed the tabling of an increasing amount of new regulatory legislation due to be implemented in 2011, as well as certain improvements and changes to existing legislation. As a result of these developments the regulatory risk team focused 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 (FAIS Act requirements, Companies Act and Consumer Protection Act projects); and

» enhancement of controls and policies, in response to new regulatory provisions and amendments, (internet gambling and oversight of general compliance governance).

The Group's 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, and 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 Group's risk appetite 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 is utilised to evaluate the reasonableness of the appetite levels set on a forward looking basis.

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:

- assisting in protecting the Group's financial performance;
- improving management responsiveness and debate regarding the Group's risk profile;
- assisting executive management to improve control and coordination of risk-taking across businesses; and
- enabling unused risk capacity to be identified in the pursuit of profitable opportunities.

Stress testing

Stress testing is embedded in the risk management of the Group and is a key focus during the strategic planning processes of the Group. 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.

King III

King III recommends certain risk management and governance measures. The Group has completed a gap analysis to identify any improvements between current risk practices and management and the recommendations under King III. No material gaps have been identified for implementation.

Strategic focus for the year ahead

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. In addition, the Group will remain committed to developing and enhancing appropriate risk management procedures and practices to keep pace with applicable regulatory requirements and what is considered best practice in the industry.

Strategic areas of focus in terms of risk management are the enhancement of the 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 continuous evaluation of the Group's financial performance and capital management over a three to five year horizon; and
- enhancement and continuous evaluation of risk appetite and liquidity management to ensure that the 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, strategic areas of focus are as follows:

Liquidity and capital management

- This remains critical to the sustainable growth of the Group. The Group will ensure it keeps up to date with international and local regulatory change so that it achieves best practice in the measurement and management of risks associated with liquidity and capital management.

Credit risk management

- A key component will be quality of business written and the Group will take steps to embed improvements made in the decision-making process that form 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.
- The wholesale credit team will continue preparation for the AIRB measurement approach.

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 II market risk amendments.
- Group Treasury 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.
- Group technology will focus on further strengthening governance processes, continue to secure and protect systems and information, ensure availability of key production systems and that comprehensive disaster recovery plans are maintained.

Insurance risk

- The Group will keep abreast of developing solvency legislation, particularly preparation for use of an internal model in short-term insurance and any quantitative impact study requests.

Regulatory risk

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

Capital management

31 December

2010 Highlights

- » Strong capital position maintained.
- » Board approved capital target ranges incorporate capital buffers above minimum regulatory requirements.
- » Investment grade credit rating maintained.

Salient features[1]

Absa Group

	2010	2009	Minimum regulatory requirements
Capital adequacy (%)			
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	**2 107**	3 747	
Qualifying capital	**65 417**	60 052	
Total risk-weighted assets	**422 713**	386 264	
Key metrics (%)			
Cost of capital[2]	**14,0**	14,0	
Return on risk-weighted assets	**1,99**	1,97	
Return on average economic capital	**19,7**	18,2	

Absa Bank

	2010	2009	Minimum regulatory requirements
Capital adequacy (%)			
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 risk-weighted assets	**391 735**	359 074	
Key metrics (%)			
Cost of capital[2]	**14,0**	14,0	

Notes

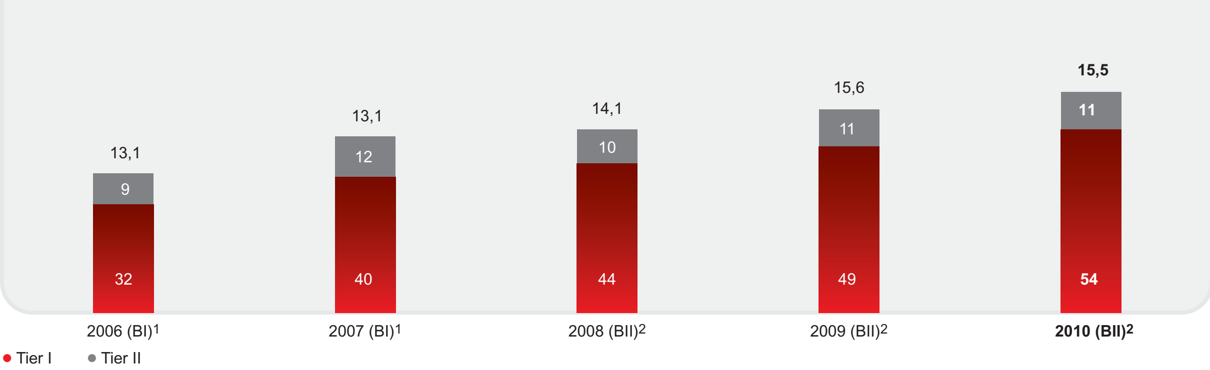
[1]Reported ratios include unappropriated profits.

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

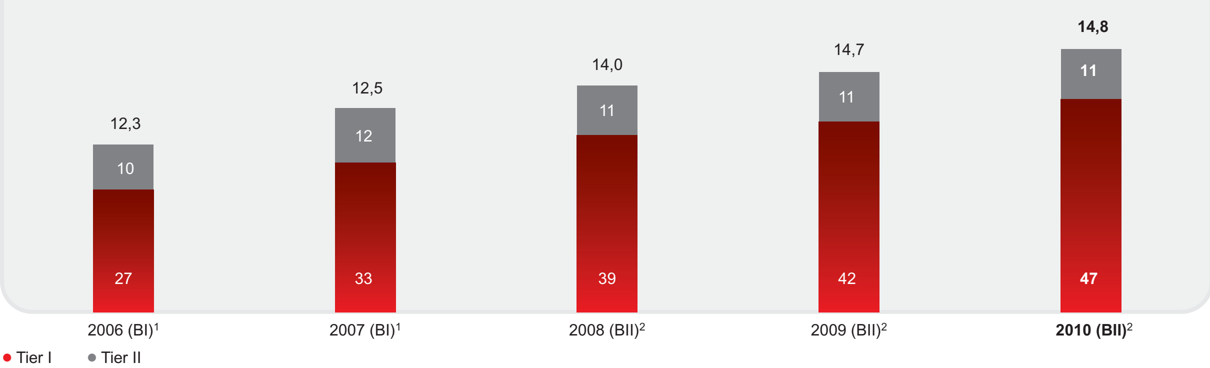
31 December

Salient features *(continued)*

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



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



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 resource are based on a number of factors including returns on economic capital (EC) and on regulatory capital (RC), and are part of the Internal Capital Adequacy Assessment Process (ICAAP).

Strategy

The strategic objectives for capital management are to:

- meet the capital ratios required by its regulators and the target ranges set by the Group's board;
- maintain an adequate level of available capital resources as cover for the EC requirements calculated at a 99,95% confidence level;
- generate sufficient capital to support asset growth;
- maintain an investment grade credit rating; and
- achieve 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 Asset and Liability Committee, GRCMC, Group Executive Committee and the board. Risk oversight of the capital management function is provided by the GRCMC, under a specific mandate from the board.

Notes

[1]*BI: Basel I*

[2]*BII: Basel II*

The Group's capital management approach

The proper planning and management of capital is essential to the Group to ensure that it has sufficient and appropriate capital structures 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 ensures end-to-end integration of the Group's strategy, risk management and financial processes. The purpose is to ensure that capital consumption in the business divisions has an impact on performance measurement, which in turn translates into management performance assessment, product pricing requirements and achievement of the Group's desired strategic positioning.

Internal Capital Adequacy Assessment Process (ICAAP)

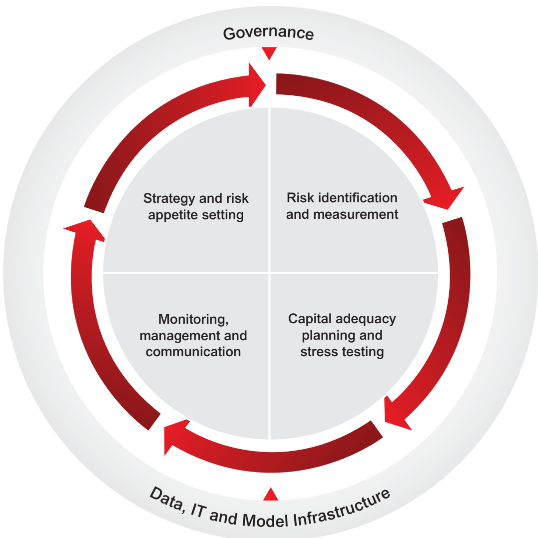
The capital management team are responsible for driving the Basel II ICAAP programme.

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. Besides 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 ll, the main guiding principle in the design of 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 addresses the core banking principle of the regulations.

The building blocks of the Group's ICAAP are strategy and risk appetite setting, risk identification and measurement, capital adequacy planning and stress testing and monitoring, management, and communication. These processes are conducted within an environment with established governance practices and oversight, and are supported by adequate data, technology (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 more crucial in assessing appropriate levels of capital.

2010 in review

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

» growth in credit RWA was 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;

» focus was placed on RWA relief by the 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 for a dividend cover of 2,5 times headline earnings.

Risk-weighted assets

Risk-weighted assets are determined by applying the following:

- Advanced Internal Rating Based (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 Rating Based (IRB) market-based simple risk-weight approach for equity investment risk in the banking book; and
- Standardised Approach (SA) for all African entities.

Absa Group risk-weighted assets and minimum required capital

	2010 Rm	Required capital (9,5%)[2] Rm	2009 Rm	Required capital (9,5%)[2] Rm
Basel II measurement approach				
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 Standardised Approach	**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
Standardised Approach	**2 752**	**261**	2 267	215
Internal Models Approach	**6 261**	**595**	7 395	703
Operational risk[1]				
Advanced Measurement Approach	**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 risk-weighted assets and minimum required capital

	2010 Rm	Required capital (9,5%)[2] Rm	2009 Rm	Required capital (9,5%)[2] Rm
Basel II measurement approach				
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 Standardised Approach	**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
Standardised Approach	**2 752**	**261**	2 267	215
Internal Models Approach	**6 261**	**595**	7 395	703
Operational risk[1]				
Advanced Measurement Approach	**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]AMA for operational risk, except for an insignificant portion of the Group that utilises the Basic Indicator approach, or Standardised approach.

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

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 of directors, as follows:

- from a **regulatory perspective**: net qualifying capital (Tier I capital plus Tier II capital) must sufficiently exceed Basel II minimum capital requirements to have a buffer for prudence;
- from an **economic perspective:** available capital resources must be sufficient to meet EC requirements over a three-year period; and
- in accordance with **board approved target ranges:** these are derived from the stress testing results, and are set above the minimum regulatory requirements.

Capital adequacy

The Group sets target capital levels for the regulated entities in order 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 South African Reserve Bank (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 II proposed amendments; and
- peer analysis.

Target capital levels were set for the following regulated entities: Absa Group Limited, Absa Bank Limited, Barclays Bank Mozambique S.A., National Bank of Commerce, Absa Life Limited and Absa Insurance Company Limited. Target capital levels for all other entities are equal to the minimum regulatory requirements set by the respective regulators.

Absa Group – local, foreign banking entities and insurance entities

		2010		2009		2010 Total target capital adequacy ratio	
Operations	Regulator	Tier I ratio %	Total capital adequacy %	Tier I ratio %	Total capital adequacy %	Regulatory minimum %	Board[2] target %
Local entities (South Africa)							
Absa Group[1]	SARB	**12,8**	**15,5**	12,7	15,6	**9,75**	**13,00**
Absa Bank[1]	SARB	**11,9**	**14,8**	11,6	14,7	**9,75**	**13,00**
Foreign banking entities							
Barclays Bank Mozambique S.A.[3]	Banco de Mozambique	**22,4**	**22,4**	15,8	15,8	**8,00**	**15,00**
National Bank of Commerce[3]	Bank of Tanzania	**13,0**	**13,0**	14,2	14,2	**12,00**	**14,00**
Insurance entities							
Absa Life Limited	FSB	**N/A**	**3,5 x CAR**	N/A	3,6 x CAR	**1,0 x CAR**	**2 x CAR[4]**
Absa Insurance Company Limited	FSB	**N/A**	**53,7% x NWP**	N/A	55,5% x NWP	**25% x NWP**	**45% x NWP[5]**
Absa *idirect* Limited	FSB	**N/A**	**60,1% x NWP**	N/A	81,8% NWP	**25% x NWP**	**25% x NWP[6]**

Notes

[1] *Statutory ratios include unappropriated profit.*

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

	Total	*Total Tier 1*	*Core Tier 1*
Absa Group	*12,00% – 14,00%*	*10,00% – 12,00%*	*9,00% – 11,00%*
Absa Bank	*11,50% – 13,50%*	*9,5% – 11,50%*	*8,5% – 10,50%*

[3] *Basel I host regulatory ratios and requirements.*

[4] *Capital adequacy requirements (CAR): Actuarial calculation of value at risk on insurance liabilities.* ***2 times*** *(31 December 2009: 2,5 times) being the required capital level determined by Absa Life Limited.*

[5] ***45%*** *(31 December 2009: 45%) of net written premiums (NWP), being the required capital level determined by Absa Insurance Company Limited.*

[6] *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 I)	Secondary (Tier II)	Tertiary (Tier III)
» 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 I 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 III is restricted to trading activities only. » It is not eligible to support counterparty or settlement risk.

Absa Group	Qualifying capital Rm
Qualifying capital at 31 December 2009	60 052
Movements during the year:	
Share capital, premium and reserves	4 743
Non-controlling interest – ordinary shares	(84)
Tier II subordinated debt issued	1 000
Tier II subordinated debt matured	(1 500)
Regulatory deductions[1]	1 259
Less: General allowance for credit impairments (Standardised Approach)	(53)
Qualifying capital at 31 December 2010	**65 417**

Absa Bank	Qualifying capital Rm
Qualifying capital at 31 December 2009	52 787
Movements during the year:	
Share capital, premium and reserves	4 288
Tier II subordinated debt issued	1 000
Tier II subordinated debt matured	(1 500)
Regulatory deductions[1]	1 226
Qualifying capital at 31 December 2010	**57 801**

Note

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

Qualifying capital *(continued)*

Breakdown of Absa Group's capital

	2010 Qualifying capital Rm	2010 %[1]	2009 Qualifying capital Rm	2009 %[1]
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[2]	**45 011**	**10,7**	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
Total qualifying capital	**65 417**	**15,5**	60 052	15,6

Notes

[1] *Percentage of capital to RWAs.*

[2] *Reserves include unappropriated banking profits.*

Qualifying capital *(continued)*

Breakdown of Absa Bank's capital

	2010 Qualifying capital Rm	2010 %[1]	2009 Qualifying capital Rm	2009 %[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
Total qualifying capital	**57 801**	**14,8**	52 787	14,7

Capital transferability

Absa Group is the primary provider of equity capital to its subsidiaries and capital is held centrally within the context of the approved annual Absa 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 aforementioned, the Group is not aware of any material impediments to the prompt transfer of capital resources or repayment of intra-group liabilities when due.

Economic capital (EC)

Economic 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.

Notes

[1] *Percentage of capital to RWAs.*

[2] *Reserves include unappropriated banking profits.*

Economic capital *(continued)*

Economic capital supply

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 benefits asset 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;

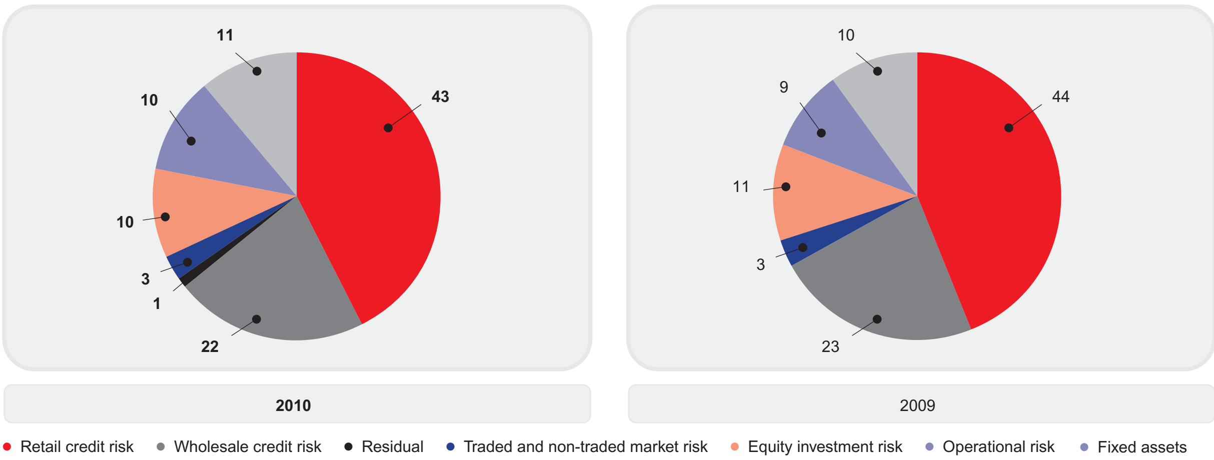
» goodwill;

» other perpetual debt, preference shares and subordinated debt; and

» 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. Furthermore, other risks included in EC are an add-on for concentration risk within the credit portfolio and country transfer risk.

Economic Capital (%)



Credit ratings

	Moody's[1] July 2010 Absa Bank	Fitch[2] January 2011 Absa Bank	Absa Group
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's financial strength	**C-**	C	C
Outlook	**Stable**	—	—
Support	**—**	1	1

Strategic focus for the year ahead

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;

» continue 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.

Notes

[1] *Moody's released the rating report pertaining to Absa Bank in July 2010. There were no changes in the ratings in the July 2010 report compared to the November 2009 report.*

[2] *Fitch revised Absa Group and Absa Bank's foreign currency outlook to stable from negative in January 2011.*

Credit risk

2010 Highlights

- » Focus on quality of new business.
- » Progress with migrating toward AIRB.
- » Focus on rehabilitation of customer arrears and reductions in impairments.
- » Reduction in arrears/impairments by investment in collection activity.
- » Improved use of data to optimise management of risk/reward.
- » Focus on governance and operational effectiveness of controls.
- » Refreshed and rebuilt capital models for retail credit portfolios.

Salient features

	2010 %	2009 %
Growth in total gross loans and advances	**(1)**	(5)
Non-performing advances as % of total gross loans and advances to customers	**7,7**	7,0
Impairment losses on loans and advances as % of average gross loans and advances to customers	**1,20**	1,74
Total credit impairments as % of total gross loans and advances	**3**	3

Introduction

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

Strategy

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

The strategy of the Group is:

- » 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 the newly implemented best in industry systems;
- » maintaining appropriate credit administration, measurement and monitoring processes;
- » ensuring adequate and operationally effective controls over credit risk;
- » optimising the use of available credit and risk data to make more informed decisions and build more robust models (risk and reward);
- » proactively managing credit risk through an economic cycle and ensuring that the desired return/economic profit is maintained;
- » managing credit risk and the mitigation thereof within the risk appetite boundaries of the organisation;
- » maintaining an efficient and robust credit lifecycle; and
- » measuring credit risk inherent in the portfolio using models which are relevant and accurately calibrated.

Governance

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

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

Additional oversight is in place by virtue of the requirements to report to the Governance and Control Committee's (GCC), CRC and ultimately the GRCMC to ensure that there are adequate reviews of controls, risk trends and that credit risk is managed effectively.

Credit risk *(continued)*

Approach to credit risk

Credit risk measurement and control is tailored across various business units due to the specific requirements of the credit portfolios. The key areas are wholesale and retail credit risk and securitisation.

Each risk is managed in terms of set credit policies, and under Basel II different approaches are applied to determine key indicators. At present, the Group applies both Standardised and Internal Rating Board (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.

2010 in review

The management of credit risk remained a high priority in 2010, due to the subdued growth and the impact that the recessionary conditions have exposed customers to during the past two years.

The key areas of focus were as follows:

Wholesale credit risk

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

Absa Business Bank

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

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

Absa Capital

The gradual increase in economic activity and recovery in the 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 clients 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 lifecycle 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

2010 witnessed a substantial improvement in the retail impairment charge in comparison to the 2009 charge. This improvement was driven by improved ability to pay by our customers, improved quality of new bookings as well as substantial investments made in collections infrastructure.

Since June 2008, there has been 650 bps in interest rate reductions which is assisting our 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 will 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 our financial (risk and reward) models. There has also been a focus on improving the quality and quantity of data available for our use in developing these models.

Credit risk *(continued)*

2010 in review *(continued)*

Securitisation

Abacas' assets reduced by R6 billion during the year due to natural amortisation of the underlying notes. Abacas commercial paper and floating rate notes decreased during the year due to natural amortisation. The approximate decrease is R2 billion.

Homes securitisation exposure has increased to R4,6 billion during the year. This was due to the look through approach being applied to the scheme subsequent to a re-tranche and increasing the securitisation programme size to R5 billion. This change in method was due to it being more efficient to hold capital on all underlying assets as opposed to capital on the deduction of the first loss tranche due its significant increase in size.

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

Strategic focus for the year ahead

Wholesale

The focus of Absa Wholesale's credit risk environment will be obtaining approval from the SARB for migrating the wholesale portfolio from the FIRB approach to the AIRB approach. To this end, ABB engaged with the Regulator with regards to 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 exposure at default and loss given default become integral components of the pricing and credit sanctioning processes.

As part of the continued effort towards AIRB approval, Absa Capital and Absa Business Bank have further aligned a number of infrastructure areas, policies and procedures to create synergies between the two business units. As a material component of the path towards AIRB, both business units 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.

Another focus area of the Wholesale environment will be the migration towards the Internal Models Method for calculated EAD for the OTC derivatives portfolio, particularly in light of upcoming regulation in the form of Basel III. As a key portfolio within any investment banking operation, the treatment of OTC derivatives in terms of capital requirements is substantial and justifies the significant time and resources that an initiative such as the Internal Models Method requires.

Retail

Retail 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 due to circumstances.

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

Infrastructure in Absa Africa is continuously being improved. Collections and underwriting processes are being enhanced to comply 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 a greater focus on personal loans.

Securitisation

Basel amendments will most likely be implemented in 2012. This is foreseen to have no material impact on the Group's securitisation business.

The FSA Retention and Due Diligence Policy, requires originators or bank sponsors of schemes to hold 5% net economic interest within the scheme. For investments in third party securitisation notes, a due diligence is required to ensure that either the originator or bank sponsor hold the required 5% net economic interest. These rules are expected to be finalised by the end of the first quarter of 2011.

Liquidity risk

2010 Highlights

- Liquidity risk management process remains 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.

Salient features

	2010 %	2009 %
Long-term funding ratio[1]	**25,6**	23,5
Loans-to-deposits ratio[2]	**91,9**	95,9

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 a bank will be unable to continue 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 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).

Strategy

The efficient management of liquidity risk is essential to the Group in order 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.

The 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 to improve key liquidity metrics and further reduce the Group's liquidity risk exposure;
- continuing to build surplus liquid asset holdings in the light of the Basel liquidity requirements; and
- focusing on lowering the weighted average cost of funding, within agreed parameters for liquidity risk.

Governance

Group Treasury is responsible for the management of 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 in order to evaluate the effectiveness of the function.

Group Treasury report monthly to the market risk committee thereby ensuring 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.

Notes

[1] *The ratio is shown in respect of the Bank and reflects the average over the calendar year. Steps continue to be taken to extend funding tenure, and the average long-term funding ratio has increased by 2,1% during 2010.*

[2] *The ratio reflected here is in respect of the Group. The loans-to-deposits ratio has improved by 4% from 31 December 2009 to 31 December 2010, as a result of continued focus on asset quality and prudent liquidity risk management practices.*

Liquidity risk *(continued)*

Approach to liquidity risk

A dedicated team in Group Treasury is responsible for implementing the liquidity risk framework and policy and ensuring that liquidity is adequately managed across all business units. 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.

2010 in review

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

Key areas of focus during 2010 were:

» regulatory changes and their impacts on liquidity;
» surplus liquid assets held;
» cost of liquidity;
» funding structure;
» contractual and behavioural liquidity mismatch positions;
» diversification of funding sources; and
» intra-day liquidity management.

Strategic focus for the year ahead

» Liquidity risk measurement and management will continue to receive focus globally and it is expected that best practices will continue to evolve at pace. This area will remain a key focus area of the Group and a significant amount of further development work is expected to be performed in this very important risk area during 2011.
» As outlined earlier in this section, the final liquidity framework under Basel was published in December 2010. The proposals afford banks globally some time before full compliance is expected (for example, the liquidity coverage ratio needs to be complied with by 2015). However, steps will continue to be taken in 2011 and beyond in order to ensure compliance within the mandated timeframes.

Market risk

2010 Highlights

» 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.

» Reserves more sensitive to interest rate movements owing to additional statutory liquid assets purchased and hedges executed during the year.

» Equity investment risk exposure in the banking book managed down.

Salient features

	2010	2009
Average traded market risk DVaR (Rm)	**27,85**	31,65
Traded market risk RC (at 8% of RWA) (Rm)	**721**	773
Banking book AEaR for a 2% interest rate shock (% of Group NII)	**<5%**	<5%
Equity investments in the banking book RWA (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.

Market risk *(continued)*

Strategy

The objectives of managing market risk are to:

- understand and control market risk by robust measurement, sound controls and strong oversight;
- facilitate business growth within a controlled and transparent risk management framework;
- ensure traded market risk resides primarily in Absa Capital; and
- in respect of interest rate risk in the Group's book, ensuring a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle.

Governance

Business unit management are responsible for the day-to-day management of identified market risks by applying the risk control framework and within the risk appetite set. A centralised market risk team provides oversight and challenge.

Monthly oversight and monitoring is in place through reporting on these risks to the MRC, Group ALCO and GIC. Quarterly reporting occurs to the GRCMC.

Approach to market risk

Market risk is managed in terms of the Group's market risk policy framework, as approved by the GRCMC, and in accordance with Absa's PRP requirements.

The board approves the market risk appetite for trading and non-trading activities on recommendation of the GRCMC. A market risk limits framework is set within the context of the approved market risk appetite, and further supported by mandate and scale controls.

A suite of complementary techniques is used to measure and control market risk, which includes daily value at risk, tail risk, stress testing, annual earnings at risk and economic capital.

2010 in review

Traded market risk

Market volatility continued to decrease in 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. The 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 into 2011.

Interest rate risk in the banking book

During the year, the Group continued to manage its structural and non-structural banking book interest rate risk to low risk appetite levels. The hedge programme for structural products and equity is considered an effective means to ensure lower interest rate risk and a higher degree of stability of the mismatch margin component of the net interest margin over a full interest rate cycle. Cash flow hedge reserves were further bolstered during the year, as a result of favourable mark-to-market movements on receive fix swaps in the 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 South African interest rates reaching exceptionally low levels during the year, efficient management of the structural hedge 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 decreasing interest rate environment experienced in 2010. Prepayment and recruitment risk that may arise from fixed rate loan 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 during 2010. Private equity investment valuations stabilised in line with portfolio movements and market conditions.

Market risk *(continued)*

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 Group's trading risk regulatory charge. Towards readiness for these requirements, model development and testing already commenced in 2010 for final embedment during 2011. In view of the likely increase in trading book regulatory capital charges, the focus into 2011 will remain on efficient use of risk capital across trading desks and products, and on our relatively low capital consuming client flow and cash equities business. Expansion of client 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 hedge programme will remain a strategic focus area into 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 orderly build down of non-core portfolios in order to release capacity, which process already began in 2010.

Operational risk

2010 Highlights

- » Maintained AMA approval for operational risk capital of the Group.
- » Continued focus on control enhancements with specific emphasis on financial and violent crime, anti-money laundering measures, technology controls and effective business continuity.

Salient features

	2010	2009
Total number of events	↓	↓
Total loss value	↓	↑

Introduction

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. Operational risk is thus the risk of failure, or near failure, of critical business processes and their underlying operational systems and data.

Strategy

Operational risk is managed in terms of the operational risk management framework adopted by the Group, which is an ancillary framework of the overall risk management framework. The approach and methodology followed by operational risk is summarised and illustrated in the section to follow. The Group currently applies AMA for operational risk to most of the Group entities, with the exception of African businesses and other immaterial entities.

The objective of the framework is to ensure that the organisation manages operational risks in an optimal and consistent way across the Group, as well as to ensure that it is measured accurately and adequately capitalised.

Governance

Operational risk is governed via a clear hierarchy of committees through 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 a board level. The operational risk processes further form an inherent part of the internal audit process.

Approach to operational risk

Absa manages operational risk according to a principal risk framework, with clear defined frameworks. The framework for each individual risk has clear ownership delegated by the Chief Risk Officer and includes the relevant roles and responsibilities to manage the risk in the Group. The PRP framework is approved by the board, while each of the individual PRP frameworks are approved and monitored by the GRCMC.

Operational risk *(continued)*

2010 in review

The focus on the control environment in the Group over the recent years was certainly highlighted in 2010, with losses remaining fairly stable (with a slight downward trend). Large losses remain well under control with a clear improvement seen during 2010.

The Group also implemented control improvements during 2010 as part of the continuing focus on control enhancements. Some of these improvements were as follows:

» a review and enhancement of technology related controls;

» the introduction of the fraud oversight process which combines ongoing investigation with the implementation of lessons learnt;

» a focus on the Africa businesses' control environment, specifically around crime and technology; and

» business continuity reached maturity in 2010, with all critical processes and systems having been catered for in the event of a disaster or other forced break in normal operations.

Financial crime remained one of the primary risks of the Group, while the risk of failures in the execution of processes remained secondary risks. An integrated approach to these risks was adopted in 2010 and will continue through 2011. People risk was also an area of top focus 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 meant the Group faced higher risks than normal in this environment.

Strategic focus for the year ahead

Operational risk remains a key focus of the Group and in the coming year the following, amongst others, are the key areas of focus:

» minimising financial crime through focused enhancements in automation in order to minimise and reduce activities which leads to losses;

» enhancing business enablement through automation in order to ensure that the Group keeps pace with these ever-changing technologies, such that customers ultimately benefit from these changes;

» minimising the impact of changes within the regulatory landscape to ensure compliance as well as to ensure that the spirit of the changing legislative landscape is utilised to reap the rewards intended for all relevant parties; and

» enhancing talent retention and recruitment practices through the launch of various innovative retention and training strategies.

The board and senior management will continue to put the necessary focus on the management of operational risk through the consistent implementation and monitoring of policies, processes and systems in all material products, services and activities, consistent with an approved risk appetite and tolerance.

Insurance risk

2010 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.

Salient features

	2010 %	2009 %
Short-term loss ratio	**68,5**	69,9
Value of life new business margin	**9,5**	6,6
Return on shareholders' assets versus benchmark	**13,8 vs. 10,7**	14,0 vs. 14,0

Insurance risk *(continued)*

Introduction

Within the Group, life insurance underwriting activities are undertaken by Absa Life Limited and Woolworths Financial Services (Proprietary) Limited, and 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. The nature of the operations of these entities gives rise to four types of risk:

» short-term insurance underwriting risk;

» life insurance underwriting risk;

» life insurance mismatch risk; and

» life and short-term insurance investment risk.

Strategy

For the insurance entities, profitable business growth opportunities that support diversification of underlying risks are actively pursued. In particular:

» there is a focus on seeking sources of business that complement the traditional insurance products to enhance diversification benefits versus bank risks;

» agricultural insurance provides a diversification benefit versus property insurance since weather patterns generally have different impacts on the 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 that the insurance entities are prepared for developing Solvency Assessment and Management legislative environment.

Governance

The boards of directors of the insurance entities, together with the management of the respective companies, 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 Financial Services, the Absa Financial Services Governance and Control Committee, the Capital and Investment Risk Committee and within the entities, the Actuarial Review Committees and the Capital and Investment Committees are responsible for monitoring risk management and control effectiveness, and principal risk reporting across all insurance entities.

Approach to insurance risk

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 entities.

Short term insurance underwriting risk is managed through underwriting authority mandates and 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 Insurance and Life Investment Risk Committee meetings monitor investment risk across the insurance entities. Quarterly review is undertaken through the Absa Financial Services Capital and Investment Risk Committee and the Actuarial Review Committees.

Insurance risk *(continued)*

2010 in review

The financial services sector was impacted by the subdued economic growth and slower than expected recovery in 2010. The insurance landscape in 2010 was characterised by varying factors across the risks managed by these business units.

The key areas of focus were:

- underwriting risk with a separate focus for short-term insurance and life insurance with quarterly monitoring of risk utilisation versus appetite;
- mismatch risk in the life insurance business with the completion of a biannual asset liability modelling exercise; and
- investment risk.

In addition, the insurance entities monitored development in solvency legilsation and progress was made on capital models for short-term insurance.

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 on business growth opportunities that support diversification of underlying risks.

The development of the short-term insurance capital model and broader risk utilisation methodologies will continue, with an aim of enhancing 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 as required 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 Limited.

Restatement of prior year figures

Contents

Consolidated statement of financial position

As at 31 December 2009

	(Audited) As previously reported Rm	Reclassifications[1] Rm	(Audited) 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

Note

[1] *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 also aligned with industry practice.*

Segmental reporting per market segment

Year ended 31 December 2009

	Retail Banking			Absa Business Bank		
	As previously reported	Reclassi-fications[1]	Reclas-sified	As previously reported	Reclassi-fications[1]	Reclas-sified
Statement of comprehensive income (Rm)						
Net interest income	14 150	(1 481)	12 669	5 609	1 481	7 090
Impairment losses on loans and advances	(7 778)	231	(7 547)	(872)	(231)	(1 103)
Non-interest income	11 615	(1 308)	10 307	3 100	1 308	4 408
Operating expenses	(13 465)	1 240	(12 225)	(4 384)	(1 240)	(5 624)
Other impairments	(25)	—	(25)	(52)	—	(52)
Indirect taxation	(320)	7	(313)	(47)	(7)	(54)
Share of post-tax results of associates and joint ventures	(49)	—	(49)	4	—	4
Operating profit before income tax	4 128	(1 311)	2 817	3 358	1 311	4 669
Taxation expense	(1 102)	393	(709)	(1 002)	(393)	(1 395)
Profit for the year	3 026	(918)	2 108	2 356	918	3 274
Profit attributable to:						
Ordinary equity holders of the Group	2 863	(918)	1 945	2 317	918	3 235
Non-controlling interest – ordinary shares	163	—	163	38	—	38
Non-controlling interest – preference shares	—	—	—	1	—	1
	3 026	(918)	2 108	2 356	918	3 274
Headline earnings	2 666	(917)	1 749	2 289	917	3 206
Operating performance (%)						
Net interest margin on average interest-bearing assets	4,12	(1,10)	3,02	4,77	0,08	4,85
Impairment losses on loans and advances as % of average loans and advances to customers	2,34	(0,04)	2,30	0,75	0,16	0,91
Non-interest income as % of total operating income	45,1	(0,2)	44,9	35,6	2,7	38,3
Top-line growth	5	—	5	(0)	1	1
Cost growth	1	2	3	1	(4)	(3)
Cost-to-income ratio	52,3	0,9	53,2	50,3	(1,4)	48,9
Cost-to-assets ratio	2,9	(0,1)	2,8	3,2	0,3	3,5
As at 31 December 2009						
Statement of financial position (Rm)						
Loans and advances to customers	326 985	(4 951)	322 034	120 230	4 951	125 181
Investment securities	0	—	0	2 355	—	2 355
Investments in associates and joint ventures[3]	259	(259)	—	123	(123)	—
Other assets	146 212	(18 465)	127 747	17 827	18 847	36 674
Total assets	473 456	(23 675)	449 781	140 535	23 675	164 210
Deposits due to customers	132 966	(22 533)	110 433	104 628	22 533	127 161
Debt securities in issue[4]	—	4 810	4 810	—	—	—
Other liabilities	336 663	(5 389)	331 274	33 401	579	33 980
Total liabilities	469 629	(23 112)	446 517	138 029	23 112	161 141
Financial performance (%)						
Return on average economic capital[5]	14,2	(4,7)	9,5	18,2	6,5	24,7
Return on average assets	0,58	(0,18)	0,40	1,66	0,35	2,01

Notes

[1] *Structure changes: Absa Small Business was moved from Retail Banking to Absa Business Bank.*

[2] *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 also aligned with industry practice.*

[3] *Investments in associates and joint ventures previously disclosed separately. Now disclosed as part of Other assets.*

[4] *Debt securities were previously disclosed as part of Other liabilities.*

[5] *Financial Services' return on average equity is 37,9% and Absa Group's return on average is 15,5%.*

Segmental reporting per market segment

Year ended 31 December 2009

Absa Capital			Financial Services			Head office, inter-segment eliminations and Other			Absa Group		
As previously reported	Reclassifications[2]	Reclassified	As previously reported	Reclassifications[2]	Reclassified	As previously reported	Reclassifications	Reclassified	As previously reported	Reclassifications[2]	Reclassified
2 042	—	2 042	21	—	21	32	—	32	21 854	—	21 854
(318)	—	(318)	(3)	—	(3)	4	—	4	(8 967)	—	(8 967)
2 404	—	2 404	3 372	—	3 372	(259)	—	(259)	20 232	—	20 232
(2 309)	—	(2 309)	(1 549)	—	(1 549)	850	—	850	(20 857)	—	(20 857)
(1 371)	—	(1 371)	(21)	—	(21)	12	—	12	(1 457)	—	(1 457)
(79)	—	(79)	(77)	—	(77)	(390)	—	(390)	(913)	—	(913)
—	—	—	—	—	—	(5)	—	(5)	(50)	—	(50)
369	—	369	1 743	—	1 743	244	—	244	9 842	—	9 842
(41)	—	(41)	(459)	—	(459)	264	—	264	(2 340)	—	(2 340)
328	—	328	1 284	—	1 284	508	—	508	7 502	—	7 502
288	—	288	1 284	—	1 284	88	—	88	6 840	—	6 840
40	—	40	—	—	—	—	—	—	241	—	241
—	—	—	—	—	—	420	—	420	421	—	421
328	—	328	1 284	—	1 284	508	—	508	7 502	—	7 502
1 272	—	1 272	1 300	—	1 300	94	—	94	7 621	—	7 621
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,74	—	3,74
0,45	0,04	0,49	n/a	n/a	n/a	n/a	n/a	n/a	1,74	—	1,74
54,1	—	54,1	99,4	—	99,4	n/a	n/a	n/a	48,1	—	48,1
(21)	—	(21)	(2)	—	(2)	n/a	n/a	n/a	(2)	—	(2)
(5)	—	(5)	13	—	13	n/a	n/a	n/a	(1)	—	(1)
51,9	—	51,9	45,7	—	45,7	n/a	n/a	n/a	49,6	—	49,6
0,5	—	0,5	4,5	—	4,5	n/a	n/a	n/a	2,8	—	2,8
55 768	2 533	58 301	268	—	268	379	—	379	503 630	2 533	506 163
14 403	—	14 403	12 016	—	12 016	790	—	790	29 564	—	29 564
85	(85)	—	—	—	—	20	(20)	—	487	(487)	—
292 790	85	292 875	31 146	(9 477)	21 669	(303 916)	20	(303 896)	184 059	(8 990)	175 069
363 046	2 533	365 579	43 430	(9 477)	33 953	(302 727)	—	(302 727)	717 740	(6 944)	710 796
112 763	5 608	118 371	—	—	—	400	—	400	350 757	5 608	356 365
—	156 534	156 534	—	—	—	—	(3 222)	10 032	—	171 376	171 376
247 495	(159 609)	87 886	40 002	(9 477)	30 525	(347 068)	3 222	(357 100)	310 493	(183 928)	126 565
360 258	2 533	362 791	40 002	(9 477)	30 525	(346 668)	—	(346 668)	661 250	(6 944)	654 306
14,9	—	14,9	n/a	n/a	n/a	n/a	n/a	n/a	18,2	—	18,2
0,30	—	0,30	3,74	—	3,74	n/a	n/a	n/a	1,02	—	1,02

Consolidated statement of financial position

As at 31 December 2008

	(Audited) As previously reported Rm	Reclassifications[1] Rm	(Audited) 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

Note

[1] *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 also aligned with industry practice.*

Appendixes

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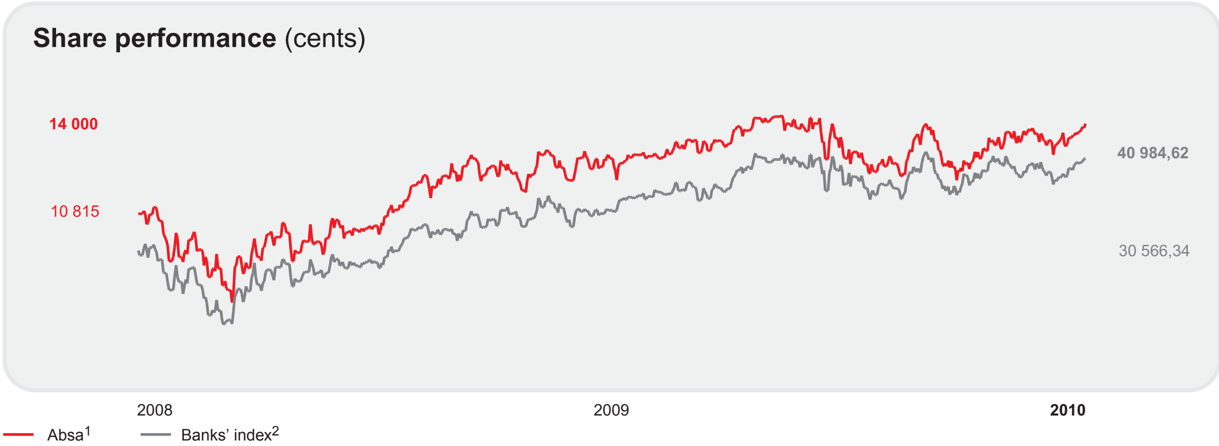
Share performance

Year ended 31 December



Share performance on the JSE[3] Limited

	2010	2009	Change %
Number of ordinary shares in issue[4]	**718 210 043**	718 210 043	—
Market prices (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-to-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 (R millions)	**48 266,8**	59 151,4	(18)
Market capitalisation (R millions)	**100 549,4**	92 290,0	9

Notes

[1] *Absa's annual 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] *JSE: Johannesburg Securities Exchange.*

[4] *Includes **1 049 790** shares held by Absa Group Limited Share Incentive Trust (31 December 2009: 1 841 624) and **570 000** shares held by Absa Group companies (31 December 2009: 545 111).*

Shareholders' information and diary

As at 31 December

Shareholders' information

	2010 %	2009 %
Major ordinary shareholders (top 10)		
Barclays Bank PLC	**55,5**	55,5
Public Investment Corporation	**9,4**	8,6
Batho Bonke Capital (Proprietary) Limited	**5,1**	5,1
Old Mutual Asset Managers	**3,0**	3,1
Coronation Fund Managers	**1,9**	n/a
Stanlib Asset Management	**1,7**	1,7
Sanlam Investment Management	**1,6**	1,4
Dimensional Fund Advisors Incorporated	**1,0**	n/a
The Vanguard Group Incorporated	**1,0**	n/a
Prudential Portfolio Managers	**0,8**	n/a
Investec Asset Management	**n/a**	2,7
Absa Stockbrokers (Proprietary) Limited[1]	**n/a**	1,0
Investec Securities (Proprietary) Limited (ZA)	**n/a**	0,8
Food Asset Management	**n/a**	0,8
Other	**19,0**	19,3
	100,0	100,0
Geographical split		
England and Wales	**56,2**	56,5
South Africa	**33,0**	31,8
United States	**4,6**	4,7
Other countries	**4,5**	4,5
Below threshold	**1,7**	2,5
	100,0	100,0

Shareholders' diary

Financial year-end	31 December 2010
Annual general meeting	21 April 2011
Announcement of the final results	15 February 2011
Announcement of the interim results[2]	2 August 2011

Dividend	Declaration date	Last day to trade	Ex dividend date	Record date	Payment date
Final December 2010	15 February 2011	4 March 2011	7 March 2011	11 March 2011	14 March 2011
Interim June 2011[2]	2 August 2011	19 August 2011	22 August 2011	26 August 2011	29 August 2011

Notes

[1] *Represents shareholding on behalf of various private clients.*

[2] *Subject to change.*

Financial reporting structure

Absa Bank Limited

Retail banking

- Home Loans (including Repossessed Properties)[1]
- Vehicle and Asset Finance (VAF)
- Card[2]
- Personal Loans
- Retail Bank (including Absa Private Bank)[2]

Commercial banking

- Absa Business Bank (ABB)[3]
  - Large Business
  - Medium Business
  - Small Business[4]
  - Public sector
  - Commercial Asset Finance (CAF)
  - Commercial Property Finance (CPF)[5]

International operations

- Absa Bank London[6]

Investment banking

- Absa Capital[7+8]
  - Investment banking
  - Markets
  - Private Equity and Infrastructure Investments
  - Single stock futures and other
- Absa Wealth

International operations

- Absa Bank London[6]

Other Bank activities

- Corporate Real Estate Services (CRES)

International operations

- Absa Bank London[6]

Notes

[1] *The Bank 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 Bank and Sanlam Life Insurance Limited had joint control over SHL. On 1 August 2010, the Bank acquired the remaining 50% ordinary shares of SHL, which resulted in the Bank controlling and consolidating SHL.*

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

[3] *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 Commercial banking.*

[4] *Absa Small Business was moved from Retail banking to Commercial banking during the year under review.*

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

[6] *Absa Bank London's results have been allocated to Commercial banking. Investment banking and Other Group activities in items of IFRS8.*

[7] *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.*

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

Consolidated salient features

	2010 (Audited)	2009[1] (Audited)	Change %
Statement of comprehensive income (Rm)			
Headline earnings[2]	**6 412**	5 986	7
Profit attributable to ordinary equity holder of the Bank	**6 432**	5 315	21
Statement of financial position			
Total assets (Rm)	**680 923**	673 774	1
Loans and advances to customers (Rm)	**485 588**	490 205	(1)
Deposits due to customers (Rm)	**372 644**	349 371	7
Loans-to-deposits ratio (%)	**90,7**	94,4	
Off-statement of financial position (Rm)			
Assets under management and administration	**4 198**	4 027	4
Financial performance (%)			
Return on average equity	**14,2**	14,4	
Return on average assets	**0,94**	0,84	
Return on risk-weighted assets[3]	**1,71**	1,68	
Operating performance (%)			
Net interest margin on average interest-bearing assets	**3,69**	3,52	
Impairment losses on loans and advances as % of average loans and advances to customers	**1,15**	1,69	
Non-interest income as % of total operating income	**41,0**	44,0	
Cost-to-income ratio	**56,7**	49,7	
Effective tax rate, excluding indirect taxation	**27,1**	20,4	
Share statistics (million)			
(including “A” ordinary shares)			
Number of ordinary shares in issue	**374,1**	367,7	
Weighted average number of ordinary shares in issue	**369,9**	362,1	
Weighted average diluted number of ordinary shares in issue	**369,9**	362,1	
Share statistics (cents)			
Headline earnings per share	**1 733,4**	1 653,1	5
Diluted headline earnings per share	**1 733,4**	1 653,1	5
Basic earnings per share	**1 738,8**	1 467,8	18
Diluted earnings per share	**1 738,8**	1 467,8	18
Dividends per ordinary share relating to income for the year	**959,2**	676,5	42
Dividend cover (times)	**1,8**	2,4	
Net asset value per share	**12 955**	11 606	12
Tangible net asset value per share	**12 781**	11 464	11
Capital adequacy (%)[3+4]			
Absa Bank	**14,8**	14,7	

Notes

[1]Comparatives have been reclassified.

*[2]After allowing for **R320 million** (31 December 2009: R421 million) profit attributable to preference equity holders of the Bank.*

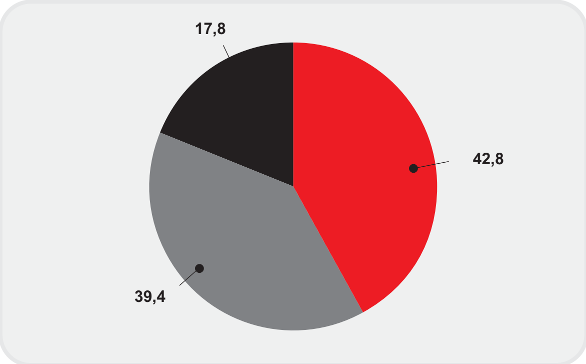
[3]These ratios are unaudited.

[4]Refer to pages 72 – 94 for the capital and risk management section containing additional information.

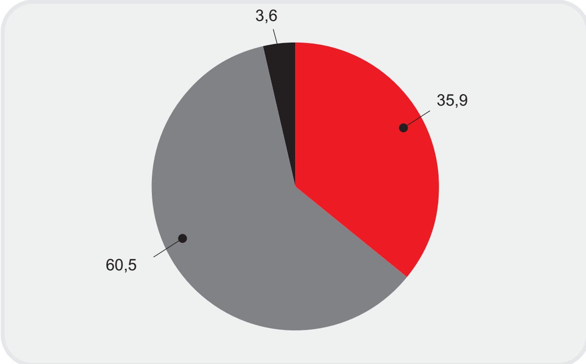
Year ended 31 December

Profit contribution by business area

Attributable earnings[1] (%)



2010



2009

● Retail Banking ● Absa Business Bank ● Absa Capital[2]

	2010 (Audited) Rm	2009[3] (Audited) Rm	Change %
Banking operations			
Retail Banking	**3 148**	1 896	66
Home Loans	**166**	(1 291)	>100
Vehicle and Asset Finance	**270**	265	2
Card	**1 243**	787	58
Personal Loans[4]	**515**	20	>100
Retail Bank[4]	**954**	2 115	(55)
Absa Business Bank	**2 903**	3 194	(9)
Absa Capital	**1 307**	192	>100
Underlying performance	**1 345**	1 179	14
Single stock futures impairments	**(38)**	(987)	96
Corporate centre	**(414)**	489	>(100)
Capital and funding centre	**(192)**	(35)	>(100)
Preference equity holders of the Bank	**(320)**	(421)	24
Profit attributable to ordinary equity holder of the Bank	**6 432**	5 315	21
Headline earnings adjustments	**(20)**	671	>(100)
Headline earnings	**6 412**	5 986	7

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 **18,5%** (31 December 2009: 19,8%).*

[3]Comparative has 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.

Definitions

Balance sheet
The term balance sheet is used in the same context as the statement of financial position.

Borrowed funds
Borrowed funds represents subordinated callable notes qualifying as long-term Tier II capital issued by Absa Bank Limited in terms of section 1 of the Banks Act, 1990. The subordinated callable notes are listed on the Bond Exchange of South Africa. It also includes preference shares classified as debt in terms of IAS 32.

Cost-to-assets ratio
Operating expenses for the year divided by total average assets (calculated on a daily weighted average basis), expressed as a percentage of total average assets.

Cost-to-income ratio
Operating expenses as a percentage of income from operations. Income consists of net interest income and non-interest income.

Debt securities in issue
Comprised primarily of short- to medium-term instruments issued by the Group and includes promissory notes, bonds, negotiable certificates of deposits and commercial paper.

Dividend cover
Headline earnings per share divided by dividends per share.

Dividends per ordinary share relating to income for the year
Dividends per ordinary share for the year is the actual interim dividends paid and the final dividends declared for the year under consideration, expressed as cents per share.

Earnings per share

Profit attributable to ordinary equity holders of the Group
Net profit for the year less earnings attributable to non-controlling interest divided by the weighted average number of ordinary shares in issue during the year.

Headline earnings basis
Headline earnings for the year divided by the weighted average number of ordinary shares in issue during the year.

Fully diluted basis
The amount of profit for the year that is attributable to ordinary equity holders of the Group divided by the weighted average number of ordinary shares outstanding during the year, both adjusted for the effects of all dilutive potential ordinary shares, assuming they had been in issue for the year.

Gains and losses from banking and trading activities
Comprises banking and trading portfolios and includes:
- realised gains on financial instruments held at amortised cost, held-to-maturity, or available-for-sale;
- realised gains on the disposal of associates, joint ventures and subsidiaries, within the banking portfolios;
- realised and unrealised gains and losses on financial instruments designated at fair value through profit or loss; and
- interest, dividends and fair value movements on certain financial instruments held for trading or designated at fair value through profit or loss.

Gains and losses from investment activities
Comprises insurance and strategic investment portfolios and includes:
- realised gains on financial instruments held at amortised cost, held-to-maturity or available-for-sale;
- realised gains on the disposal of associates, joint ventures and subsidiaries, within the investment portfolios;
- realised and unrealised gains and losses on financial instruments designated at fair value through profit or loss; and
- interest, dividends and fair value movements on certain financial instruments held for trading or designated at fair value through profit or loss.

Headline earnings

Headline earnings is not a measure of sustainable earnings. Headline earnings reflect the operating performance of the Group separated from remeasurements (an amount recognised in the statement of comprehensive income relating to any change (realised or unrealised) in the carrying amount of an asset/liability that arose after the initial recognition of such asset or liability) as well as non-controlling interest.

IFRS 2 – Share-based payments

In a share-based payment transaction an entity receives goods or services and pays for those goods or services either in shares or in other equity instruments. A transaction is also considered to be a share-based payment if the entity incurs a liability whose amount is based on the price or value of an entity's share or other equity instrument of the entity.

Impairment losses on loans and advances as percentage of average loans and advances to customers (credit loss ratio/impairment losses ratio)

Loans and advances are impaired when there is objective evidence that the Group will not be able to collect all amounts due. The impairment is the difference between the carrying and recoverable amount. The estimated recoverable amount is the present value of expected future cash flows which may result from restructuring, liquidation or collateral held. Impairment losses on loans and advances for the year are divided by total average advances (calculated on a daily weighted average basis), expressed as a percentage.

Income statement

The term income statement is used in the same context as the statement of comprehensive income.

Loans-to-deposits ratio

Loans and advances to customers as a percentage of deposits due to customers and debt securities in issue.

Market capitalisation

The Group's closing share price times the number of ordinary shares in issue.

Net asset value per share

Total equity attributable to ordinary equity holders divided by the number of ordinary shares in issue. The net asset value per share figure excludes the non-cumulative, non-redeemable preference shares issued.

Net interest margin on average interest-bearing assets

Net interest income for the year divided by average interest-bearing assets (calculated on a daily weighted average basis), expressed as a percentage of average interest-bearing assets. Average interest-bearing assets consist of all accounts attracting interest within the asset categories of cash, cash balances and balances with central banks, statutory liquid asset portfolio, loans and advances to banks and customers and investment securities (it includes cash and short-term assets, money market assets and capital market assets).

Net trading results

Net trading results include the profits and losses on Absa Capital's trading desks arising from both the purchase and sale of trading instruments and the revaluation to market value, as well as Absa Capital's hedge ineffectiveness. This includes the interest income and interest expense from these instruments and related funding cost. This also includes similar activities from the African operations.

Non-current assets and liabilities held for sale

Assets and liabilities held for sale are those non-current assets and liabilities where it is highly probable that the carrying amount will be recovered principally through a sale transaction within 12 months from the date of classification. For the sale to be considered highly probable, board approval is required for the plan to sell the assets and liabilities, and an active programme to locate a buyer and complete the plan must have been initiated.

Assets held for sale are valued at the lower of its carrying amount and fair value less cost to sell.

Non-interest income

Non-interest income consists of the following statement of comprehensive income line items: net fee and commission income, net insurance premium income, net insurance claims and benefits paid, changes in investment and insurance liabilities, gains and losses from banking and trading activities, gains and losses from investment activities as well as other operating income.

Definitions

Non-interest income as percentage of total operating income

Non-interest income as a percentage of income from operations. Income consists of net interest income and non-interest income.

Non-performing advances

A loan is considered non-performing once its delinquency reaches a trigger point, this is typically when interest is suspended (in accordance with Absa's policy) or if the loan is moved to the legal environment for recovery. As a consequence, a loan that has defaulted is not necessarily non-performing (unless certain criteria are met).

Non-performing advances ratio

Non-performing advances as a percentage of gross loans and advances to customers.

Price-to-earnings (P/E) ratio

The closing price of ordinary shares divided by headline earnings per share for the year.

Weighted average number of ordinary shares in issue

The number of ordinary shares in issue at the beginning of the year increased by ordinary shares issued during the year, weighted on a time basis for the period during which they participated in the income of the Group, less treasury shares held by Absa Group entities in the Group, weighted on a time basis for the period during which the entities held these shares.

These definitions should be read in conjunction with the Group's accounting policies, which also clarify certain terms used.

Administrative information

Controlling company

Absa Group Limited

Registration number: 1986/003934/06
Authorised financial services and registered credit provider (NCRCP7)
Incorporated in the Republic of South Africa
ISIN: ZAE000067237
JSE share code: ASA
Issuer code: AMAGB

Registered office

3rd Floor, Absa Towers East
170 Main Street, Johannesburg, 2001
Postal address: PO Box 7735, Johannesburg, 2000
Telephone: (+27 11) 350 4000
Telefax: (+27 11) 350 4009
Email: groupsec@absa.co.za

Board of directors

Group independent non-executive directors

DC Arnold, C Beggs, BP Connellan, SA Fakie, G Griffin (Group Chairman), MW Hlahla, MJ Husain, TM Mokgosi-Mwantembe, EC Mondlane Jr[1], TS Munday, SG Pretorius, BJ Willemse

Group non-executive directors

YZ Cuba, BCMM de Vitry d'Avaucourt[2], AP Jenkins[3], R Le Blanc[3]

Group executive directors

DWP Hodnett, M Ramos (Group Chief Executive), LL von Zeuner (Deputy Group Chief Executive)

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

Transfer secretaries

South Africa

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Telephone: (+27 11) 370 5000
Telefax: (+27 11) 370 5271/2

ADR depositary

BNY Mellon

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Telephone: +1 212 815 2248

Sponsor

J P Morgan Equities Limited

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Telephone: (+27 11) 507 0300
Telefax: (+27 11) 507 0503

Auditors

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Ernst & Young Inc.

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Group Secretary

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Other contacts

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