# Absa Group Limited

## Annual report 2005

ABSA

# Investment profile

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

The Group also provides products and services to selected markets in the United Kingdom, Germany, China, Singapore and Angola, Mozambique, Namibia, Tanzania and Zimbabwe in Africa.

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

| Key statistics for the year ended 31 March 2005 | | |
|---|---|---|
| Total assets | ➔ | R348,7 billion |
| Headline earnings | ➔ | R5 484 million |
| Market capitalisation | ➔ | R49,4 billion |
| Number of employees | ➔ | 32 515 |
| Number of customers | ➔ | 7 million |
| Number of staffed outlets | ➔ | 675 |
| Number of ATMs | ➔ | 5 078 |
| National long-term credit rating | ➔ | za AA (CA-Ratings),<br>AA- (zaf) (Fitch Ratings) |

# Vision, purpose, mission, values and stakeholders

**Vision** | To be a customer-focused financial services group in targeted market segments.

**Purpose** | To be partners in growing South Africa's prosperity . . .

**Mission** | . . . by being the leading financial services group serving all our stakeholders.

**Values**

- Value our people and treat them with fairness.
- Demonstrate integrity in all our actions.
- Strive to exceed the needs of our customers.
- Take responsibility for the quality of our work.
- Display leadership in all we do.



## Stakeholders

Absa is committed to creating value for all its stakeholders.

| | |
|---|---|
| **Shareholders** | • Delivering sustainable earnings growth. |
| **Customers** | • Creating lasting and mutually beneficial relationships. |
| **Employees** | • Creating a positive, supportive, healthy and diversity-friendly working environment. |
| **The community** | • To be a partner in growing South Africa's prosperity through responsible corporate citizenship. |
| **Governments and regulators** | • Building a better South Africa and Africa by supporting transformation and the development of financial services markets. |

# The achievement of Absa's strategies

During the year under review, the focus on the Group's identified strategic focus areas was maintained, with the aim of living its vision and achieving sustainable value creation for all Absa's stakeholders.

The emphasis remained on six areas: customer-centricity, the diversification of earnings streams, enhanced efficiencies, capital and risk management, black economic empowerment and intellectual capital development.

The progress made in these areas was as follows:

| | |
|---|---|
| **Customer-centricity** | • The strategy has resulted in a specific focus on the total customer experience, an enhanced product range, the introduction of value-added benefits and increased product usage.<br>• The extensive use of data mining and customer information analytics has proactively identified customer needs. |
| **Diversification of earnings streams** | • Continued success of the Group's bancassurance model.<br>• A number of joint ventures and alliances have facilitated increased diversification. |
| **Cost-efficiency** | • Absa has continued to reduce its cost-to-income ratio, which dropped to 56,8% for the 2005 financial year (2004: 57,1%).<br>• The focus is currently on technology advancement and ensuring that the Group has a cost-conscious culture. |
| **Capital and risk management** | • Absa is well capitalised: Absa Group and Absa Bank have a capital adequacy ratio of 12,2% and 11,7% respectively as at 31 March 2005.<br>• Capital management has been optimised to ensure the maximisation of shareholder returns.<br>• Absa's Basel II programme is on track for the planned 2008 implementation date. |
| **Black economic empowerment (BEE)** | • Progress has been made in the areas of human resource development, procurement, access to financial services and empowerment financing.<br>• Regarding BEE ownership and control, the Group has undertaken a broad-based BEE ownership transaction. |
| **Intellectual capital development** | • Further entrenchment of the Group's identified core capabilities. |

# Financial performance

Absa posted headline earnings of R5 484 million (841,0 cents per share) for the year ended 31 March 2005. This represents growth of 23,3% when compared with the headline earnings of R4 447 million (688,5 cents per share) for the previous financial year. Diluted headline earnings per share increased by 18,8% to 811,1 cents per share.

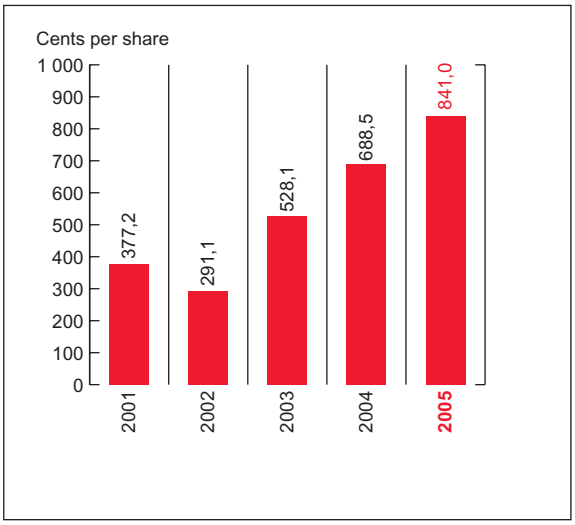
Return on average assets improved from 1,55% to 1,68% and the Group delivered a return of 25,5% on average shareholders' equity (March 2004: 24,6%).

A final dividend of 200 cents per share has been declared, bringing the total dividend for the year to 295 cents per share, 62,1% higher than the 182 cents paid in respect of the 2004 financial year. Absa's dividend cover has been reduced to 2,9 times owing to the Group's healthy capital position.

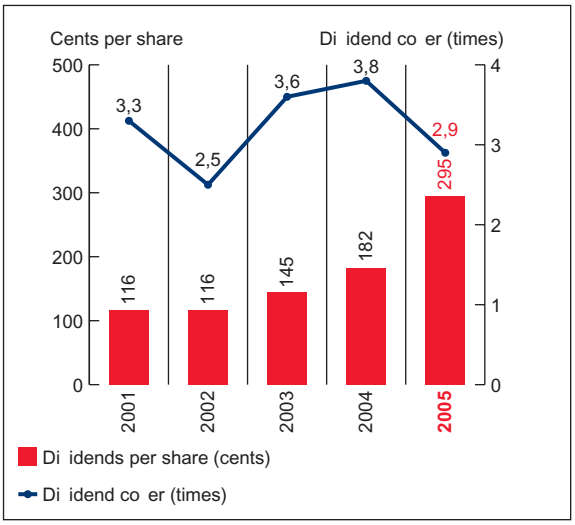
The core drivers of the Group's performance were strong advances growth, retention and expansion of market share, a continued improvement in asset quality as well as strong transaction volume growth.

Absa achieved these earnings against a backdrop of enhanced global and domestic economic growth, a strong rand, low inflation, stable interest rates, strong growth in credit demand and intensified competition.

**Headline earnings per share**




**Di idends per share**



# Group salient features

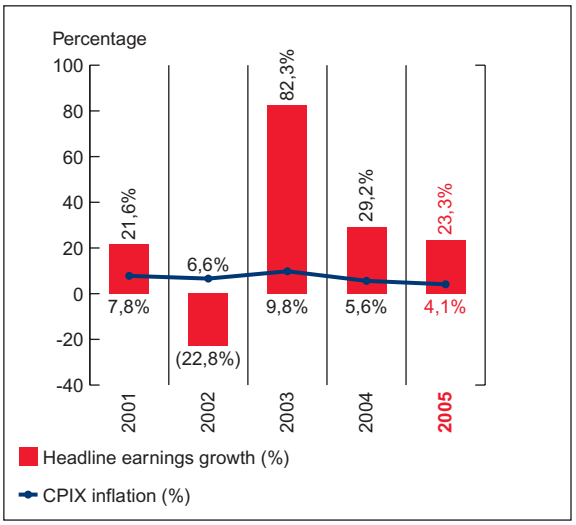
for the year ended 31 March

| | **2005** | 2004 | Change % | 2003 |
|---|---|---|---|---|
| **Income statement (Rm)** | | | | |
| Headline earnings | **5 484** | 4 447 | 23,3 | 3 441 |
| Attributable income | **5 511** | 4 505 | 22,3 | 3 391 |
| **Balance sheet (Rm)** | | | | |
| Total assets | **348 686** | 306 848 | 13,6 | 269 064 |
| Total advances | **268 240** | 222 395 | 20,6 | 199 297 |
| Total deposits and current accounts | **278 582** | 234 380 | 18,9 | 222 056 |
| **Financial performance (%)** | | | | |
| Return on average equity | **25,5** | 24,6 | | 21,4 |
| Return on average assets, excluding acceptances | **1,68** | 1,55 | | 1,35 |
| **Operating performance (%)** | | | | |
| Net interest margin on average assets | **3,27** | 3,40 | | 3,45 |
| Net interest margin on average interest-bearing assets | **3,69** | 3,87 | | 3,80 |
| Charge for impairment of advances to average advances | **0,52** | 0,90 | | 1,02 |
| Non-performing advances as a % of total advances | **2,2** | 3,8 | | 5,1 |
| Non-interest income as a % of operating income | **53,0** | 52,5 | | 50,8 |
| Cost-to-income ratio | **56,8** | 57,1 | | 60,0 |
| **Share statistics (millions)** | | | | |
| Number of shares in issue | **655,1** | 651,1 | | 651,5 |
| Weighted average number of shares | **652,1** | 645,9 | | 651,5 |
| Diluted weighted average number of shares | **677,3** | 651,3 | | 651,5 |
| **Share statistics (cents)** | | | | |
| Headline earnings per share | **841,0** | 688,5 | 22,1 | 528,1 |
| Diluted headline earnings per share | **811,1** | 682,8 | 18,8 | 528,1 |
| Earnings per share | **845,1** | 697,5 | 21,2 | 520,5 |
| Diluted earnings per share | **815,1** | 691,7 | 17,8 | 520,5 |
| Dividends per share relating to income for the year | **295,0** | 182,0 | 62,1 | 145,0 |
| Dividend cover (times) | **2,9** | 3,8 | | 3,6 |
| Net asset value per share | **3 640** | 2 996 | 21,5 | 2 589 |
| **Capital adequacy (%)** | | | | |
| Absa Bank | **11,7** | 12,3 | | 11,5 |
| Absa Group | **12,2** | 13,0 | | 12,5 |
| **Employees** | | | | |
| Permanent employee complement | **32 515** | 31 658 | 2,7 | 32 356 |

# Measuring performance

Absa has a number of indicators by which it measures its performance and the resultant value creation for stakeholders. The ten most pertinent measures and Absa's achievement against them are as follows:

**Headline earnings**

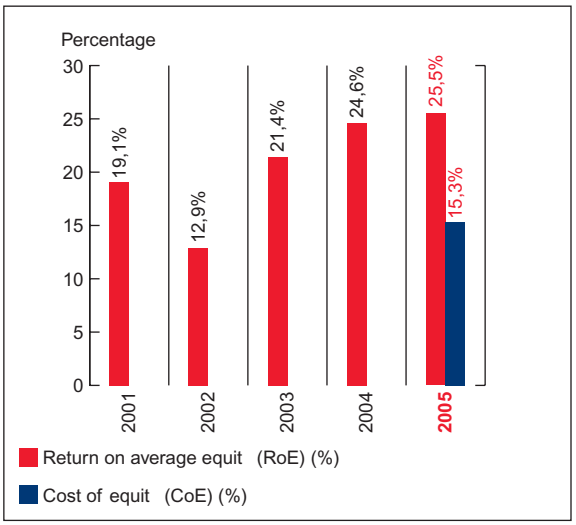



## 1. Sustainable earnings growth

The Group has grown headline earnings at 22,2% on a compounded annual growth basis for the past five years.

The Group achieved headline earnings growth of 23,3% from R4 447 million in 2004 to R5 484 million for the year ended 31 March 2005. This growth was 9,2% greater than the Group's objective of real earnings growth of 10%.

**Re urn on average equi y**

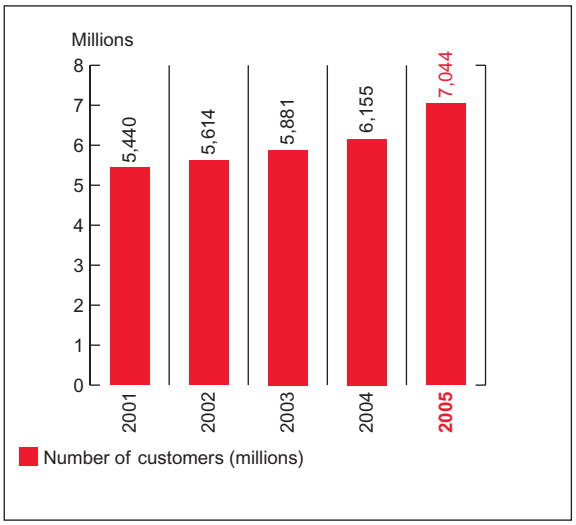



## 2. Return on average equity (RoE)

Absa increased its RoE from 24,6% in 2004 to 25,5% for 2005. This is comfortably higher than the Group's objective of achieving an RoE of at least 5% above the cost of equity (CoE), set at 15,3% for the 2005 financial year.

The Group exceeded this objective by 5,2% in the year under review, creating substantial value for shareholders.

**Cus omer numbers**




## 3. Retention and acquisition of customers

One of the Group's strategic imperatives is to be a customer-centric organisation. Absa employs strategies to ensure customer loyalty and attract new customers.

During the year, the Group grew its customer base by 888 754 customers (14,4%) from 6,2 million in March 2004 to 7,0 million in March 2005.

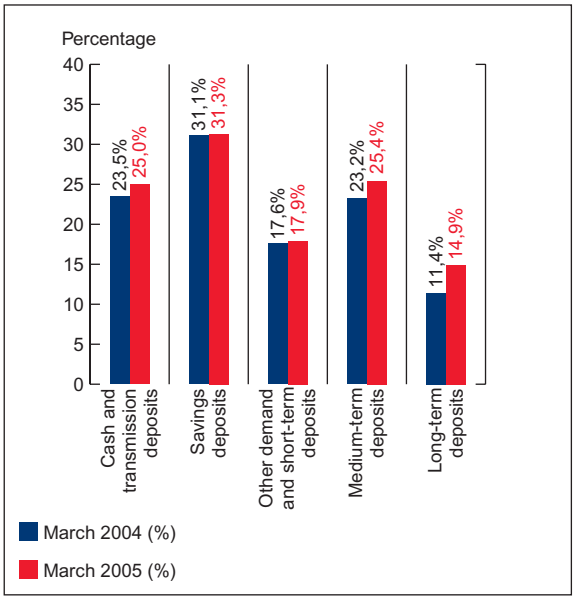
The largest growth was experienced in the mass market, where the Group increased its customer base by 20,4% for the year under review.

## 4. Retention and growth of market share

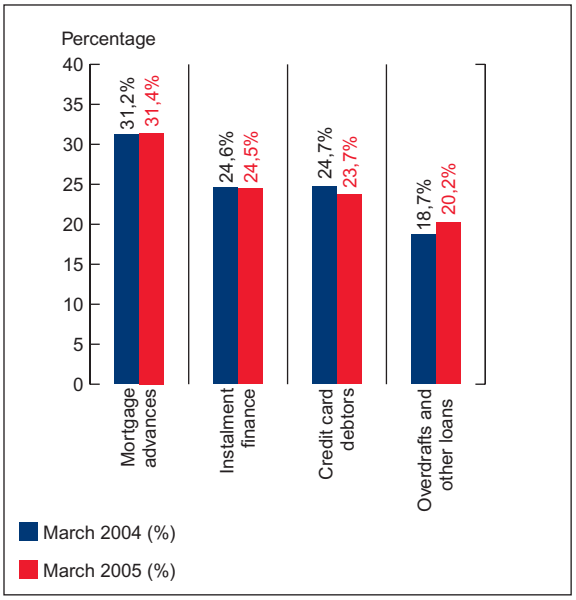
The battle for market share intensified in the year under review as players vied for leadership in certain product areas. Absa conceded some market share in the first half of the 2005 financial year, but turned its position around and recorded strong performances in most product categories in the second half.

Absa gained market share in total deposits, mortgages and overdrafts and other loans. Various initiatives are under way that will enable the Group to accelerate growth, cementing its position as the leading player in the South African retail banking market.

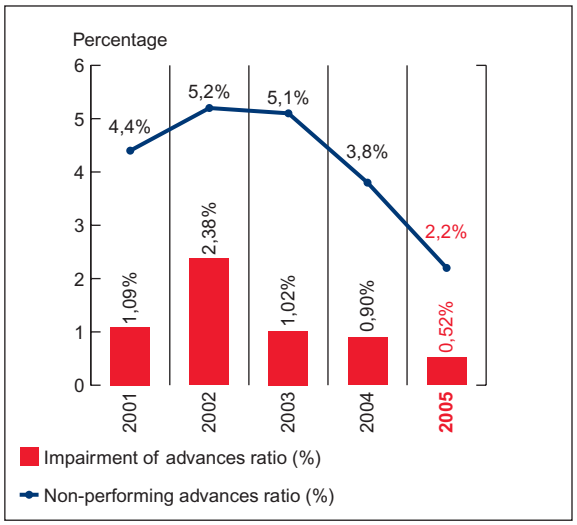
**Absa's marke share deposi s**



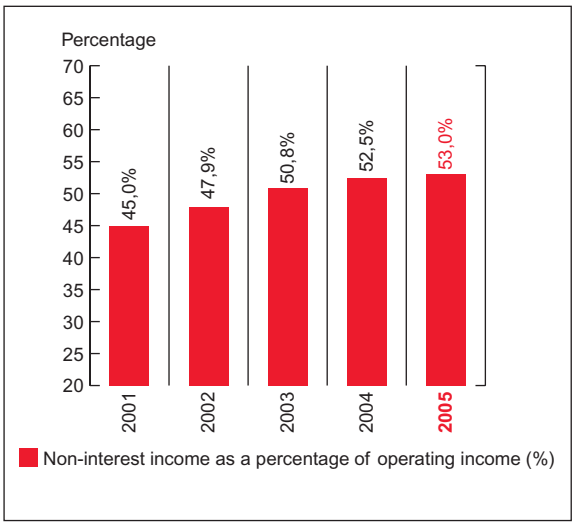

**Absa's marke share advances**



**Impairmen of advances**




**Non-in eres income**




## 5. Credit quality

Prudent credit approval criteria, further enhancements to credit management techniques and a lower interest rate environment supported the continued improvement in the quality of Absa's advances book.

As a result, the charge for the impairment of advances to average advances decreased to 0,52% for the year under review. Non-performing advances as a percentage of total advances decreased from 3,8% (March 2004) to 2,2% for the year ended 31 March 2005.

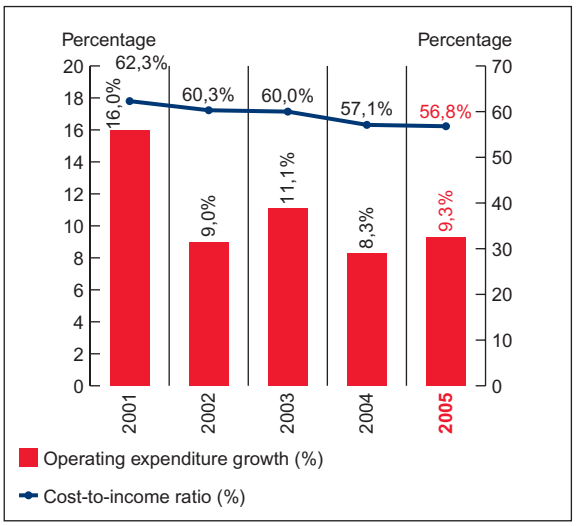
## 6. Non-interest income

Increasing non-interest income is a strategic goal for the Group, with the aim being to sustain non-interest income to total income at greater than 50%.

The contribution from non-interest income for the year under review improved marginally from 52,5% to 53,0%.

Annuity-based transaction fees, representing 65,5% of total non-interest income, grew by 16,3% in the year under review. This included increased transaction volumes, specifically in electronic banking and card processing.

**Cos - o-income ra io**




## 7. Operating expenditure

It is the Group's long-term objective to achieve a cost-to-income ratio in the mid-fifties. Absa has made great strides and has reduced this ratio from 64,7% in 1998 to the current 56,8%.

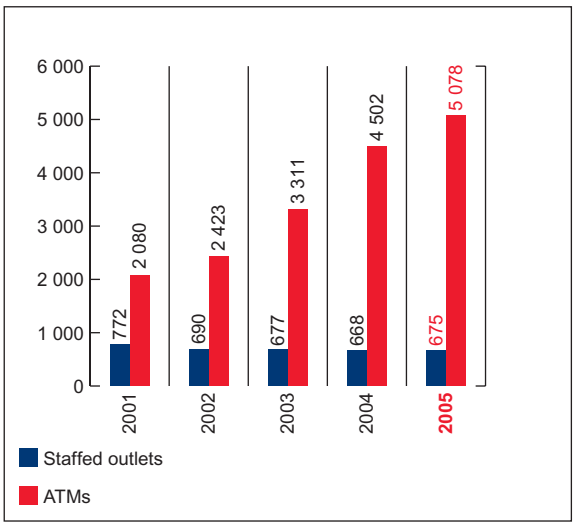
This decline was achieved despite substantial investments made in the delivery footprint and regulatory compliance initiatives.

## 8. Customer access options

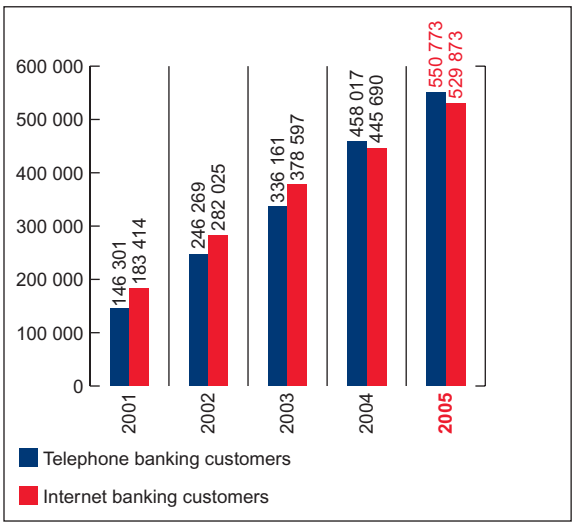
Absa remains committed to expanding its delivery reach, especially by improving its presence in rural and previously disadvantaged communities. In the year under review, the Group opened 14 new outlets, converted 31 and rolled out an additional 576 automated teller machines (ATMs).

The Group's electronic banking customer base continued to grow strongly off an already high base. The internet and telephone banking customer base grew by 18,9% and 20,3% respectively from 1 April 2004, surpassing the 500 000 customer mark in both instances.

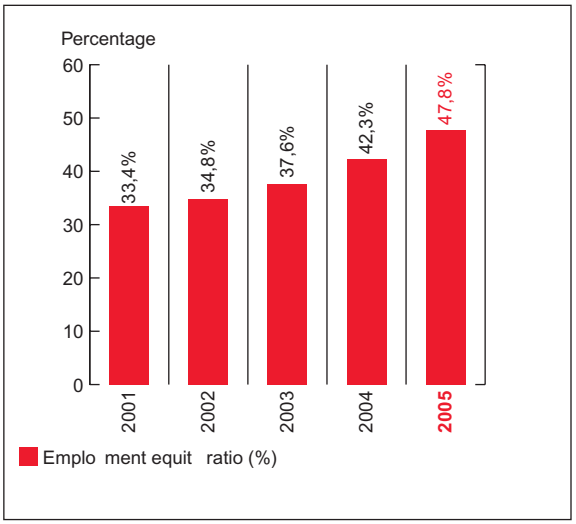
**Delivery foo prin**




**In erne and elephone banking**



**Employmen equi y**




## 9. Employee diversity and transformation

Absa aims to create a positive, supportive, healthy and diversity-friendly working environment in which employees can achieve their full potential through development opportunities and challenging work, with the assurance of being recognised and rewarded for excellent performance.

Employment equity at Absa is both a strategic focus area and a business imperative. The Group strives not only to meet, but to exceed, stakeholder expectations in respect of transformation.

Absa undertakes to employ, develop and empower people to optimise their potential and their careers, thereby assisting them in becoming valuable contributors to sustaining Absa's competitive advantage.

## 10. Credit ratings

Absa's credit ratings from major ratings agencies have remained stable for the year under review and are indicated in the table below.

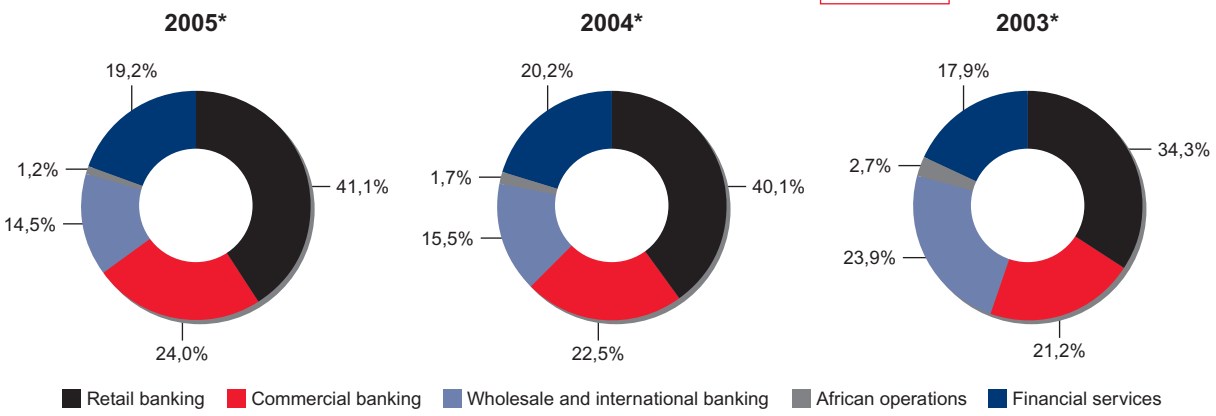
| | Fitch Ratings (November 2004) | | CA-Ratings (December 2004) | Moody's (April 2005) |
|---|---|---|---|---|
| | **Bank** | **Group** | **Group** | **Bank** |
| **National** | | | | |
| • Short term | F1+ (zaf) | F1+ (zaf) | za A1+ | Prime-1.za |
| • Long term | AA (zaf) | AA- (zaf) | za AA | Aa2.za |
| • Outlook | — | — | Stable | Stable |
| **Local currency** | | | | |
| • Short term | — | — | — | Prime-1 |
| • Long term | BBB+ | BBB | — | A1 |
| • Outlook | Stable | Stable | — | Stable |
| **Foreign currency** | | | | |
| • Short term | F3 | F3 | — | Prime-2 |
| • Long term | BBB | BBB | — | Baa 1 |
| • Outlook | Stable | Stable | — | Positive |

# Operational review

An all-round good performance was achieved by the Group's respective business areas. The key performance drivers of the Group's business areas are encapsulated in this section of the report.

## Segmental headline earnings

| | **2005 Rm** | 2004 Rm | 2003 Rm |
|---|---|---|---|
| Retail banking | **2 406** | 1 771 | 1 159 |
| Commercial banking | **1 403** | 992 | 714 |
| Wholesale and international banking | **843** | 684 | 807 |
| African operations | **72** | 75 | 91 |
| Financial services | **1 124** | 890 | 604 |
| Other Group activities | **(364)** | 35 | 66 |
| **Total headline earnings** | **5 484** | 4 447 | 3 441 |




**Calculated after the allocation of capital, and funding centre and corporate centre costs.*

## Retail banking

Retail banking posted an exceptionally good result, with headline earnings growth of 35,9% to R2 406 million for the year ended 31 March 2005. This was achieved against a backdrop of the lowest South African interest rates for more than 20 years, continued growth in the residential property market and an increasing propensity for consumers to purchase goods on credit.

The contribution to headline earnings of the various business units was as follows:

| | **2005 Rm** | 2004 Rm | Change % | 2003 Rm |
|---|---|---|---|---|
| **Segment-focused business units** | | | | |
| • **High net worth market** ➔ Absa Private Bank | **18** | 1 | >100,0 | – |
| • **Affluent market** ➔ Personal Financial Services* | **203** | 171 | 18,7 | 183 |
| • **Middle market** ➔ Retail Banking Services | **404** | 263 | 53,6 | 231 |
| • **Mass market** ➔ Flexi Banking Services | **203** | 125 | 62,4 | 96 |
| • **Small business market** ➔ Small Business | **290** | 234 | 23,9 | 164 |

**MLS was incorporated into Personal Financial Services. MLS Bank has surrendered its banking licence.*

| | 2005 Rm | 2004 Rm | Change % | 2003 Rm |
|---|---|---|---|---|
| **Product-focused business units** | | | | |
| • **Credit cards** ➔ Absa Card | **440** | 355 | 23,9 | 279 |
| • **Home loans** ➔ Absa Home Loans | **897** | 764 | 17,4 | 447 |
| **Other** | | | | |
| • Repossessed Properties | **(49)** | (142) | 65,5 | (241) |
| **Total** | **2 406** | 1 771 | 35,9 | 1 159 |

The key performance drivers were:

- strong advances growth, particularly from mortgage and credit card loans;
- a marked improvement in credit quality owing to the low interest rate environment and the maintenance of prudent credit approval criteria;
- strong growth in fees and commissions as a result of increased transaction volumes;
- strong growth in customer numbers;
- more focused cross-selling to the existing customer base;
- innovative product solutioning, coupled with the introduction of value-added benefits; and
- operating expenses growth lower than top-line growth, despite substantial investments in new infrastructure and the customer service support base.

## Commercial banking

The commercial banking segment achieved impressive headline earnings growth of 41,4%. This can be ascribed to an active business market, specifically in the area of commercial property finance, and record new vehicle sales.

The contribution to headline earnings was as follows:

| | 2005 Rm | 2004 Rm | Change % | 2003 Rm |
|---|---|---|---|---|
| **Segment-focused business unit** | | | | |
| • **Medium and large business market** ➔ Business Banking Services | **844** | 589 | 43,3 | 425 |
| **Product-focused business unit** | | | | |
| • **Vehicle and asset finance** ➔ Absa Vehicle and Asset Finance (AVAF) | **559** | 403 | 38,7 | 289 |
| **Total** | **1 403** | 992 | 41,4 | 714 |

Business Banking Services recorded strong growth, which can be attributed to:

- solid advances and deposit growth;
- market share gains in listed commercial property finance, agribusiness and the large and medium business segments;
- continued leadership in the public sector market;
- a further improvement in the quality of the advances book, resulting in a declining impairment ratio;
- a significant increase in electronic banking transactions; and
- a specific focus on identifying and refining efficiencies in Business Banking Services' operating model, specifically with a view to improving customer service.

Absa Vehicle and Asset Finance also grew strongly, primarily as a result of:

- strong advances growth in a buoyant vehicle market, coupled with the formation of strategic alliances to increase referrals from dealers;
- increased funding of joint venture companies and subsidiaries;
- increased diversification outside the motor vehicle industry; and
- continued efficiency enhancements as a result of improving processes, centralising back-office activities and leveraging Absa's infrastructure.

## Wholesale and international banking

After a slow start to the year, the contribution from wholesale and international banking improved during the second six months of the financial year, despite the demand for credit in the corporate sector remaining sluggish. Absa Corporate and Merchant Bank's risk appetite for certain products and exposures has been reduced. This, together with a focus on providing customers with integrated solutions, ensures that the area is well positioned for future growth.

Headline earnings for the past three years was as follows:

| | **2005 Rm** | 2004 Rm | Change % | 2003 Rm |
|---|---|---|---|---|
| **Wholesale and international banking** | **843** | 684 | 23,2 | 807 |

- **The domestic operations*** include corporate and merchant banking (Absa Corporate and Merchant Bank (ACMB)) and asset management (Abvest Holdings (Proprietary) Limited)
- **International operations*:**
  - Absa Bank London
  - Absa Bank Singapore
  - Absa Bank (Asia) Limited (Hong Kong)
  - Bankhaus Wölbern & Co (Hamburg, Germany)

**The Group's wholesale and international banking operations (with the exclusion of Bankhaus Wölbern & Co) are managed on an integrated basis and are no longer reported separately. The profit for Bankhaus Wölbern & Co amounted to R57 million for the 2005 financial year (2004: R57 million).*

Wholesale and international banking's performance can be attributed to:

- a strong performance from merchant banking, particularly from the capital and debt markets and debt solutions divisions, as well as an improved performance from transactions concluded in the project finance area;
- trading showing a decline as a result of a stable, but directionless, trading environment, whereas the dependence on income from customer flows showed an encouraging increase in line with the division's aim of increasing earnings from this source;
- the implementation of innovative transactions and new products in the trading and merchant banking areas during the year, including NewGold (the first gold exchange traded fund in South Africa) and the first commercial mortgage-backed securitisation in South Africa;
- the satisfactory performance of the Group's international wholesale banking offices because of strong commodity prices and demand, especially from China; and
- the balance sheets of the international operations contracting during the year, in line with the Group's reduced risk appetite in these markets.

## African operations

Good operational performances from African operations outside South Africa were not enough to offset the impact of the strong rand. The headline earnings contribution declined marginally from the previous year.

Headline earnings for the past three years was as follows:

| | **2005 Rm** | 2004 Rm | Change % | 2003 Rm |
|---|---|---|---|---|
| **African operations*** | **72** | 75 | (4,0) | 91 |

- **Tanzania** ➔ National Bank of Commerce Limited (NBC) (55% holding)
- **Mozambique** ➔ Banco Austral, Sarl (80% holding)
- **Namibia** ➔ Capricorn Investment Holdings Limited (of which Bank Windhoek is a subsidiary) (35,05% holding)
- **Zimbabwe** ➔ Commercial Bank of Zimbabwe Limited (CBZ) (25,9% holding)**

**A 50% holding in Banco Comercial Angolano was acquired in April 2005.*

***On 29 May 2005, Absa's 25,9% shareholding in the Commercial Bank of Zimbabwe Limited was transferred to CBZ Holdings Limited. After consolidation, Absa's investment equates to 24,9%.*

For the year under review, all the Group's African operations continued to trade profitably. The key performance drivers were:

- a steady growth in retail deposits and commercial assets; and
- improved operational efficiencies.

## Financial services

The Group's bancassurance activities continued to deliver a solid operational performance. This, together with a solid contribution from the equity portfolio, culminated in a growth in headline earnings of 26,3% for the year under review.

Headline earnings for the past three years was as follows:

| | **2005 Rm** | 2004 Rm | Change % | 2003 Rm |
|---|---|---|---|---|
| **Financial services** | **1 124** | 890 | 26,3 | 604 |

**Life assurance** ➔ Absa Life Limited

**Short-term insurance** ➔ Absa Insurance Company Limited, Absa Syndicate Investments Holdings Limited and Absa Manx Insurance Company Limited

**Advisory services** ➔ Absa Brokers (Proprietary) Limited, Absa Consultants and Actuaries (Proprietary) Limited and Absa Health Care Consultants (Proprietary) Limited

**Wealth management** ➔ Absa Trust Limited, Absa Fund Managers Limited, Absa Mortgage Fund Managers (Proprietary) Limited, Absa Investment Management Services (Proprietary) Limited, Absa Stockbrokers (Proprietary) Limited, Absa Portfolio Managers (Proprietary) Limited and Absa's 50% interest in Stonehage Financial Services Holdings Limited*

**Sold during the year under review.*

The key performance drivers were:

- a continued strong operational performance from Absa Life, specifically in respect of credit life products;
- excellent underwriting results in the short-term market owing to favourable weather conditions, the correction of underinsurance levels and claims management efficiencies;
- Absa Brokers increasing its market share in a very competitive market;
- the introduction of new products and product bundling, facilitating the capturing of a larger share of the customer's wallet; and
- more assets under management as a result of new business growth and improved financial markets.

## Other Group activities

A number of divisions provide services that facilitate or enhance the service delivery of the respective business units. The Group's capital and funding centre, property interests, shared services, specialist functions and strategic investments are included under other Group activities.

The contribution to headline earnings for the past three years was as follows:

| | **2005 Rm** | 2004 Rm | Change % | 2003 Rm |
|---|---|---|---|---|
| Capital and funding centre* | **(159)** | (60) | (>100,0) | — |
| Corporate centre** | **(205)** | 95 | (>100,0) | 66 |
| **Total** | **(364)** | 35 | (>100,0) | 66 |

**Interest rate risk is managed centrally and business units transfer this risk to the capital and funding centre based on the matched funds transfer pricing methodology. A negative contribution reflects the extent to which the negative impact of declining interest rates was not hedged.*

*The unhedged interest rate risk positions were well within the Group's approved risk appetite. The capital and funding centre is accounted as part of banking operations.*

***The corporate centre includes the cost of Group initiatives that are retained at a corporate level and not charged to the business units, as well as STC paid on the Group's dividend. In addition, the following business units are included:*

*– AllPay Consolidated Investment Holdings (Proprietary) Limited*

*– Absa Development Company Holdings (Proprietary) Limited*

*– Real Estate Asset Management*

The decline in headline earnings from the corporate centre can be attributed to strategic initiatives and compliance-related project costs that were not allocated to the Group's respective business units owing to the current developmental nature of the work involved.

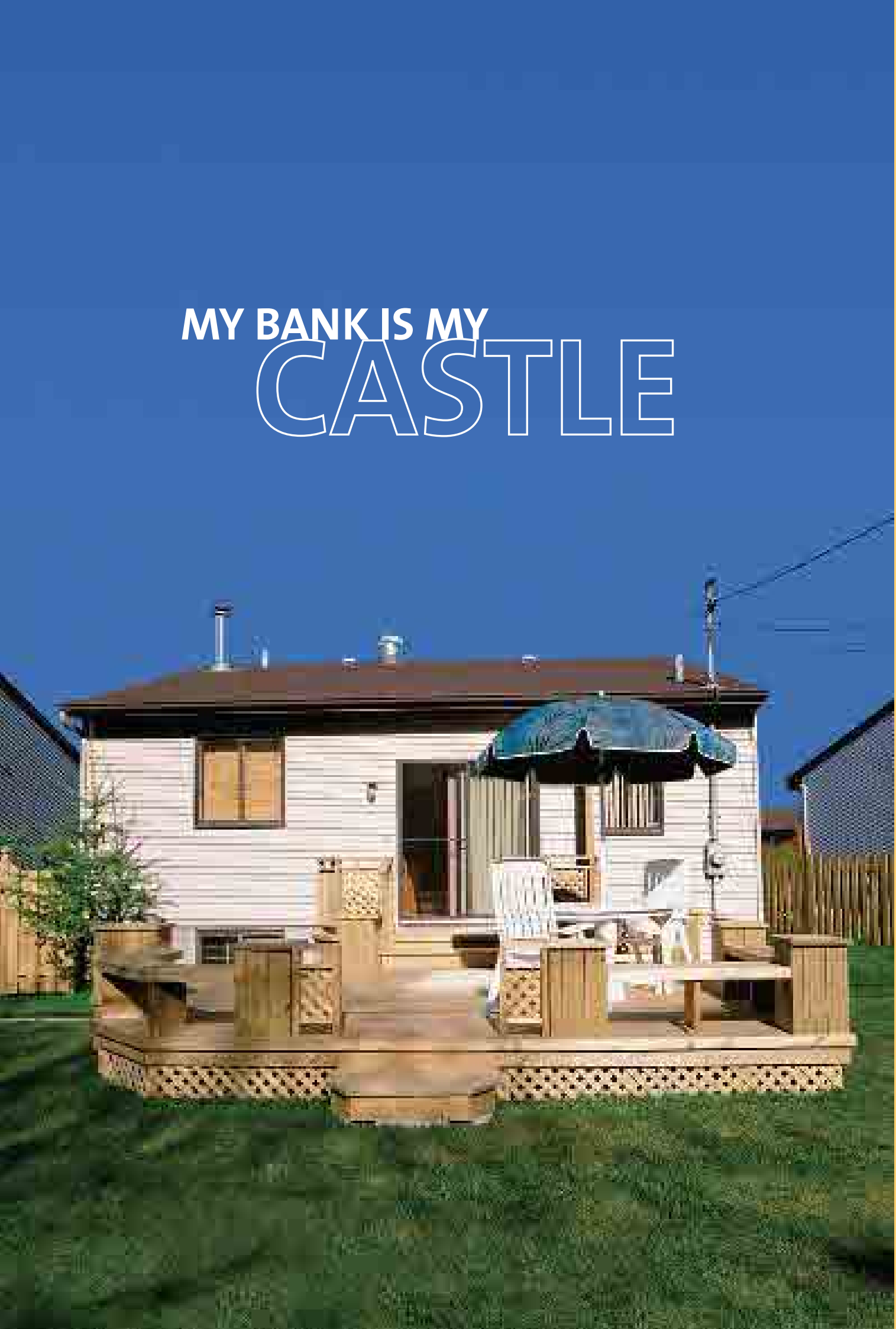
# Strategies to ensure sustainable value creation in the short to medium term

The Group's focus areas have been adjusted to further facilitate Absa's intent of becoming the leading financial services business in South Africa.

The priorities for the year ahead are indicated below.

| | |
|---|---|
| **To be the financial services group of choice** | • The customer is Absa's number one priority. Emphasis is being placed on enhancing the customer experience through service excellence and education. In addition, Absa will continue to ensure that its distribution footprint meets customer requirements. |
| **Leadership in the black market** | • The Financial Sector Charter is a strategic imperative and the Group is committed to achieving the targets set by the charter.<br>• A number of products and solutions specifically aimed at enhancing the Group's share of the black market have been launched. A specific emphasis is being placed on obtaining an in-depth understanding of customers and their financial services needs. |
| **A balanced business portfolio** | • Growing Absa's wholesale and African operations will diversify the Group's earnings streams. ACMB endeavours to increase its primary customer relationships, as increased customer flows will result in a more sustainable earnings base. Earnings from other African operations will be increased through further acquisitions.<br>• Absa is also optimising its successful bancassurance model and leveraging off strategic alliances and joint ventures. |
| **A cost-efficient financial services business** | • The Group is building a cost-conscious culture, streamlining processes and efficiently deploying infrastructure and resources to optimise cost-efficiency. |
| **Retention and attraction of skills** | • A particular emphasis is being placed on human capital to enhance leadership skills, ensure the provision of development opportunities and reward employees for excellent performance. |
| **Effective capital and risk management** | • The Group aims to manage its capital by creating a balance between maximising shareholder returns, meeting regulatory requirements and allowing for organic growth.<br>• Absa also focuses on ensuring that it has an integrated and effective risk management framework, including ensuring compliance with the proposed Basel II requirements. |

# MY BANK IS MY CASTLE



# The operating environment

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Financial services organisations operating in South Africa had to adapt to a lower inflation and interest rate environment in 2004/2005. In addition to this, competition intensified, customer sophistication increased and regulatory challenges increased compliance pressures.

# The operating environment

## A number of developments have continued to shape the global financial services industry.

### Introduction

Absa operates primarily in the South African financial services industry, which includes banks, assurance, insurance and wealth management companies. The industry represented 27,4% of the value of all listed companies on the JSE Limited as at 31 March 2005.

A number of developments have continued to shape the global financial services industry during the year under review. These developments were further compounded by changes in the South African economy and unique developments impacting the domestic financial services industry.

### Significant developments during the year under review

Financial services organisations operating in South Africa had to adapt to a lower inflation and interest rate environment in 2004/2005. In addition to this, competition intensified, customer sophistication increased and regulatory challenges increased compliance pressures.

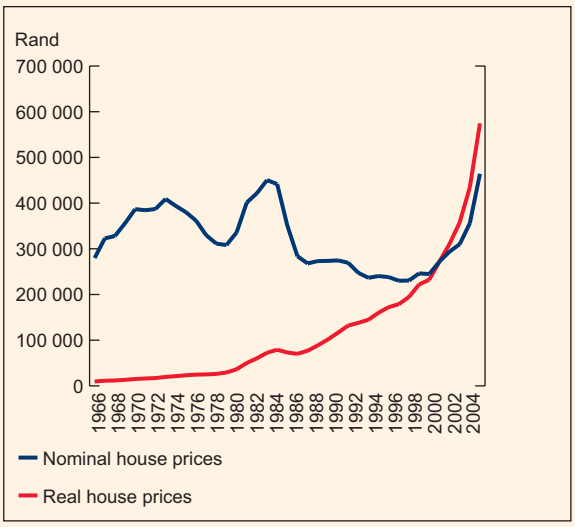
The year under review will be remembered for two developments:

- The offer by Barclays Bank PLC to acquire a majority stake in Absa. This was a vote of confidence by a foreign bank in the domestic industry; and
- A number of black economic empowerment transactions were announced and implemented. Absa, through Batho Bonke, and a number of other financial players sold shareholdings to various empowerment organisations.

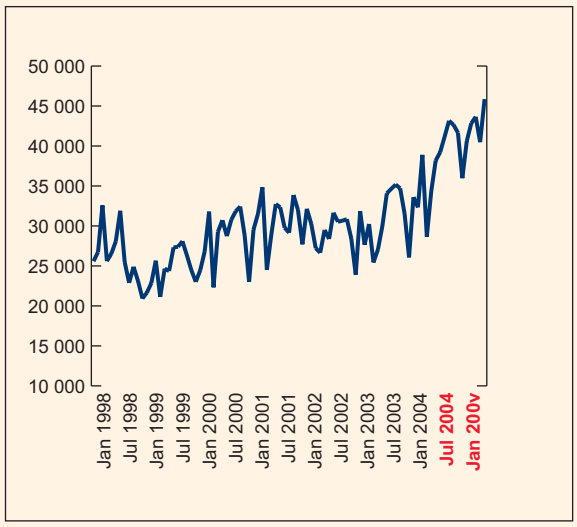
### The South African economic environment

The financial sector benefited from the low inflation environment brought about by a prolonged period of disciplined monetary and fiscal policies, and the strong appreciation of the rand since 2002. This allowed the South African Reserve Bank to reduce the repurchase rate by 50 basis points in August 2004. Although this reduction was much smaller than the 450 basis points in reductions that took place in 2003, it further stimulated the demand for credit and supported household consumption expenditure growth. Consequently, motor vehicle sales grew by 23% for the 2004/2005 period (compared with 2003/2004) and property prices scaled new heights.

**House prices (annual)**




**Total ehicle sales**




For consumers, 2004 was vastly better than 2002 and 2003. Real household consumption expenditure rose by 6,1% compared with 3,2% and 3,4% for 2002 and 2003 respectively. In current price terms, there was also an improvement from 8,9% growth in 2003 to 10,6% in 2004. However, this growth was still lower than the nominal growth experienced in 2002, which was fuelled far more by cost-push inflation than by real demand growth.

Although a part of the 2004 consumption boom has been driven by strong credit growth (causing concern on the part of certain policymakers and analysts), a significant part has also resulted from strong disposable income growth. Real disposable income growth for 2004 measured 5,6% – up from 3% and 4% for 2002 and 2003 respectively. This growth emanated from a combination of strong advances in nominal disposable income as well as a significant decline in consumer price inflation compared with 2003.

For the time being, household balance sheets still look fairly healthy and will be supported by real growth in income, slightly higher employment and relatively low inflation and interest rates. However, some concern remains with respect to the prospects for inflation and the current account on the balance of payments in 2006, which might put the rand under pressure and necessitate some monetary policy tightening.

## Key trends and developments

### Heightened demand for credit

A strong increase in spending and borrowing (debt-to-disposable income exceeded 60% by the first quarter of 2005, significantly higher than the 49,1% at which the credit demand cycle bottomed out in the fourth quarter of 2002) was reflected in a strong demand for credit in the majority of the advances categories, with the exception of overdrafts and other loans.

## Credit growth – South African market (percentage year-on-year (average of quarterly figures))

| | For the year ended 31 March | | | |
|---|---|---|---|---|
| | 2003 % | 2004 % | **2005 %** | 2006 (Forecast) % |
| Instalment finance | 14,2 | 16,6 | **19,5** | 21,2 |
| Mortgage advances | 12,0 | 15,0 | **22,3** | 25,1 |
| Credit card debtors | 11,0 | 15,8 | **24,8** | 29,0 |
| Overdrafts and other loans | 7,0 | 8,8 | **3,0** | 12,5 |
| Total bank assets | 13,4 | 22,3 | **5,8** | 16,7 |

The battle for market share intensified in 2004 as players tried to establish dominance in certain product areas. Absa lost some market share in the first half of 2004, but the Group turned its position around and recorded strong performances in most product categories late in the year.

Absa gained market share in the areas of total deposits, mortgages, and overdrafts and other loans. Various initiatives are under way that will enable the Group to accelerate growth even further, cementing its position as the leading player in the South African retail banking market.

| | Absa's market share at 31 March | | | | | Growth for the year ended 31 March 2005 | |
|---|---|---|---|---|---|---|---|
| | 2001 % | 2002 % | 2003 % | 2004 % | **2005 %** | **Absa %** | The market % |
| **Advances** | | | | | | | |
| Mortgage advances | 31,1 | 30,4 | 32,1 | 31,2 | **31,4** | **25,4** | 24,8 |
| Instalment finance | 25,4 | 23,5 | 25,4 | 24,6 | **24,5** | **19,8** | 20,6 |
| Credit card debtors | 20,6 | 22,5 | 25,1 | 24,7 | **23,7** | **23,1** | 28,4 |
| Overdrafts and other loans | 19,5 | 20,1 | 20,7 | 18,7 | **20,2** | **15,7** | 7,4 |
| Total advances (excluding foreign currency loans and advances) | 23,7 | 23,2 | 24,8 | 23,7 | **25,1** | **22,3** | 15,7 |
| **Deposits** | | | | | | | |
| Cash and transmission | 24,1 | 26,8 | 25,7 | 23,5 | **25,0** | **22,9** | 15,6 |
| Savings deposits | 23,9 | 22,5 | 27,1 | 31,1 | **31,3** | **11,7** | 10,9 |
| Other demand and short-term deposits | 16,1 | 16,1 | 17,4 | 17,6 | **17,9** | **9,0** | 7,5 |
| Medium-term deposits | 27,9 | 28,9 | 28,0 | 23,2 | **25,4** | **32,9** | 21,6 |
| Long-term deposits | 22,9 | 19,1 | 19,5 | 11,4 | **14,9** | **47,6** | 13,3 |
| **Total deposits** | 21,2 | 21,6 | 22,4 | 19,9 | **21,4** | **21,8** | 13,2 |

### Black economic empowerment and the Financial Sector Charter

The Financial Sector Charter (FSC) was signed on 17 October 2003 with the aim of enhancing black participation in the financial services industry. To achieve this aim, Absa's broad-based black economic empowerment transaction, effective 1 July 2004, was approved by shareholders. During the year under review, the Standard Bank Group and FirstRand Limited also announced their respective black economic empowerment transactions.

A key focus area of the charter is to enhance access to financial services, as limited access to financial services inhibits the individual's ability to receive or make payments and to save. Increasing access to financial services can alleviate poverty and lead to self-sufficiency and economic growth. Banks are targeting the previously excluded with appropriate and cost-effective offerings.

The Mzansi account was launched in the second half of 2004 with the aim of allowing customers limited functionality at a low cost. Its success has been phenomenal, with 827 000 accounts opened by the end of March 2005. The uptake of accounts at Absa exceeded all expectations and the Group has been able to capture a significant market share.

Banks are also extending their distribution into previously disadvantaged areas through automated teller machines (ATMs), full and mobile branches and self-service centres. Absa has placed 195 ATMs in previously disadvantaged areas and has pioneered the mobile branch concept.

Absa is optimistic that the Mzansi account, together with other initiatives, will draw a large number of people into the banking space.

The FinScope report released in October 2004 indicated that 54% of the South African adult population was unbanked and 42% had never had a bank account. Only 11% of the South African adult population had formal life assurance and 15% had funeral policies with large institutions.

### Changing market dynamics

Gaining market share in the black middle market is a priority for banks because the future growth of financial services will to some degree be driven by the black market, since traditional markets appear to be mature. According to various studies, the number of black people in the middle market increased by almost 900 000 over the past few years owing to employment opportunities, growth in the informal sector and increased social grants.

Although low inflation and interest rates contributed to the growth in consumer spending, the rising propensity to consume is also being driven by the transformation of South African society, implying a structural change in the consumer base. This is because previously disadvantaged groups' incomes are growing fastest and they have a higher propensity to consume owing to some degree of "backlog" in goods accumulation.

## South African market composition

| | Total South African population (banked and unbanked) % | Total South African banked population % | **Absa customers %** |
|---|---|---|---|
| **Race** | | | |
| Black | 76 | 56 | **41** |
| Coloured | 7 | 10 | **11** |
| Indian | 3 | 4 | **3** |
| White | 14 | 30 | **45** |
| **Age** | | | |
| 16-24 years | 26 | 14 | **13** |
| 25-34 years | 25 | 27 | **24** |
| 35-49 years | 27 | 34 | **33** |
| 50+ years | 22 | 25 | **30** |
| **Gender** | | | |
| Male | 50 | 44 | **46** |
| Female | 50 | 56 | **54** |
| **Living standards measure (LSM)** | | | |
| LSM 1 | 9 | 2 | **—** |
| LSM 2 | 13 | 4 | **2** |
| LSM 3 | 14 | 7 | **3** |
| LSM 4 | 15 | 11 | **6** |
| LSM 5 | 13 | 12 | **10** |
| LSM 6 | 14 | 19 | **18** |
| LSM 7 | 6 | 11 | **12** |
| LSM 8 | 5 | 9 | **13** |
| LSM 9 | 6 | 13 | **18** |
| LSM 10 | 5 | 12 | **18** |

Absa's profile is slightly different from that of the total banked population in South Africa. Absa tends to have more white customers in the higher LSM categories with a slightly older age profile.

### Increasing regulation and adherence to international standards

Regulation is necessary for building public confidence in the financial sector and is a key driver of competitiveness. Worldwide financial reporting irregularities, greater commitment to international standards, and transformation have contributed to a proliferation of international measures to restore good governance. Among these are the implementation of the revised Basel capital accord (Basel II) (please refer to the risk report for additional information on Basel II, contained on page 101 of this annual report) and the adoption of International Financial Reporting Standards (IFRS) (further information on IFRS is provided in the Group's annual financial statements, contained on pages 253 to 379 of this annual report).

Also impacting the highly regulated financial services sector are the Financial Intelligence Centre (FIC) Act, the Financial Intermediary and Advisory Services (FAIS) Act and the National Credit Bill (NCB). Indeed, the NCB could change the way banks operate in the South African industry in future.

| Financial Intelligence Centre (FIC) Act | Financial Intermediary and Advisory Services (FAIS) Act | National Credit Bill (NCB) |
|---|---|---|
| Because of the vast amounts of money involved in money laundering, locally and internationally, the FIC Act came into effect in 2001, creating a framework to curtail money laundering and criminalise transactions that involve gains from illegal activities. It also places the onus on employees and institutions to report such transactions. South African banks are now required to identify their customers, maintain records, provide training to employees and implement adequate internal processes and procedures. Although banks welcomed this legislation, significant costs are involved in re-identifying existing customers. | The FAIS Act was enacted in 2002 and regulates the rendering of financial advice to customers. In terms of the Act, financial services providers (FSPs) must obtain a licence before they can practice and professional conduct is controlled through codes of conduct and enforcement measures. The FAIS Act protects consumers and enhances the integrity of the industry since FSPs must comply in terms of competence, procedures, financial soundness, honesty and integrity. Complying with FAIS is less onerous than absorbing the cost of and allocating resources to combating poor practice in the industry. Absa believes it could also lead to a consolidation of FSPs because of high costs, competition and margins. | The NCB aims to improve transparency and disclosure in terms of the cost of credit, protect consumer rights, address marketing practices, and lay down rules for consumer credit assessments accommodating debt restructurings. The NCB is complex and very technical and could increase the compliance burden on banks. Once it is enacted, it will require banks to prove that affordability has been reasonably assessed, should a consumer default or become overindebted. The NCB will root out unscrupulous lenders and improve consumers' ability to compare the prices of products and services. |

HIV/Aids is more than just a health crisis, it is a social and development crisis because the rate of infection does not appear to be abating and the severity of the pandemic is one of the greatest challenges the world has ever faced.



### Enhanced consumer awareness and activism

Transaction fees received significant attention in 2004 and 2005. This emanated from heightened consumer awareness and the Competition in South Africa Banking report*, which focused on various issues that appear to hamper the effectiveness of the financial system, such as bank charges, access to the payment system, transparency and increased competition. For the year under review, Absa increased its bank charges by 4% on average and an in-depth breakdown of its fee increases was disclosed to the market. The Group is of the opinion that there is little difference in the bank charges of the large banks and that service will drive customer choice rather than pricing.

### Intensifying competition

Increased competition poses a challenge for both banks and financial services. The year under review was no exception in this regard. It was characterised by strong competition, not only from traditional players, but also from non-traditional participants and foreign banks. Competition is expected to intensify in years to come owing to the government's belief that the opening up of the banking environment to non-banks will stimulate competition, increase access to banking and lead to more affordable banking. This they intend achieving through:

- the Dedicated Banks Bill, which aims to create Tier II and Tier III organisations that will be allowed to provide limited banking services; and
- the Co-operative Banks Bill, which will create a legislative framework to regulate member-based institutions.

### The HIV/Aids pandemic

HIV/Aids is more than just a health crisis, it is a social and development crisis because the rate of infection does not appear to be abating and the severity of the pandemic is one of the greatest challenges the world has ever faced.

The recent UNAIDS Global Report on Aids (2004) stated that sub-Saharan Africa remains the hardest hit by HIV/Aids. It is estimated that almost two-thirds of the world's population living with the infection – around 25 million people – are found in this region. A number of HIV/Aids trends are as follows:

- The total number of global Aids deaths between 1981 and the end of 2003 is estimated to be 20 million. More than 1,5 million South Africans have already died of Aids, according to the South African Institute for Race Relations.

**The report was drawn up for the national treasury in April 2004 by a task team of private sector and government officials, led by economist Hans Falkena and including Micro Finance Regulatory Council chief executive officer Gabriel Davel and the head of macro-economic policy in the finance ministry, Elias Masilela.*

- Without preventative treatment, the number of Aids deaths could grow in the next 10 years to more than double the number owing to all other causes, resulting in a cumulative possible five million to seven million Aids deaths in South Africa by 2010.
- One in 10 of the general population is currently infected with HIV and this increases to one in three in the case of some age groups and communities.
- Life expectancy is expected to decline to just below 50 years of age. Teenagers living in southern Africa today have less than a 50/50 chance of reaching the age of 35.
- Young people (15-24 years old) account for half of all new HIV infections worldwide. More than 6 000 become infected with HIV every day.
- There are an estimated 1,1 million Aids orphans living in South Africa (UNAIDS – 2004 Global Report on Aids).

Population growth is expected to decline and companies will be impacted by increased absenteeism, higher recruitment and training costs, the loss of skilled people, lower productivity and reduced job performance.

Because of the short- and long-term effects of the disease, companies in South Africa have recognised that they have a responsibility to help fight the pandemic, not only because of its business impact but also to soften its social impact. Most companies now acknowledge that Aids requires a concerted effort and investment across a broad front. A large number already channel some of their development funding accordingly.

Sectoral trends in corporate social investment indicate that the largest shift has been to the health and social development sectors: from a combined 14% in 1999 to a combined 24% in 2004, reflecting the response of corporate South Africa to HIV/Aids.

Absa has been involved in combating HIV/Aids and its effects for many years, through community-based support, addressing employee wellness and focusing on business imperatives. The Absa Foundation developed a focused programme to make a contribution to the sector in 2000. The disease is a national crisis that demands the attention of the government, business and communities. Further information on Absa's involvement in HIV/Aids is in the employee (page 407) and community (page 442) sections of this report.

## Positive outlook for the South African financial services industry

A positive macro-economic environment promises good potential for the industry. Low interest and inflation rates, the still relatively low household debt to disposable income of consumers and the further improvement of cost efficiencies are expected to contribute to further growth in the financial services industry over the next few years.

## Absa has been involved in combating HIV/Aids and its effects for many years through community-based support, addressing employee wellness and focusing on business imperatives.

Household consumption expenditure growth will remain a key driving force in the economy, but is expected to slow gradually. After real growth of 6,1% last year, it is expected to grow by 6,0% in 2005 and by around 4,5% in 2006.

Durable and semi-durable consumption growth is expected to slow the most and the following risks could cause a slightly faster decline in consumer demand growth:

- Higher inflation could translate into lower real disposable income growth. If oil price increases are sustained, the impact may be worse than previously anticipated.
- The oil price rise has threatened the possibility of interest rate hikes as opposed to the possibility of further cuts. Although interest rates declined by 50 basis points in April 2005, the possibility of another cut diminishes the more oil prices escalate to levels much above $50 per barrel.
- The rising current account deficit – which reached 4,0% of GDP in the fourth quarter of 2004 – poses another threat to interest rates during the course of 2005, but especially in 2006.
- High oil prices pose significant risks to global economic growth, and this can affect disposable income via its negative impact on global demand for domestic exports.
- The rand remains key to the inflation and interest rate outlook and interest rates could remain the focus of the foreign exchange market in the coming months.

The most rapid growth in the demand components of the gross domestic product (GDP) is expected to come from real gross fixed capital formation. This is forecast to rise by 8,3% in 2005 in response to rises in capacity utilisation in the economy in recent years, with the cost of capital remaining relatively low.

The government will also provide a stimulus, with real government consumption expenditure growth projected at 5,1% for 2005. Real inventory accumulation is forecast at R2,3 billion, down from the R11,4 billion of 2004, as the economy restocks following last year's strong spending.

Trade performance is expected to continue to contain economic growth and the growth in real exports of goods and services is forecast at 6,4%. Economic growth is forecast at 4,4% for 2005, but a mild tapering off in quarterly growth as the year progresses could translate into a slightly lower growth rate in 2006.

As has been expected for some time, the residential property market has begun to cool off, with the rates of increase in house prices gradually tapering off. This is in line with the belief that the residential property market has not been in a bubble situation but rather experiencing a boom trend fuelled by strong economic fundamentals. However, irrespective of whether or not there is a bubble, a house price crash could always occur in the event of a major economic shock. The worst possible occurrence for the housing market would be a sharp oil price increase, which could bring about global recessionary conditions and rising domestic inflation and interest rates.

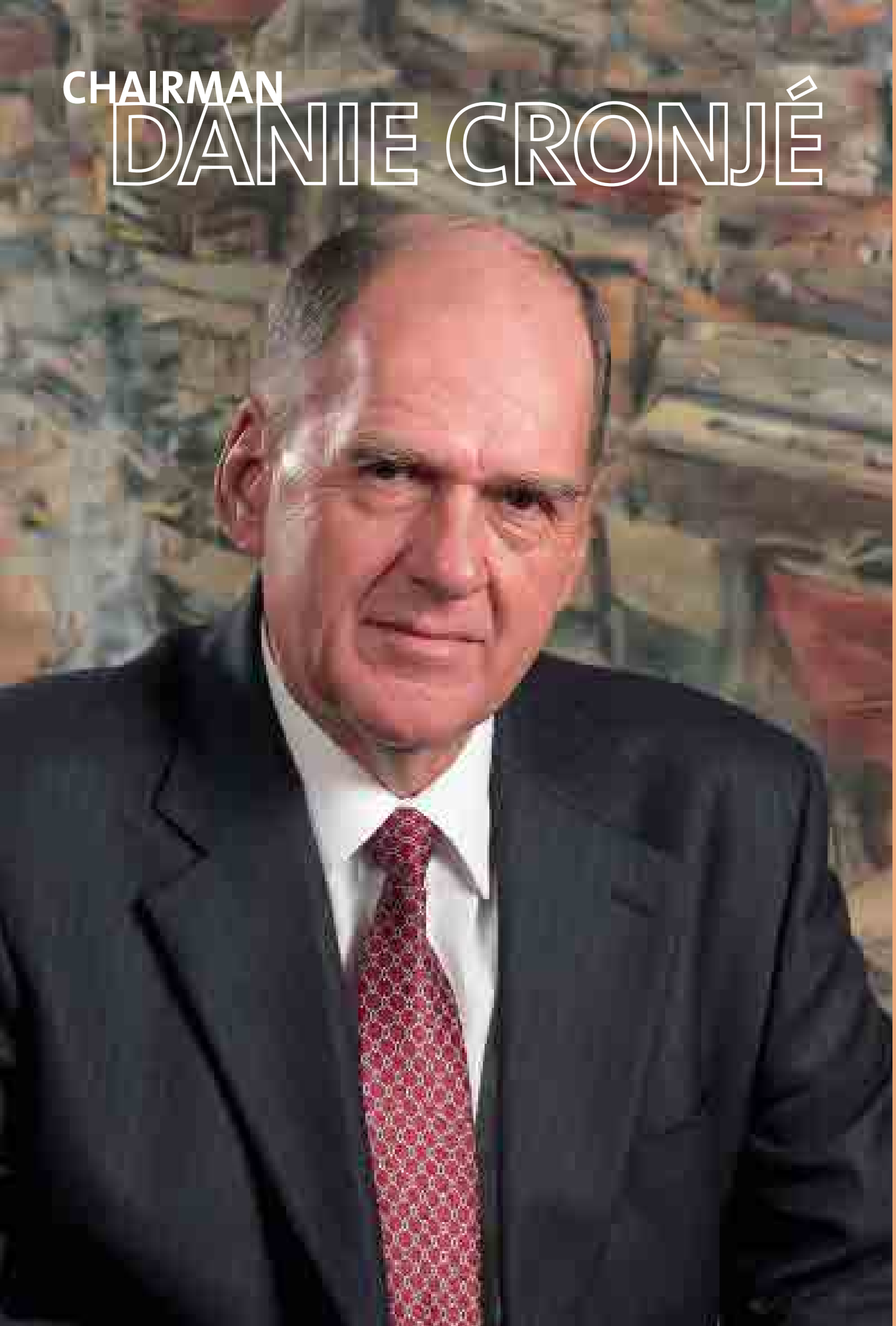


## Key economic variables for the South African economy

| | | For the year ended 31 March | | | |
|---|---|---|---|---|---|
| | | 2003 | 2004 | **2005** | 2006 Forecast |
| GDP growth (year-on-year) | % | 3,8 | 2,6 | **4,4** | 4,4 |
| US$/rand exchange rate | ZAR per USD | 9,72 | 7,17 | **6,26** | 6,46 |
| CPIX inflation rate | % | 9,8 | 5,6 | **4,1** | 4,8 |
| Prime rate | % | 16,42 | 13,58 | **11,17** | 10,60 |
| Household debt to disposable income | % | 51,4 | 52,6 | **60,2** | 63,0 |

CHAIRMAN

# DANIE CRONJÉ



# Chairman's statement

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Over the financial year, the Absa share price performance on the JSE was impressive. The stock appreciated by 61,7%, outperforming the all-share index by 13,7% and the banks' index by 16,1%.

# Chairman's statement

## On 13 June 2005, shareholders approved a strategic and historic change-of-ownership transaction, following which Barclays acquired a majority stake in Absa.

It gives me pleasure to report on another successful financial year for Absa Group Limited.

The Group continued to generate significant value for shareholders in 2004/2005. Furthermore, by concluding a substantial change-of-ownership transaction with Barclays PLC, a leading international banking group based in the United Kingdom, Absa has been positioned at the forefront of developments in the South African financial services industry.

### Financial performance

Dr Steve Booysen assumed the position of Group chief executive on 1 August 2004. It would not have been surprising if the changing of the guard and the negotiations with Barclays had distracted the management team. It is therefore pleasing that, in spite of the potential disruptions, they maintained and intensified the Group's already excellent business momentum and tabled earnings of high quality.

Good operational performances in 2003 and 2004 and the effects of fair value accounting implemented in 2004 (AC 133) set a high earnings hurdle for the year under review. The Group accepted the challenge and, taking advantage of a favourable economic climate, posted headline earnings of R5 484 million, an increase of 23,3% on the preceding year.

During the year under review, headline consumer price inflation declined to below 3% for the first time since the late sixties and interest rates for borrowers dropped to levels last experienced in the early eighties. This created favourable conditions for credit extension in 2004 and 2005. Absa, as a leader in consumer retail banking, recorded good growth. The Group defended its strong market share positions without compromising on credit standards or profitability.

Personal and commercial banking and financial services were the principal beneficiaries of the buoyant retail market conditions and the main contributors to earnings growth. Quality asset growth, increased transaction volumes and a reduction in the charge for the impairment of advances were the main drivers of Absa's performance.

Headline earnings per share improved by 18,8% to 811,1 cents per share on a fully diluted basis and the Group delivered a record 25,5% return on average shareholders' funds. A final dividend of 200 cents per share boosted dividend growth for the year by 62,1% to 295 cents per share. Dividend cover declined from 3,8 to 2,9 times, in line with the Group's improved capital position.

### The Barclays transaction

On 13 June 2005, shareholders approved a strategic and historic change-of-ownership transaction, following which Barclays acquired 53,96% of the Group's shareholding for R29,7 billion. The transaction, first announced on 23 September 2004, is the largest foreign direct investment in South African history and underscores the major commitment Barclays has made to Absa and the country.

This investment sends a positive signal about South Africa as an investment destination to the international capital markets. It also improves Absa's growth prospects, as it will enable the Group to accelerate the achievement of its strategic objectives.

In line with Absa's commitment to the creation of long-term value for all stakeholders, in early 2004 the board adopted as a strategic imperative the development of Absa into the leading financial services business in South Africa and the pre-eminent bank on the African continent. In so doing, the board recognised that partnering with a significant global player would be an important element of this strategy.

Barclays, a major global bank with extensive interests in Africa, is an ideal partner and shares Absa's strategic vision. It is the world's tenth largest banking group by market capitalisation. Barclays also has considerable experience of holding stakes in banks in a number of markets and of creating value for minority shareholders.

Absa will retain its South African character, both for local investors and as a home to its customers. Barclays has confirmed its long-term commitment to investing in South Africa. A key goal of the transaction is to bring the world-class product capabilities, global banking expertise and international reach of Barclays to Absa's business. However, Barclays also acknowledges the importance of the contribution Absa will make to the achievement of its own international strategic goals, and I believe that this interaction will be of significant value to all Absa's stakeholders.

To assist in this regard, I will continue to serve as chairman of Absa and will join the boards of Barclays PLC and Barclays Bank PLC as a non-executive director. Dr Booysen retains his current position as Group chief executive of Absa and has been included in the Barclays senior leadership group and the International Banking Executive Committee.

Although Barclays will own a majority of Absa's shares, the Group's primary listing, with an adequate free float, remains on the JSE. This will allow minorities to benefit from the value that Barclays, as a long-term, committed shareholder and business partner, will bring.

Black economic empowerment (BEE) is a national priority to ensure sustainable socio-political, financial and economic stability, as stated in my review of last year. I welcome the commitment of Barclays to the requirements of the Financial Sector Charter (FSC), particularly to widening and deepening access to banking services for all South Africans. The country's economic growth – and Absa's continued success – will largely depend on the extent to which black South Africans participate in the economy.

Barclays has demonstrated its commitment to BEE with its presence in South Africa through Barclays SA and will continue to contribute to transformation in South Africa and to the enhancement of Absa's BEE credentials. The transaction has left Batho Bonke, Absa's black empowerment partner, as the second largest shareholder in Absa, with 10%.

In dealing with the Barclays transaction, the Minister of Finance and the Registrar of Banks were confronted with major regulatory and policy challenges. Their progressive decisions that opened the door to the successful conclusion of the transaction are appreciated. The Financial Services Board and the JSE also played an important role in the structuring of the transaction and I thank them for their assistance.

The strong operational performance of the Group continues to generate capital in excess of that required for organic growth and dividend cover is likely to be reduced further in the medium term.



## Corporate governance

Corporate governance is one of the hottest topics of boardroom debate. Absa is managed in line with the requirements of the King Code and fully supports the world business community's endeavours to restore global investor confidence.

The governance failures that led to the destruction of shareholder value and the impairment of stakeholder confidence have spurred a worldwide rethink of accounting and governance practices. Among the accounting challenges facing Absa is harmonising with international standards. The implementation of the International Financial Reporting Standards (IFRS) on 1 April 2005 is a case in point. As a subsidiary of a United States-listed international banking group, Absa will also adopt the onerous Sarbanes-Oxley reporting standard in due course, enabling the Group to further strengthen its governance approach. These new requirements will continue to test Absa's standards against global best practice.

According to a study published by Deutsche Securities in October 2004, corporate governance is now regarded as a component of equity risk. The research concludes that companies with the best standards of governance outperform their competitors. It also predicts that investors will increasingly measure companies' corporate governance standards and practices when making investment decisions. It is gratifying to report that Deutsche found Absa's corporate governance to be among the best in South Africa.

## Capital management and dividend policy

The Group's capital adequacy ratio (CAR) has improved significantly over the past number of years. Absa Bank's Tier I CAR, at 8,3%, is comfortably within the targeted range and above the regulatory minimum requirement of 7,5%. At Group level, CAR is maintained at a level that will facilitate future growth and expansion. At year-end, it stood at 12,2%.

Having achieved these goals, Tier I capital requirements no longer constrain dividend cover, and this has accordingly been reduced to 2,9 times for the year. The strong operational performance of the Group continues to generate capital in excess of that required for organic growth and dividend cover is likely to be reduced further in the medium term.

The South African Reserve Bank's intention to reduce the Tier I requirement to 6% and introduce hybrid instruments as part of Tier II capital with effect from January 2006 is welcomed. The change brings South Africa more in line with international practice and, although the total minimum capital requirement for South Africa is

likely to remain unchanged at 10% of risk-weighted assets, Absa will have greater flexibility in its capital management to balance the requirements of shareholders, regulators and rating agencies. Absa also remains on track with the implementation of Basel II, following which the Group will have even more flexibility in the management of regulatory capital.

## Shareholder matters

The acquisition by Barclays of a majority of the Group's ordinary shares on 27 July 2005 introduces a controlling shareholder for the first time in the Group's 14-year history. The certainty that this brings, without reducing the importance of the interests and support of the Group's minority shareholders, is welcomed.

Absa takes leave of Remgro and Sanlam, both shareholders since the Group's formation in 1991/1992. I thank both institutions, as well as their board representatives, for their support and guidance through the formative as well as the later years of the Group's development.

Over the financial year, the Absa share price performance on the JSE was impressive. The stock appreciated by 61,7%, outperforming the all-share index by 37,1% and the banks' index by 16,1%. The stock's 156,5% appreciation over the past two years also did much to narrow the historic discount to Absa's main competitors on a price-earnings basis.

## Prospects

I am confident that Absa's already strong franchise will be boosted and refined by the partnership with Barclays and that this partnership will accelerate Absa's future development. Barclays offers scale and distribution. It has a world-class brand, products and services as well as extensive experience in financial services. Absa's customers will have access to a wider product choice, improved service quality, and an extended network of offices, not only in South Africa, but also across the African continent and internationally.

To achieve the vision of creating the leading financial services business in South Africa and the pre-eminent bank on the African continent, Absa and Barclays have committed in principle to the future integration of their African businesses on an arm's length basis. It is anticipated that this process, which is subject to regulatory and other approvals, will be embarked upon as soon as is practicable.

Positive news from major ratings agencies in recent months bodes well for South Africa and Absa. Moody's Investors Service rewarded the strengthening of the country's foreign reserve position when on 11 January 2005 it upgraded the ceilings for foreign currency debt and bank deposits to Baa1 from Baa2, with a stable outlook.

Major credit rating agencies have indicated that Absa's credit rating could be upgraded in anticipation of the enhanced level of support derived from Barclays' majority ownership. One of the results would be that Absa Bank would be able to obtain long- and short-term funding both locally and abroad at more favourable rates.

## Overall, domestic economic growth is forecast at around 4,5% in 2005, with consumer demand remaining important because of its sheer size.

The continuing benign domestic environment of low inflation and low interest rates should support further good consumer business growth in 2005. Absa's focus on its customers will lead to further refinement of its business model, improved efficiencies across the business and a significant investment in infrastructure, skills and products. These investments support the goals of the FSC and will be to the benefit of customers with limited access to banking services.

High oil prices, rising international interest rates and general over-indebtedness in some important developed economies may slow 2005 global economic growth from 2004 levels. However, South Africa is well placed to enjoy superior economic growth compared with the global average, as the economy is poised to benefit from continued strength in commodity prices and the relatively strong growth expected in the Southern African Development Community region.

Overall, local economic growth is forecast at 4,5% in 2005, with consumer demand remaining important because of its sheer size. The trade-weighted rand exchange rate is expected to remain relatively strong against the major international currencies in 2005 and CPIX inflation should hold within the target range of 3% to 6% this year.

### The Absa Group board

Although the board remained largely intact after the change of ownership, Absa nevertheless gained a number of new directors, strengthening both diversity and the knowledge base.

Messrs David Roberts, Naguib Kheraj and Dominic Bruynseels are welcomed as directors appointed as a result of the Barclays transaction. Messrs Roberts and Keraj are non-executive directors and Mr Bruynseels, chief executive of Barclays Africa before the transaction, has been appointed as an executive director.

I welcome Mr Leslie Maasdorp and Ms Nthobi Angel as Batho Bonke representatives with effect from 16 August 2004, and Dr Danisa Baloyi, who joined the board as an independent non-executive director on 31 December 2004.

Mr Theo van Wyk, who represented Remgro from Absa's formation in 1991, resigned with effect from 27 July 2005. I thank him for his considerable contribution to the Group's success. Absa also took leave of the Sanlam representatives, Dr Johan van Zyl and Mr Patrice Motsepe on the same date. I thank them for the positive interaction during their short stay on the board.

Dr Booysen joined the board on 1 August 2004 following his appointment as Group chief executive when Mr Nallie Bosman retired. While the 2004 annual report contained a detailed tribute to Mr Bosman, I once again thank him for his loyal service over 41 years with the Group and wish him well for the future.

Mr Louis von Zeuner and Mr Jacques Schindehütte were appointed as executive directors on 1 September 2004 and 1 January 2005 respectively. Mr Frans du Toit retired on 31 December 2004 and I would like to extend my sincere appreciation for his huge contribution from the time he joined Volkskas in 1987. I thank Mr Rupert Pardoe, who resigned from the Group on 9 July 2004, for his contribution and wish him well for the future.



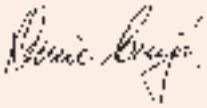
## Appreciation

The fiscal and monetary authorities deserve to be complimented for their sound policy stance. It has set the foundation for lower inflation and interest rates, leading to a vibrant economic environment over the past few years and dramatically improving the country's ratings.

I thank Absa's customers, the directors, Dr Booysen and his leadership team and every employee for their valued contribution to Absa's success in an ever-changing environment.

The Group has concluded a successful chapter in its history, during which much was achieved and prosperity was created for all Absa's stakeholders. I am proud that, over the past 14 years, the Group has produced an annualised return of 22,1% for shareholders who held Absa shares from 1991 and received dividends until the conclusion of the Barclays transaction. This is a good investment performance by any standard and is due reward for those investors who stood by Absa from its formation.

Absa looks forward to the future with confidence, realising the benefits of the Barclays transaction and recognising the amount of effort that will be required to maintain the Group's business momentum.



**D C Cronjé**

*Chairman*

27 July 2005

GROUP CHIEF EXECUTIVE

# STEVE BOOYSEN

# Group chief executive's review

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Management found an appropriate balance between growing market share, protecting asset quality and enhancing profitability.

# Group chief executive's review

## The year under review was very rewarding for Absa's shareholders. The Group recorded 23,3% headline earnings growth to R5 484 million and a return on average equity of 25,5%.

Absa Group Limited maintained its excellent performance of recent years in the 2004/2005 reporting period and added value for all its stakeholders.

Last year, when the board entrusted me with the privilege of leading the Group into the future, the management team's undertaking to stakeholders was that we would want to be judged by our ability to deliver sustainable results. I am pleased to report that Absa, with its specific focus on the domestic retail market, leveraged the favourable consumer cycle effectively. Management found an appropriate balance between growing market share, protecting asset quality and enhancing profitability.

The Group's customer-focused business strategy, employed successfully for the past four years, remained the guiding principle and has been instrumental in Absa's excellent progress over the past six reporting periods.

Assisted by buoyant consumer spending in 2004 and 2005, the Group consolidated its already substantial market share. It was able to post excellent growth in core areas and ended the year with market shares of 31,4% in mortgages, 20,2% in overdrafts and other loans, 24,5% in instalment finance and 23,7% in credit cards.

In addition, continued refinement of credit management techniques and prudent lending policy standards relative to market conditions resulted in controlled growth, a further improvement in bad and doubtful debt levels and overall asset quality.

It has been an eventful year, particularly as Barclays Bank PLC acquired a controlling stake in the Group in July 2005. Absa's sustained good performance was an attraction to Barclays, as were the areas in which the two groups would be able to complement each other. The transaction has the potential to transform Absa into the leading financial services business in South Africa and the pre-eminent bank on the African continent. Absa's board and management believe the transaction to be in the best interest of all stakeholders. With Barclays, Absa will strive to improve competitiveness and ensure sustainable performance over the longer term.

### Value creation

The year under review was very rewarding for Absa's shareholders. The Group recorded 23,3% headline earnings growth to R5 484 million and a return on average equity of 25,5%. Net asset value increased by 21,5% from 2 996 cents to 3 640 cents per share, the share price appreciated by 61,7% and the dividend grew by 62,1%.

Because shareholders are not the sole beneficiaries of company success, the Group endeavours to share its progress with all its stakeholders – its customers and employees, the government, regulators, suppliers and the broader community. It was a fulfilling year of meeting the expectations of stakeholders through a trusted strategy that concentrated most of the Group's energy on the following:

- enhancing the customer experience;
- embracing transformation;
- investing for the future;
- diversifying income streams; and
- boosting brand reputation.

**Enhancing the customer experience**

Customer satisfaction remained a priority. It was addressed by growing the distribution footprint, training employees and educating customers. As a result, the Group expanded its customer base by 888 754 (14,4% year-on-year growth) to become the only South African banking group to pass the seven million mark.

The branch network was expanded from 668 to 675 outlets because many customers prefer the human touch. A further 31 outlets were upgraded. The first fully functional portable branch was opened in Soweto in March 2005 and further similar branches have been approved.

New product offerings and product bundling also assisted the Group's growth, as is demonstrated by the fact that cross-selling yielded 53 000 new Absa customers for Absa Insurance Company.

For customer convenience, Saturday banking is now available until 12:30 at 126 branches throughout the country.

The automated teller machine (ATM) network was expanded by 576 to 5 078. Introducing multiple languages on ATMs was richly rewarded by customer support. Soon, with the addition of three more languages, eight of the country's official languages will be available.

Excellent service remains the only real differentiator in financial services. To serve as a foundation for the way in which the Group interacts with its customers, Absa refined its service credo and service standards, communicated to all employees as part of a Group-wide programme called Enhancing the Customer Experience. An internal Service Heroes programme recognises employees who are living the service credo, standards and brand values.

Simultaneously, customers are encouraged through an external service campaign to tell Absa about their expectations. A consumer education drive, aimed at empowering customers with knowledge, enables them to make more informed decisions about their finances and lifestyles.

Extensive research to ensure that Absa has an in-depth understanding of customer needs and expectations supplemented other initiatives.

The legislative and regulatory authorities and financial institutions are partners and co-accountable for the well-being of the South African financial environment and the maintenance of good governance. The financial services sector currently operates in an intensifying regulatory environment, designed to heighten competition, enhance transparency and build public confidence. Absa expects its customers and other stakeholders to be the principal beneficiaries of the effects of the Financial Intelligence Centre (FIC) Act, the Financial Advisory and Intermediary Services (FAIS) Act, International Financial Reporting Standards (IFRS) and the introduction of the National Credit Bill, the Basel II and the Sarbanes-Oxley Act.

The National Credit Bill aims to create a unitary, vibrant, competitive and non-discriminatory credit market for all South Africans. The banking sector regards its introduction as a positive development because reform of the legislative dispensation for consumer credit in South Africa has been due for some time. The topic has been squarely in the public spotlight and the bill will address aspects of the cost of and access to credit and enhance transparency.

The reaction of consumer groups and the competition authorities following the report "Competition in South African Banking" by Dr Hans Falkena has been lively. The Banking Association South Africa is dealing with issues identified in the report. It is Absa's view that banks have a duty to offer banking services that are accessible and affordable to a wide spectrum of South Africans. I refer to Absa's extensive initiatives in this regard and I am

Absa actively promotes a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa and contributes to the establishment of an equitable society.



pleased that the first industry initiative – the launching of the Mzansi account – has been a resounding success. It has attracted in excess of one million customers, with Absa's market share of Mzansi accounts reaching 26,9% by May 2005.

**Transformation**

Absa views black economic empowerment (BEE) as a business imperative and strives to meet and exceed the Financial Sector Charter (FSC) targets. The FSC provides for significant increases in black ownership, control, management and skills development over ten years, effective from January 2004 to December 2014. Absa is well on track for the midway (2008) and comprehensive (2014) reviews.

The Group is entrenching a culture that will embrace BEE and make Absa a leader in transformation through initiatives to improve access to financial services, grow market share in the black market, create innovative approaches for empowerment financing and demonstrate the Group's commitment to enhancing the well-being of targeted stakeholders through corporate social investment.

Absa actively promotes a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa and contributes to the establishment of an equitable society.

Access to financial services is a core component of BEE. Absa has identified key initiatives to provide effective access to savings products and services for the lifestyle management standard (LSM) 1 to 5 market. Initiatives during the past financial year ensured that Absa had a focused approach for the origination of home, agricultural and small and medium enterprise (SME) loans for blacks as defined in the FSC. Consumer education includes concerted efforts to increase the financial literacy of the unbanked (LSM 1 to 5).

Our employees have the ability to enhance the Group's growth prospects for the benefit of its stakeholders by understanding and responding to their needs. Absa employs sound business principles and practices in the pursuit of employment equity (EE). Skills development transformational targets have enabled us to increase the representation of historically disadvantaged employees from 42,3% to 47,8%.

Absa values diversity and enables the optimisation of the individual and collective human capital in the Group. Leadership is key to making the culture of the Group come alive through Leading the Absa Way, an ongoing programme that addresses culture change and transformation and influences and challenges leadership mental models. Leadership has been identified as key to developing employees and sustaining business performance. Leadership development and leadership mental models are influential in creating a diversity-friendly work environment.

It is also pleasing to report that employees benefited from an additional 6,1 million shares that were issued to them through the employee share ownership programme (ESOP), which forms part of the Group's BEE ownership transaction announced in April 2004.

### Investing for the future

The Group will invest significantly for the future in the year (ending March 2006). R300 million will be spent on customer access points and a further R200 million on various compliance-related issues. Investment will be spread across all channels, with the majority being invested in the distribution network to ensure access to banking services in both rural and metropolitan areas. Skills development to ensure the successful deployment of the investment in technology will occur simultaneously.

Absa recorded exceptional growth in transaction volumes and customer numbers in 2004/2005. Investing in the future enables the Group to position itself for future growth – particularly in previously disadvantaged communities – and to enhance the customer experience. Absa will continue to provide solutions that increase access to banking products and services for the whole of South Africa. During 2005/2006, 53 branches and 400 ATMs will be deployed in both rural and metropolitan areas. Absa is the market leader in both internet and cell phone banking and the number of registered customers ended the financial year at an all-time high.

Skills development is an investment in Absa's human capital, building employees into a competitive advantage for the Group. Each employee has the opportunity to achieve his or her potential in pursuit of organisational objectives in a challenging work environment that offers opportunities for personal growth. Employees have the right to seek and participate in learning opportunities, to ensure their own growth and to apply their new knowledge in Absa's best interests.

In pursuit of these goals, R133,4 million was spent on training and R5,31 million on supporting employees to gain further educational qualifications that will enhance their careers. The Group implemented eight internal learnership programmes for 206 learners and in support for the banking sector's learnership initiative (Letsema). Workplace exposure was afforded to a further 202 external learners.

### Diversifying income streams

The strategy to ensure that Absa retains its bancassurance leadership paid handsome dividends. The Group's financial services operations continued their successful activities and also benefited from the 24,4% gain in the all-share index for the year. As a result, one billion rand was contributed to Group income for the first time.

The Group's bancassurance model continued to deliver a solid operational performance through market-leading positions in the issuing of homeowners' and other insurance, insurance broking and trust activities.

Absa Life produced a strong operational performance by leveraging the Group's buoyant retail banking growth. Absa Insurance Company benefited from excellent underwriting results in the short-term market owing to favourable weather conditions and claims management efficiencies. Absa Brokers increased its market share in a very competitive market through new product offerings and product bundling that enabled effective cross-selling.

Marketing affordable banking products to the South African mass market is a challenge that the Group is addressing in Flexi Banking Services. This will be supplemented through a joint venture with the J D Group and Thebe Investment Corporation. The new group will bring financial services closer to the consumer by offering personal loans through the stores in the J D Group and adding other products later. The partners have pooled their experience and capabilities in the mass middle market and plan to ensure long-term sustainability through full regulatory compliance and a cautious approach to growth.

The Group's wholesale banking strategy began to pay dividends during the latter months of the financial year following the muted earnings performance of the first six months. With the benefit of the wholesale and

Having Barclays as a controlling shareholder enables Absa to enhance its ability to compete in specific areas and achieve sustainable growth in the years ahead.

international capabilities of Barclays, Absa is determined to pick up the pace because we recognise that we are not one of the leading players in this market.

Other African businesses delivered good operational performances, but these were not sufficient to offset the impact of the strong rand. The headline earnings contribution remained in line with that of the previous year. However, the Group continued to enhance the performance of existing operations to create consistency and reliability. Absa also strengthened its presence in sub-Saharan Africa shortly after year-end, when regulatory approval was received for the acquisition of a controlling stake in Banco Comercial Angolano in Angola.

Absa's expansion in sub-Saharan Africa has been conservative to date, but Africa will be a major focus area as part of the second phase of the Barclays transaction. Absa and Barclays have committed in principle to the future integration of their African businesses in pursuit of the creation of the leading financial services business in South Africa and the pre-eminent bank on the African continent.

### Brand reputation

The Absa brand is one of South Africa's most recognisable and is a great asset to the Group. Every employee is encouraged to be a brand champion, because everything Absa's people do and say influences the perception of the Absa brand.

During May 2005, the Group launched the My Bank theme because of the importance of creating an exceptional overall customer experience and exploring ways of adding value. By focusing on what Absa enables its customers to do, how Absa makes them feel and the dreams Absa makes a reality, we are strengthening customers' emotional bond with the brand. The attraction of the Absa brand is demonstrated by the growth in the Group's customer numbers. Absa will continue to create and maintain a consistent brand identity and values and communicate this effectively, both internally and externally.

Together with Barclays, our controlling shareholder, we intend capitalising on the respective strengths of the Barclays and Absa brands in future.

## The future

Absa has achieved much in the year under review and in recent reporting periods. The Group aspires to being the leading financial services business in South Africa and the pre-eminent bank on the African continent. It intends serving its customers better and gaining more of them.

Having Barclays as a controlling shareholder enables Absa to enhance its ability to compete in specific areas and achieve sustainable growth in the years ahead. Considerable potential revenue and cost synergies have been identified. Revenue synergies should be derived from, among other things, combining Barclays' customer relationship management and product packaging capabilities with Absa's retail franchise as well as leveraging Barclays' credit card risk management and pricing skills. Applying Barclays' capabilities and expertise in

business and wholesale banking and significantly improved access to capital markets will enable Absa to enhance its positioning in the small to medium enterprise and large business markets. The aim is to further enhance the use of the Group's bancassurance model in all the markets served.

With Barclays, the Group enters an exciting period of integration, implementation and alignment of values. Absa's first challenge is to maintain a "business as usual" focus and to create value for all stakeholders. Senior management will be afforded great opportunities as Absa is transformed into the leading financial services business in South Africa and the pre-eminent bank on the African continent.

I have referred in some detail to Absa's commitment to tirelessly serving and educating customers and to improving delivery. Investing for future growth is tempered by a cost focus that entails streamlining processes, efficient infrastructure deployment and entrenching a cost-conscious culture. Building leadership skills is essential in a highly competitive environment. There is a particular need to strengthen the pool of senior staff from previously disadvantaged environments. In this regard, I am pleased to report that the Group's Executive Committee has become substantially more representative over the past year.

Inflation and interest rates are expected to remain stable and demand for credit should be buoyant in the near term. In view of the low interest rate environment, the Group's interest rate margins are likely to contract further over the next year, but sound credit quality and continued good advances growth – albeit at a slower pace – should counter any negative impact.

## Appreciation

On behalf of the Group's executive management, I thank the chairman, Dr Danie Cronjé, and the board for their guidance. The year was marked by the pleasant challenges of building the business and interacting with Barclays. My executive team deserves full marks for keeping their eyes on the ball. I thank them and all employees for delivering such excellent results.

It has been a privilege to succeed Nallie Bosman, a leader who held Absa's reins for seven years and worked in the Group for 41 years. Much of the momentum that enabled the Group to post strong results in 2004/2005 was created under Nallie's leadership. I was fortunate to start my tenure under such favourable conditions and with committed colleagues.

Thank you to Absa's seven million customers for their sustained support. As the Group's customers increase, they will be offered appropriate products and services and be able to satisfy a wider range of their needs than before with Absa. Customers remain the backbone of the Group's success and we are all committed to their best interests.

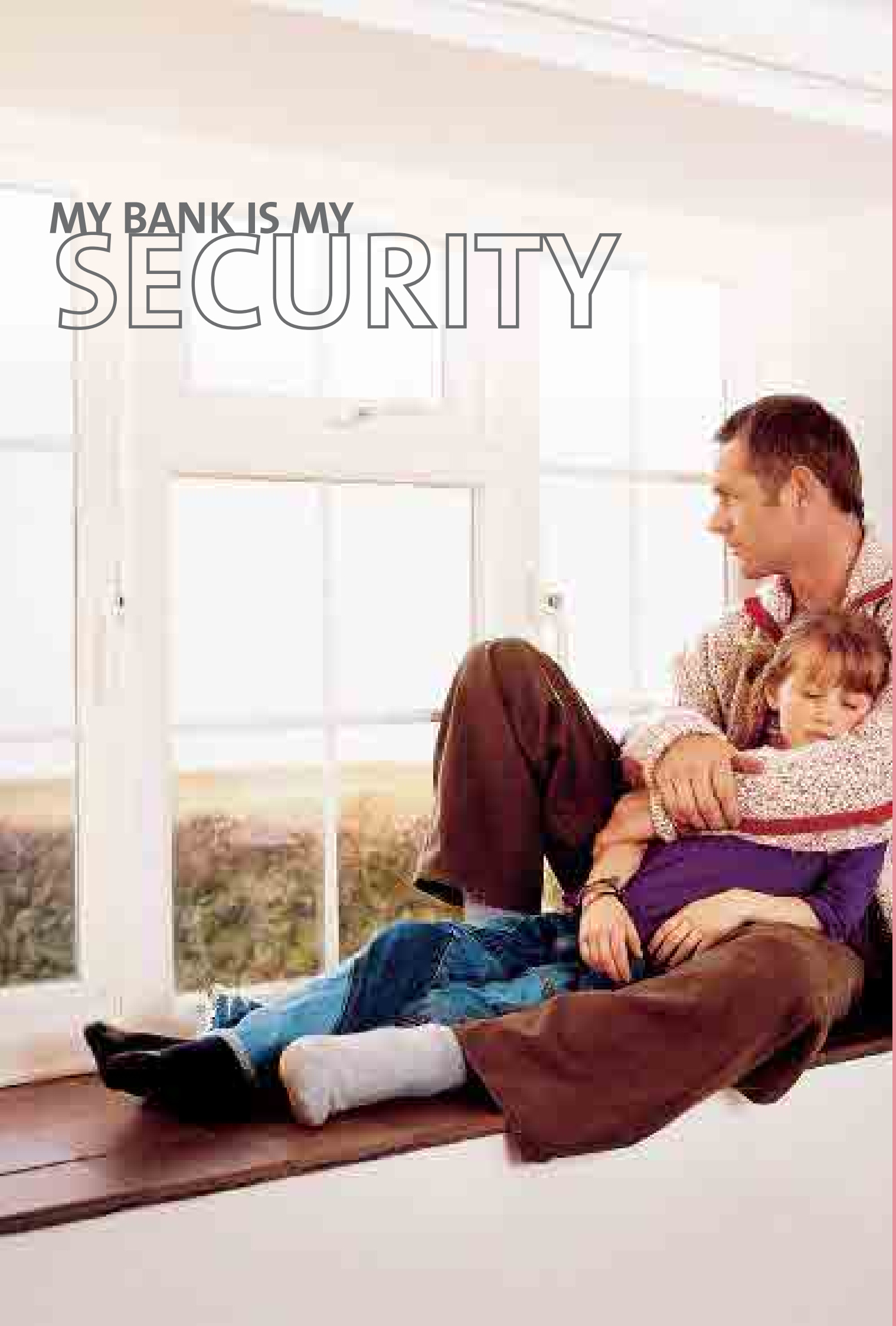
Absa experienced excellent relationships with the government, the Registrar of Banks and other regulatory authorities throughout the Barclays negotiations and in the normal course of business. I thank them for the spirit of trust and co-operation that prevailed.

**S F Booysen**

*Group chief executive*

27 July 2005

# MY BANK IS MY SECURITY



# Corporate governance

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

# Corporate governance statement

## Absa Group Limited (Absa or the Group) is fully committed to the principles of the Code of Corporate Practices and Conduct set out in the King Report on Corporate Governance.

### Introduction

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

### Key governance developments

During the year under review, the following developments were key to Absa's corporate governance processes:

- Ongoing compliance with King II.
- The appointment of CGF Research Institute (Proprietary) Limited (CGF), which provides a database of governance and related information, endorsed by the Institute of Directors (IOD), for use in Absa.
- The existing opinion on Absa's corporate governance practices as reviewed by CA-Ratings is currently undergoing a planned periodic review. The current rating is AA-g (extremely sound).
- A review of the outcomes of the three-yearly collective board effectiveness evaluation and actions implemented where deemed appropriate.
- The implementation of a formal external auditor evaluation, which takes place annually against various criteria and standards, specifically those relating to auditor independence.
- The implementation of audit partner rotation in accordance with the requirements of the South African Reserve Bank (Bank Supervision Department).
- Ongoing implementation of the board's transformation programme, aimed at making the board more representative of South Africa's demographics.
- Engagement with and assistance of the IOD regarding Absa's director training and development programme, especially with regard to Absa's African operations.
- Internal review of the Deutsche Bank report on corporate governance and actions implemented where deemed appropriate.
- Implementation of all secretarial matters relating to the introduction of empowerment shareholders into Absa via Batho Bonke.
- Ongoing awareness and cognisance of international/emerging governance trends. These are considered for implementation at Absa only where this makes business sense, taking account of substance over form and market practices.

### Compliance with King II

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

## Application of the code and approach to corporate governance

All entities in the Group are required to subscribe to the spirit and principles of the code. In addition, the code is applied to all operating entities of the nature and size identified in King II.

Whereas the Absa board reviews overall Group compliance with the code and is the focal point of the Group's corporate governance system, the directors of specific companies in the Group are responsible for ensuring compliance.

The Group facilitates a comprehensive process to review compliance with the code by all relevant entities each year. This includes:

- a full and effective review by the Absa board of all aspects relating to ongoing corporate governance during the year, the inclusion of statements in this regard in the annual report and consideration of the requirements of Regulation 38 (5) of the Banks Act (in terms of which the board is required to report annually to the Registrar of Banks on the extent to which the corporate governance processes and practices implemented by the company successfully achieve the objectives determined by the board); and
- a review of current and emerging trends in corporate governance and the Group's governance systems as well as benchmarking the Group's governance systems against local and international best practice.

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

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

### Risk management

Absa's overall risk management philosophy, policy, methodologies and governance structure are set out in the risk management report on page 101 of the annual report.

## Boards of directors and board committees

### Board composition

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

The Absa board is a balanced board with a majority of independent directors.* The chairman of the Absa board is an independent director.

Details on the categorisation of the directors appear on page 71 of the annual report. There are 21 directors, of whom three are executive, six are non-executive and 12 are considered to be independent directors.

In subsidiary companies in the Group, the roles of chairmen and managing directors do not vest in the same persons and the chairmen are non-executive directors of the entities of which they are chairmen.

**A non-executive director who is independent, as defined by King II.*

The board has unrestricted access to all company information, records, documents and property to enable it to discharge its responsibilities.

**Board procedures and related matters**

The board meets regularly, retains full and effective control over all the companies in the Group and monitors executive management in implementing board plans and strategies. Additional board meetings, apart from those planned, are convened as circumstances dictate. The number of meetings held during the year under review and the attendance of each director is set out on page 52 of the annual report. Where directors are unable to attend a meeting personally (for example, when they are abroad) teleconferencing facilities are made available, as required, to include them in the proceedings and allow them to participate in the deliberations and decisions reached.

The board meets annually for a number of days together with management to debate and agree on the proposed Group strategy and to consider long-term issues facing Absa, prior to the formulation of the Group's annual financial budget.

The board identifies and monitors key risk areas, key performance areas and non-financial aspects relevant to Absa and, where appropriate, this is supported by board-appointed committees. The directors are entitled to obtain independent professional advice at the Group's expense, should they deem this necessary. The board has approved an appropriate policy in this regard.

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

Directors are afforded the opportunity to propose additional matters for discussion at board meetings. Management ensures that board members are provided with all relevant information and facts to enable the board to reach objective and well-informed decisions. Board meetings are scheduled well in advance and include a board plan for the year, setting out matters for consideration at each meeting. Board documentation is provided timeously to directors and the tabling of documents at board meetings is done only on an exception basis. The board agenda and meeting structure has been adapted to focus first on strategy, and then on performance monitoring, control, disclosure and related matters. This ensures that the board's time and energy is appropriately applied.

The board considers a number of key performance indicators, variance reports and industry trends quarterly. A range of non-financial information is also provided to the board to enable it to consider qualitative performance factors that involve broader stakeholder interests.

The board recognises the importance of promoting entrepreneurial flair while continuing to ensure conformance to governance and other compliance restraints. The directors bring a wealth of skills, knowledge and experience from their own fields of business to the board and ensure that debate on matters of strategy, performance, resources, transformation, diversity, employment equity, standards of conduct and policy is robust, informed and constructive.

Non-executive directors have access to management and may meet separately with management without the attendance of executive directors. In terms of Absa's board charter, arrangements for such meetings are facilitated through the office of the Group secretary. At least twice a year, at the end of the scheduled board meeting, the board meets without the presence of management. Directors are kept appropriately informed of key developments affecting the Group between board meetings.

## Attendance at board meetings

| Director | Appointment | Retirement | Resignation | Apr 2004 | May 2004 |
|---|---|---|---|---|---|
| L N Angel | 16 Aug 2004 | | | | |
| D C Arnold | | | | ✓ | ✓ |
| D E Baloyi | 31 Dec 2004 | | | | |
| S F Booysen | 1 Aug 2004 | | | | |
| E R Bosman | | 1 Aug 2004 | | ✓ | ✓ |
| L Boyd | | | | ✓ | ✓ |
| D C Brink (deputy chairman) | | | | ✓ | ✓ |
| B P Connellan | | | | ✓ | ✓ |
| D C Cronjé (chairman) | | | | ✓ | ✓ |
| A S du Plessis | | | | ✓ | ✓ |
| F J du Toit | | 1 Jan 2005 | | ✓ | ✓ |
| G Griffin | | | | ✓ | ✓ |
| L N Jonker | | | | ✓ | ✓ |
| P du P Kruger | | | | ✓ | ✓ |
| L W Maasdorp | 16 Aug 2004 | | | | |
| P T Motsepe | 9 Jul 2004 | | | | |
| G R Pardoe | | | 9 Jul 2004 | ✓ | ✓ |
| J H Schindehütte | 1 Jan 2005 | | | | |
| T M G Sexwale | | | | ✓ | ✓ |
| F A Sonn | | | | ✓ | A |
| P E I Swartz | | | | ✓ | ✓ |
| T van Wyk | | | | ✓ | ✓ |
| J van Zyl | | | | ✓ | ✓ |
| L L von Zeuner | 1 Sep 2004 | | | | |

**Legend**

*Special meeting ✓ Attendance A Apologies

| May 2004* | Jun 2004 | Aug 2004 | Sep 2004* | Oct 2004* | Nov 2004 | Nov 2004* | Feb 2005 |
|---|---|---|---|---|---|---|---|
| | | ✓ | ✓ | A | ✓ | A | ✓ |
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | | | | | | | ✓ |
| | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| ✓ | ✓ | | | | | | |
| ✓ | ✓ | ✓ | A | ✓ | A | ✓ | ✓ |
| ✓ | ✓ | ✓ | ✓ | A | ✓ | ✓ | ✓ |
| A | ✓ | ✓ | ✓ | A | ✓ | A | ✓ |
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| ✓ | ✓ | ✓ | ✓ | A | ✓ | ✓ | ✓ |
| ✓ | A | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | | ✓ | ✓ | A | ✓ | ✓ | ✓ |
| | | ✓ | ✓ | A | ✓ | A | ✓ |
| A | A | | | | | | |
| | | | | | | | ✓ |
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | A |
| ✓ | ✓ | ✓ | ✓ | A | ✓ | A | ✓ |
| ✓ | ✓ | ✓ | ✓ | ✓ | A | ✓ | ✓ |
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| ✓ | A | ✓ | ✓ | ✓ | ✓ | A | A |
| | | | ✓ | ✓ | ✓ | ✓ | ✓ |

The board has developed a charter, the salient aspects of which are set out below.

***The Absa board charter***

***Purpose and objectives***

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

***Key features***

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

A formal orientation programme with members of management is provided to all newly appointed directors. The programme typically lasts two days.

**Board appointments and succession planning**

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

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

The board as a whole, within its powers, selects and appoints directors, including the Group chief executive and executive directors, on the recommendation of the Group Remuneration Committee (in respect of executive directors) and the Directors' Affairs Committee (in respect of non-executive directors).

The Directors' Affairs Committee considers non-executive director succession planning and makes appropriate recommendations to the board. This encompasses an evaluation of the skills, knowledge and experience required to implement the Group's business plans and strategy and any gaps in this regard, as well as the board transformation process to meet the requirements of the Financial Sector Charter.

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

Training and orientation workshops covering topics such as the Group's business, corporate governance, fiduciary duties and responsibilities, asset and liability management, new laws and regulations and risk management are provided to both new and existing directors. Directors (particularly new directors) are encouraged to attend development programmes with regard to their duties, responsibilities, powers and potential liabilities. A formal orientation programme with members of management is provided to all newly appointed directors. The programme typically lasts two days.

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

### Independence

As from 2005, the Directors' Affairs Committee (DAC) has assessed the independence of each Absa director against the criteria set out in King II. Based on this assessment, the DAC is of the view that the following directors meet these criteria: Dr D C Cronjé, Mr D C Brink, Mr D C Arnold, Dr D E Baloyi, Mr L Boyd, Mr B P Connellan, Mr A S du Plessis, Mr G Griffin, Mr L N Jonker, Mr P du P Kruger, Dr F A Sonn and Mr P E I Swartz.



### Board performance assessment

The DAC annually assesses the contribution of each director up for re-election, using an individual director evaluation process that is conducted by the Group chairman and deputy chairman. The Group chairman's performance is dealt with by the DAC, whereas that of the deputy chairman is dealt with by the Group chairman and one other member of the DAC.

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

Individual director performance is assessed against the following criteria: time, availability and commitment to performing the function of an Absa director; strategic thought and specific skills, knowledge and experience brought to the board; the director's views on key issues and challenges facing Absa; the director's views on his/her own performance as a board member; any training needs; and other areas or roles where the director's specific skills could be used.

The board's recommendations with regard to the directors up for re-election at the 2005 annual general meeting are contained in the explanatory notes to the annual general meeting (page 505).

Every three years, a collective board effectiveness evaluation is conducted. This assessment is aimed at determining how the board's effectiveness can be improved. The DAC considers the outcomes of the evaluation and makes recommendations where deemed appropriate. Such an evaluation was conducted in 2005. The Absa board considered the outcomes of the evaluation and the recommendations of the DAC in June 2005.

### Board committees

A number of board-appointed committees have been established to assist the board in discharging its responsibilities. The membership and principal functions of these committees appear in the pages to follow.

The board recognises that it is ultimately accountable and responsible for the performance and affairs of the Group and that the use of delegated authorities to board committees and management in no way mitigates or dissipates the discharge by the board and its directors of their duties and responsibilities.

Specific responsibilities have been delegated to these committees, which operate under written terms of reference confirmed by the board. There is transparency and full disclosure from board committees to the board. In this regard, the minutes of committees represented by non-executive directors are submitted to the Absa board for noting. In addition, directors have full access to all board committee documentation. Board committees are free to take independent outside professional advice as and when necessary.

## The board is of the opinion that the board committees have effectively discharged their responsibilities, as contained in their respective terms of reference, for the year under review.

Notwithstanding the establishment of the various board committees and delegated authorities, the Absa board reserves to itself a range of key decisions to ensure that it retains the ability to direct and control the business of the Group (supported by any recommendation as may be made by the relevant board committee and/or management). A comprehensive framework, setting out the authorities and responsibilities of the boards and committees in the Group with regard to matters affecting the various businesses, assists in the control of the decision-making process and provides for a balance of power and authority to ensure that no individual has unfettered powers of decision-making. All board-delegated authorities are reviewed and updated annually by the board.

A process is in place to ensure that board committees are subject to regular evaluation by the board to ascertain their performance and effectiveness.

A number of Absa's independent directors have been appointed to the boards of various major divisions and subsidiaries. Although the Absa board still retains overall responsibility for the affairs of the Group, these divisional and subsidiary boards play an important role in the Group's overall governance approach. The minutes of these boards are provided to the Absa board and Absa directors have full access to divisional/subsidiary board documentation. These boards meet five times a year, usually prior to the Absa board meetings. The level of detail dealt with at divisional/subsidiary boards is generally greater than that dealt with by the Absa board (as well as being specific to the relevant division or subsidiary).

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

***Group Remuneration Committee***

**Members:** D C Brink (chairman), L Boyd, B P Connellan, D C Cronjé and T van Wyk.

**Composition and meeting procedures:** The Group Remuneration Committee is chaired by an independent director and comprises mainly independent directors of Absa. The Group chief executive, the executive director responsible for people management and the Group executive director responsible for finance attend the meetings by invitation but do not participate in discussions and decisions regarding their remuneration and benefits. Meetings are held five times a year*.

**Role, purpose and principal functions:** Consideration and recommendation to the board on matters such as succession planning, general employee policies, remuneration and benefits, performance bonuses, executive remuneration, directors' remuneration and fees, service contracts, the share purchase and option schemes and Group retirement funds.

**For the 2005 financial year, meetings were held quarterly (excluding special meetings). Going forward, five meetings will be held annually.*

The committee considers executive directors' emoluments, share and option allocations and other benefits, taking account of responsibility, individual performance and Absa's retention strategies. To this end, the committee relies on external market surveys and industry reward levels as benchmarks. Remuneration packages are structured in such a way that short- and long-term incentives depend on the achievement of business objectives and the delivery of shareholder value.

Non-executive directors receive fees for their contribution to the boards and committees on which they serve. The Group chairman and management recommend proposed fees for consideration by the committee and recommendation to the Absa board, after considering comparable fee structures and market practices. The remuneration of non-executive directors is submitted to shareholders for sanction at the annual general meeting prior to payment. Full details of remuneration matters (including a statement of the Group's remuneration philosophy) are contained in the directors' remuneration report set out on pages 79 to 93 of the annual report.

The committee undertakes an annual performance assessment of the Group chief executive. The Group chairman and Group chief executive's remuneration is considered taking the assessment of the DAC and the Group Remuneration Committee, respectively, into account.

**Group Remuneration Committee – meeting attendance**

| Director | Apr 2004* | May 2004* | May 2004 | Jul 2004* | Aug 2004 | Nov 2004 | Feb 2005 |
|---|---|---|---|---|---|---|---|
| L Boyd | ✓ | ✓ | ✓ | A | ✓ | A | ✓ |
| D C Brink (chairman) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| B P Connellan | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| D C Cronjé | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| T van Wyk | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

**Legend**

*Special meeting ✓ Attendance A Apologies

The internal and external auditors, as well as the compliance officer, have unrestricted access to the Group Audit and Compliance Committee, which ensures that their independence is in no way impaired.



***Group Audit and Compliance Committee (GACC)***

**Members:** A S du Plessis (chairman), D C Arnold, P du P Kruger, L W Maasdorp and T van Wyk.

**Composition and meeting procedures:** Other than Mr van Wyk, who is a non-executive director, the chairman and members of the GACC are independent directors on the board of Absa.

A third of the members of the GACC retire annually by rotation and are considered for re-election by the Absa board. Meetings are held at least five times a year and are attended by the external and internal auditors and the compliance officer and, on invitation, members of executive management, including those involved in risk management and control and finance, and the Group chairman (who is not a member of the committee). All of the members of the committee are financially literate.

At every meeting, time is reserved for separate *in camera* discussions with committee members only, the committee together with management (excluding the external auditors) and the committee together with the external auditors (excluding management). *In camera* discussions provide an opportunity for committee members, management and the external auditors to communicate privately and candidly.

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

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

- reviewing and/or approving internal audit, compliance and forensic services policies, plans, reports and findings;
- ensuring compliance with applicable legislation and regulations;
- making the necessary enquiries to ensure that all risks to which the Group is exposed are identified and managed in a well-defined control environment;
- dealing with matters relating to financial and internal control, accounting policies, reporting and disclosure;
- reviewing and recommending to the board interim and annual financial statements and profit and dividend announcements;

- recommending to the board the appointment and dismissal of the external auditors and fees payable to the external auditors;
- evaluating the performance of the external auditors;
- approving and ensuring compliance with the Group's policy on non-audit services;
- reviewing and/or approving external audit plans, findings, reports and fees; and
- collaborating with and reviewing issues for consideration as identified by the Group Risk Committee.



The Group's policy on non-audit services, which is annually reviewed by the GACC, sets out in detail which services may or may not be provided by Absa's external auditors. The policy is largely based on the requirement of auditor independence of the Sarbanes-Oxley Act. Assignments above a certain value must be pre-approved by the GACC. Assignments within management's mandate must be pre-approved by the Group executive director: Finance on recommendation of the Group executive: Finance. All non-audit service fees are reported to the GACC quarterly.

During the year under review, Absa implemented a formal external auditor evaluation process. This evaluation will be undertaken annually and conducted using various criteria and standards such as audit planning, technical abilities, audit process/outputs and quality control, business insight, independence and general factors (such as black economic empowerment credentials).

Absa implemented an audit partner rotation process in accordance with the requirements of the South African Reserve Bank (Bank Supervision Department) during the year under review.

The committee stays abreast of current and emerging trends in accounting standards and held several workshops during the year under review, specifically with regard to International Financial Reporting Standards (IFRS).

The board, through a comprehensive evaluation (based on the recommendations of King II, the Banks Act, the Group audit policy and generally accepted accounting and auditing practices), annually reviews the performance of the GACC to evaluate how effectively it has discharged its duties as per its terms of reference.

**Group Audit and Compliance Committee – meeting attendance**

| Director | Appointment during the year | May 2004 | Jun 2004* | Jul 2004 | Aug 2004* | Oct 2004 | Nov 2004 | Mar 2005 |
|---|---|---|---|---|---|---|---|---|
| D C Arnold | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| A S du Plessis (chairman) | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| P du P Kruger | | ✓ | ✓ | A | ✓ | ✓ | ✓ | ✓ |
| L W Maasdorp | 1 Dec 2004 | | | | | | | ✓ |
| T van Wyk | | A | ✓ | ✓ | A | A | ✓ | ✓ |

**Legend**

*Special meeting ✓ Attendance A Apologies

## The Group Risk Committee is chaired by an independent director and consists of a further five independent directors.

***Group Risk Committee (GRC)***

**Members:** P du P Kruger (chairman), D C Arnold, D C Cronjé, A S du Plessis, G Griffin and P E I Swartz.

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

**Role, purpose and principal functions:** To review and recommend risk management policies, procedures and profiles pertaining to the Group. The committee's principal responsibilities are:

- reviewing and recommending to the board for approval the enterprise-wide risk management policy;
- reviewing and recommending to the board for approval the Group's risk appetite and tolerance;
- dealing with the risk-reward profiles (including the financial, operational, strategic and reputational risk-reward profiles) and, where necessary, recommending improvement strategies;
- reviewing and recommending improvements regarding outstanding actions on risk management plans at Group and business unit level;
- evaluating risks identified in those strategic plans of the Group that require Group board approval to determine their impact on the Group's risk-reward profile;
- evaluating the risk profile and risk management plans drafted for major projects, acquisitions, new ventures and new products or services to determine the impact on the Group's risk-reward profile; and
- collaborating with and reviewing issues for consideration as identified by the GACC.

**Group Risk Committee – meeting attendance**

| Director | Apr 2004 | Jun 2004 | Aug 2004 | Nov 2004 |
|---|---|---|---|---|
| D C Arnold | ✓ | ✓ | ✓ | ✓ |
| D C Cronjé | ✓ | ✓ | ✓ | ✓ |
| A S du Plessis | ✓ | ✓ | A | A |
| P du P Kruger | ✓ | ✓ | ✓ | ✓ |
| G Griffin | ✓ | ✓ | ✓ | ✓ |
| P E I Swartz | ✓ | ✓ | ✓ | ✓ |

**Legend**

✓ Attendance  A Apologies

***Directors' Affairs Committee (DAC)***

**Members:** D C Cronjé (chairman), D C Brink, L N Jonker, T M G Sexwale and T van Wyk.

**Composition and meeting procedures:** The DAC is chaired by the Group chairman and the majority of its members are independent directors. Three meetings a year are scheduled.

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

- reviewing all aspects relating to ongoing corporate governance during the year, the inclusion of statements in this regard in the annual report and consideration of the requirements of Regulation 38 (5) of the Banks Act;
- considering current and emerging trends in corporate governance and the Group's governance systems as well as benchmarking the Group's governance systems against local and international best practice;
- reviewing the size, diversity, demographics, skills and experience of the board, perceived gaps in the board's composition, potential board appointees and non-executive director performance evaluations (including that of the Group chairman);
- conducting an effectiveness evaluation of the Absa board to review its performance in meeting its key responsibilities; and
- evaluating the individual performance of directors up for re-election.

**Directors' Affairs Committee – meeting attendance**

| Director | Apr 2004 | Oct 2004 | Feb 2005 |
|---|---|---|---|
| D C Brink | ✓ | ✓ | ✓ |
| D C Cronjé (chairman) | ✓ | ✓ | ✓ |
| L N Jonker | ✓ | ✓ | ✓ |
| T M G Sexwale | ✓ | ✓ | A |
| T van Wyk | ✓ | ✓ | ✓ |

**Legend**

✓ Attendance  A Apologies

***Board Lending Committee***

**Non-executive directors' panel:** L Boyd, D C Brink, B P Connellan, D C Cronjé and A S du Plessis.

**Composition:** Panel comprising five independent directors. Facilities may be approved by any two directors on the panel.

**Role, purpose and principal functions:** The Board Lending Committee considers and approves credit exposures that exceed the mandated approval limits of the Exco Lending Committee. The Absa board sets these limits annually.

***Credit Committee: Large Exposures***

**Members:** D C Cronjé (chairman), S F Booysen, L Boyd, D C Brink, B P Connellan, A S du Plessis and J H Schindehütte.

**Composition and meeting procedures:** Five independent directors and the Group chief executive and Group executive director: Finance. Specific members of management such as the Group executive: Credit and the Group executive: Enterprise-wide Risk Management attend meetings *ex officio.* Quarterly meetings are scheduled for this committee.

**Role, purpose and principal functions:** This committee was established in 2004 pursuant to requirements set by the South African Reserve Bank (Bank Supervision Department) with regard to large exposures (amounts exceeding 10% of Absa Bank Limited's capital and reserves). The committee approves or ratifies credit exposures that exceed the mandated approval limits of the Board Lending Committee. The Absa board sets these limits annually.

**Credit Committee: Large Exposures – meeting attendance**

| Director | Feb 2005* |
|---|---|
| S F Booysen | ✓ |
| L Boyd | ✓ |
| D C Brink | ✓ |
| B P Connellan | ✓ |
| D C Cronjé (chairman) | ✓ |
| A S du Plessis | ✓ |
| J H Schindehütte | ✓ |

**Legend**

✓ Attendance

**Committee became operational in 2005.*

## Executive directors and the Group Executive Committee

There are three executive directors on the board of Absa and a number of executive directors on the boards of the Group's main subsidiaries. There are no service contracts exceeding six months relating to the position of any executive director. Executive directors are required to retire from the board (as executive directors) on reaching the age of 60. There is full disclosure in the remuneration report of various remuneration matters in respect of the executive directors of Absa.

The board appoints executive management, taking into account the recommendations of the Group chief executive and the Group Remuneration Committee. In addition, the Group Remuneration Committee determines the remuneration and benefits of executive directors.

The Group Executive Committee (Group Exco), established and chaired by the Group chief executive, comprises the executive directors and other members of executive management of Absa and of the Group's major subsidiary, Absa Bank Limited. It meets, as a general rule, once a week and deals with all material matters relating to the implementation of the agreed strategy, the monitoring of performance and the consideration of company policies. The board has delegated specific authorities to the Group chief executive. These delegated authorities, which are encompassed in a board-approved signing authority resolution, are reviewed annually or as circumstances dictate.

As a general rule, members of Group Exco are not permitted to hold external directorships. In exceptional cases, the Group Remuneration Committee allows such directorships only to the extent that these do not interfere with the members' immediate management responsibilities.



## Share dealings

In terms of the Group's "closed period" policy, directors, officers, participants in the share incentive scheme and employees who may have access to price-sensitive information are precluded from dealing in Absa shares for approximately two and a half months prior to release of the Group's interim and final results. In terms of the policy, "shares" include, *inter alia,* options, financial instruments and securities, as defined in the Financial Markets Control Act and the Stock Exchanges Control Act. Where appropriate, additional closed periods, as well as the persons to whom such periods apply, may be invoked by the board. Details of directors' dealings in Absa shares are disclosed to the board and the JSE through the Securities Exchange News Service (SENS). In addition, details of trades in Absa shares by employees who may have access to price sensitive information are disclosed to the Group Remuneration Committee.

## Group secretary

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

The secretary also oversees the induction of new directors and assists the Group chairman and the Group chief executive in determining the annual board plan, board agendas and formulating governance and board-related issues.

## Internal control

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

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

- safeguarding assets and reducing the risk of loss, error, fraud and other irregularities;

Absa has adopted the Global Reporting Initiative (GRI) sustainability guidelines on economic, environmental and social performance (collectively referred to as the "triple bottom line") as a benchmark for the company's sustainability reporting.



- ensuring the accuracy and completeness of accounting records; and
- the timely preparation of reliable financial statements and information in compliance with relevant legislation and generally accepted accounting policies and practices.

The Group's internal audit function and the external auditors independently appraise the adequacy and effectiveness of the internal controls. The Group Audit and Compliance Committee, with extensive input by the internal and external auditors, plays a major role in assisting the directors in satisfying themselves regarding the adequacy and effectiveness of the accounting systems, records and internal controls. The directors' report on this aspect is contained in the statement on the responsibility of directors for annual financial statements. For details on Absa's internal audit function and risk management see page 101 of the annual report.

The board of directors reports annually on the Group's controls in terms of Regulation 39 (4) of the Banks Act. The view of the directors in this regard is contained in the statement on the responsibility of directors for the annual financial statements.

The Group's joint external auditors for the 2005 financial year were KPMG Inc. and Ernst & Young, and the external auditors of Absa Financial Services Limited and its subsidiaries were PricewaterhouseCoopers Inc. The report of the independent auditors for the year under review is contained on page 275 of the annual report.

## Going concern

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

## Integrated sustainability reporting

### Overall reporting approach

Absa has adopted the Global Reporting Initiative (GRI) sustainability guidelines on economic, environmental and social performance (collectively referred to as the "triple bottom line") as a benchmark for the company's sustainability reporting. The GRI guidelines represent the most advanced international standards for sustainability reporting and Absa seeks to align its reporting with these standards. However, it is recognised that enhanced sustainability reporting is an ongoing journey requiring an incremental approach. An analysis of Absa's reporting, measured against the GRI guidelines, is contained on page 483 of the annual report.

### JSE Socially Responsible Investment (SRI) Index

Absa has qualified for inclusion in the JSE SRI Index. This index, which is the first of its kind in an emerging market, was launched by the JSE in 2004 and traded live with effect from 20 May 2005. The index, which applies to the top 150 companies listed on the JSE, measures companies' systems and processes with regard to corporate governance, environmental, economic and social issues.

### Stakeholder communication and relationships

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

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

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

Merrill Lynch South Africa (Proprietary) Limited acts as Absa's lead sponsor and Absa Corporate and Merchant Bank as co-sponsor, in compliance with the JSE Listings Requirements.

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

The chairmen of board-appointed committees attend annual and other general meetings to respond to questions from shareholders. Where appropriate, shareholders' meetings are conducted on the basis of a poll and the record of decisions taken at the meetings are posted on SENS. Shareholders will continue to have access to the full set of minutes of such meetings in accordance with the requirements of the Companies Act.

An ***employee report,*** detailing employment equity issues, training and development initiatives, occupational health and safety matters and Absa's strategy, plan and policy with regard to the potential impact of HIV/Aids on the company's employees, appears in the corporate citizenship and sustainability section, starting on page 407 of the annual report.

A ***community report,*** detailing Absa's role in the community, can be found on pages 442 to 463 of the annual report.

## Ultimate customer experience forms the basis of the code which also ties in with the relevant Absa values.

Regarding ***black economic empowerment (BEE),*** Absa has developed a BEE policy that covers Absa's overall BEE strategy as well as procurement practices and investment strategies. Further details of Absa's BEE policy and Absa's approach to the Financial Sector Charter are contained on pages 145 to 158 of the annual report.

An ***environmental report*** is set out on pages 472 to 480 of the annual report. Absa is considered a low impact company from an environmental perspective, accordingly there is limited board involvement with regard to environmental matters. However, Absa is environmentally aware and the Group has an environmental officer with designated responsibilities for environmental matters. Furthermore, Absa's credit policies contain specific provisions with regard to environmental matters and acceptable lending practices.

### Financial Sector Charter

Absa is a signatory to the Financial Sector Charter. This charter is a voluntary private sector initiative to address BEE in the financial services industry and provides a basis for the sector's engagement with other stakeholders, including the government. The charter represents a partnership programme as outlined in the government's strategy for broad-based BEE and establishes targets and responsibilities in respect of human resource development, procurement policies, enterprise development, access to financial services, empowerment financing and ownership. The charter also outlines processes for implementation and mechanisms to monitor and report on progress. More detail on the charter is contained on pages 145 to 158 of the annual report.

### Code of Banking Practice

Absa endorses the Code of Banking Practice and applies the underlying values embodied in the code. Absa is committed to providing its customers with professional and friendly service, in a manner that is fast, easy, accessible, transparent, approachable and in line with what is fair and just. For this reason, Absa regards the code as a living document.

The code was revised and reimplemented during the year under review, after due consultation with member banks, external stakeholders and the government.

To ensure adherence to the code, training is constantly provided to employees, customers are made aware of the company's commitment to the code and the code is made available through the branch network and via the internet. In collaboration with Bankseta and other banks, training material for the industry was designed and delivered. The purpose of the project was to ensure consistency in training and knowledge sharing in the industry and therefore ensure awareness and consumer protection. Furthermore, Absa's Group Compliance function constantly monitors procedures and practices against the code.

Ultimate customer experience forms the basis of the code, which also ties in with the relevant Absa values: to demonstrate integrity, to treat customers consistently fairly and, as a customer-driven organisation, to be transparent in all dealings with customers.

Absa is a subscribing member of the Office of the Ombudsman for Banking Services. The mission of the ombudsman is to provide banks and their customers with a quick and efficient dispute resolution service in a fair, impartial and confidential way and to strive to improve general banking practice. Of all the customer complaints lodged through Absa's Action Line during the year under review, very few required the further intervention of the Office of the Ombudsman for Banking Services. In respect of the cases referred to the ombudsman, Absa was found to have acted fairly and justly in the majority of instances. Absa is constantly striving to improve the delivery of its products and service to ensure an ongoing improvement in customer satisfaction. Absa Customer Care has an internal mediation centre ombudsman, available to internal and external customers, providing additional dispute resolution options.



## The FAIS Ombud in terms of the Financial Advisory and Intermediary Services (FAIS) Act

The FAIS Ombud is a statutory ombudsman promulgated by the FAIS Act. The objective of the FAIS Ombud is to deal with complaints in a procedurally fair, informal, economical and expeditious manner. The Office of the Ombud deals with complaints, investigates the basis of these complaints, mediates between the parties to the complaint and makes recommendations or determinations relating to the outcome of a complaint.

The FAIS Ombud's jurisdiction is to hear FAIS-related complaints that have arisen out of a financial prejudice that the customer is alleged to have suffered. This financial prejudice could have arisen by either a contravention or failure to comply with FAIS, or where a financial service (advice or intermediary service) has been rendered negligently, or where the customer has been treated unfairly by an authorised financial services provider (AFSP). The FAIS Ombud does not deal with matters relating to the performance of financial products that fall within the ambit of FAIS, unless such performance has been guaranteed by a financial advisor or intermediary, or there is other evidence of dishonesty. The FAIS Ombud will only entertain complaints with a value of up to R800 000.

The difference between the FAIS Ombud and other ombuds, such as those for the short- and long-term insurance industries, is that the latter have been voluntarily established by their industries and have no jurisdiction over complaints concerning intermediaries. The FAIS Ombud is independently appointed by the Financial Services Board (FSB) and the Ombud's jurisdiction extends over the entire spectrum of financial service providers, including product suppliers, independent intermediaries and corporate brokers.

All AFSPs in the Absa Group have a comprehensive internal complaints resolution process to be followed when a complaint is received from a customer. It is only in the event that the customer is not satisfied with the resolution of the complaint that the customer may approach the FAIS Ombud. These AFSPs also disclose to the customer the details of the FAIS Ombud, thus promoting transparent and fair dealings with the customer.

## Ombudsmen for the life assurance and short-term insurance industries

Members of the life assurance and short-term insurance industries contribute subscriptions to the offices of the ombudsmen for long-term and short-term insurance.

The ombudsman for the life assurance industry mediates in disputes between the subscribing members of the industry and policyholders. In so doing, the ombudsman endeavours to ensure that principles of fairness, equity and independence prevail.

The board is satisfied that there are processes in place to ensure that Absa's code of ethics is being adhered to in all respects.

The ombudsman for short-term insurance seeks to resolve disputes between industry members and consumers in an independent, impartial, cost-effective, efficient, informal and fair way.

As a subscribing member, Absa co-operates fully with the offices of the ombudsmen with regard to the resolution of disputes and constantly seeks to maintain positive relationships with their offices.

## Organisational integrity and the code of ethics

Unethical behaviour in the broader South African community is reported regularly in the media. A company such as Absa, which represents a sample of the broader community, does not escape these trends. It is therefore crucial for management to ensure that there is an appropriate focus on preventing losses and/or reputational damage owing to unethical behaviour. In Absa, through various risk control procedures, the effects of unethical behaviour are limited. Absa has appointed the Group executive: People Management as the ethics officer, *ex officio.* Compliance with Absa's code of ethics is monitored by a designated official in Absa's Group Compliance function.

Absa's code of ethics is periodically refined, applying input from various interested parties and stakeholders in the organisation.

Management demonstrates its commitment to the code of ethics by entrenching various principles. These include rewards and incentives for ethical behaviour and disciplinary procedures as well as criminal and civil charges for unethical or dishonest behaviour. In addition, employees found guilty of dishonesty during internal investigative procedures are reported to the Banking Council for listing in the industry's register. Absa has a helpline to facilitate the reporting of possible fraudulent, corrupt and unethical behaviour in the Group. The line is available 24 hours per day, seven days a week.

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

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

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

The board is satisfied that there are processes in place to ensure that Absa's code of ethics is being adhered to in all respects.

## Independent assessment of corporate governance

In 2004, Deutsche Bank conducted a survey into corporate governance in South Africa covering 46 JSE-listed companies. In their report, dated 6 October 2004, Absa was given a governance assessment score of 85% ("positive"). Absa was placed joint 3rd of the 46 companies rated.

The areas where Absa was marked down (which are not considered material and are not King II requirements) have been reviewed internally and will be considered for implementation at Absa only where this makes business sense, taking account of substance over form and market practices.

At the time of finalisation of this annual report, Absa's governance processes were being independently reviewed by CA-Ratings, a leading ratings agency in South Africa. In 2003, a rating of AA-g was assigned ("extremely sound corporate governance"). The review includes an assessment of board documents, governance structures (eg: board and board committee structures), and governance and risk management processes. Interviews are conducted with all directors and specific members of management.

## Acquisition by Barclays Bank PLC (Barclays) of a controlling interest in Absa

The acquisition by Barclays of a controlling stake in Absa has a number of corporate governance implications including: a reconstitution of the Absa board and board committees following the resignation of Sanlam and Remgro nominees (Mr Motsepe, Dr van Zyl and Mr van Wyk) and the appointment of Barclays nominees (Mr Bruynseels, Mr Kheraj and Mr Roberts), a change of the year-end (to 31 December), the change of the auditors, the alignment of key Absa policies with those of Barclays (as deemed appropriate), the consideration of the governance approach of Barclays and alignment by Absa (as deemed appropriate) and the impact of the Sarbanes-Oxley Act.

## Other corporate governance objectives for the year ahead

For the year ahead, the Group has the following corporate governance objectives and focus areas:

- The development of a corporate governance intranet site for use in Absa, principally using the CGF database.
- The revision of Absa's market disclosure and communications policy, outlining Absa's processes for identifying information for disclosure and also to ensure that timely and accurate information continues to be provided equally to all shareholders and market participants.

# The Absa Group board

## Introduction

The Absa board is a balanced board with a mjority of independent directors. The chairman of the Absa board is an independent director. As at 31 March 2005, Absa had 21 directors – three executive, six non-executive and 12 independent directors.

## Significant developments during the year under review

A number of developments impacted the membership and size of the Absa Group board during the year under review. These included:

- The appointment of Mr P T Motsepe as a non-executive director on 9 July 2004.
- The resignation of Mr G R Pardoe on 9 July 2004.
- The approval of the Group's black economic empowerment transaction by shareholders and the subsequent appointment of Ms L N Angel and Mr L W Maasdorp as non-executive directors to the board on 16 August 2004.
- The retirement of Mr E R Bosman as the Group's chief executive on 1 August 2004.
- The appointment of Dr D F Booysen as Group chief executive on 1 August 2004.
- The appointment of Mr L L von Zeuner as a Group executive director on 1 September 2004.
- The appointment of Dr D E Baloyi as an independent director on 31 December 2004.
- The resignation of Mr F J du Toit on his retirement from the Group, resulting in the appointment of Mr J H Schindehütte as a Group executive director on 1 January 2005.

## Board membership (as at 31 March 2005)

The Absa Group board comprises the following directors:

**Independent directors**
D C Arnold, D E Baloyi, L Boyd, D C Brink (deputy chairman), B P Connellan, D C Cronjé (chairman), A S du Plessis, G Griffin, L N Jonker, P du P Kruger, F A Sonn and P E I Swartz.

**Non-executive directors**
L N Angel, L W Maasdorp, P T Motsepe, T M G Sexwale, T van Wyk and J van Zyl.

**Executive directors**
S F Booysen (Group chief executive), J H Schindehütte and L von Zeuner.

## Board committee membership and non-executive trustees of the retirement fund (as at 31 March 2005)

Absa seeks to ensure that a majority of independent directors serve on its board committees.

The board committee members and the Group Retirement Fund trustees are set out below.

| Committee | Members |
|---|---|
| **Group Audit and Compliance Committee** | A S du Plessis (chairman), D C Arnold, P du P Kruger, L W Maasdorp and T van Wyk |
| **Group Risk Committee** | P du P Kruger (chairman), D C Arnold, D C Cronjé, A S du Plessis, G Griffin and P E I Swartz |
| **Group Remuneration Committee** | D C Brink (chairman), L Boyd, B P Connellan, D C Cronjé and T van Wyk |
| **Directors' Affairs Committee** | D C Cronjé (chairman), D C Brink, L N Jonker, T M G Sexwale and T van Wyk |
| **Board Lending Committee** | L Boyd, D C Brink, B P Connellan, D C Cronjé and A S du Plessis |
| **Credit Committee: Large Exposures** | D C Cronjé (chairman), S F Booysen, L Boyd, D C Brink, B P Connellan, A S du Plessis and J H Schindehütte |
| **Group Retirement Fund** | D C Brink (chairman), D C Cronjé and T van Wyk |

## Biographical details and appointment dates of board members (as at 31 March 2005)

**D C (Danie) Cronjé** (58)

*DCom*

Chairman

Appointed to the board in 1987

Independent director

**Absa board committee memberships**

Directors' Affairs Committee (chairman)

Group Remuneration Committee

Group Risk Committee

Board Lending Committee

Credit Committee: Large Exposures (chairman)

**Other directorships/ trusteeships**

Chairman of Sage Group Limited and a director of Idion Technology Holdings Limited. He is chairman of the Absa Foundation and a trustee of the Absa Group Retirement Fund. He is a member of various divisional and subsidiary boards in Absa.

**Skills, expertise and experience**

Joined Volkskas in 1975 and held various positions in Volkskas Merchant Bank and Volkskas Group. He was formerly deputy chief executive and subsequently Group chief executive of Absa until 1997.

**D C (Dave) Brink** (65)

*MSc Eng (Mining), Diploma in Business Administration, Graduate Diploma in Company Direction*

Deputy chairman

Appointed to the board in 1992

Independent director

**Absa board committee memberships**

Directors' Affairs Committee

Group Remuneration Committee (chairman)

Board Lending Committee

Credit Committee: Large Exposures

**Other directorships/ trusteeships**

Chairman of Unitrans Limited, and a director of Sanlam Limited, Sappi Limited, BHP Billiton Limited and BHP Billiton PLC. He is a trustee of the Absa Foundation and chairman of the Absa Group Retirement Fund. He is a member of the Absa Corporate and Merchant Bank divisional board.

**Skills, expertise and experience**

Joined Murray & Roberts Limited in 1970 after eight years in the gold industry with Anglo American Corporation of South Africa Limited. Appointed chief executive officer of Murray & Roberts Holdings Limited in 1986 and chairman in 1994.

**S F (Steve) Booysen** (42)

*DCom (Acc), CA(SA)*

Group chief executive

Appointed to the board in 2004

Executive director

**Absa board committee memberships**

Credit Committee: Large Exposures

Attends various other board committee meetings *ex officio*.

**Other directorships**

A director of various companies in the Absa Group.

**Skills, expertise and experience**

After completing his articles with Ernst & Young (1980-1983), he became a senior lecturer in accounting at the University of South Africa (1983-1988). His first appointment with the Group was as senior manager: Finance at TrustBank (1988-1992). From 1992 to 1994, he was assistant general manager: Group Finance at Absa. He then joined Absa Corporate Bank (later Absa Corporate and Merchant Bank). He held the positions of general manager and deputy operating executive until he was appointed as a Group executive director in 2001. He was appointed as Group chief executive of Absa in August 2004.

**L N (Nthobi) Angel** (51)

*BA (Hons), MSc (Sociology)*

Appointed to the board in 2004

Non-executive director

**Absa board committee memberships**

None, but is a member of the Absa Personal Bank divisional board and a trustee of the Absa Foundation.

**Other directorships/ trusteeships**

A director of the Open Africa initiative and the Peace Parks Foundation, a trustee of the Kagiso Trust and a board member of Deloitte Chartered Accountants (SA).

**Skills, expertise and experience**

From 1994 to 1995, Ms Angel was the public affairs manager at Rhone-Poulenc Rorer SA (Proprietary) Limited. Thereafter she was appointed as general manager: Corporate Affairs at Engen Petroleum Limited, a position she held until early 2000, when she was appointed as executive director: Strategic Affairs at Engen. From 2001 to 2003, Ms Angel acted as the chief operations officer: Strategic Planning and Communications at the office of the State President.

**D C (Des) Arnold** (65)

*CA(SA) FCMA, AMP*

Appointed to the board in 2003

Independent director

**Absa board committee memberships**

Group Audit and Compliance Committee

Group Risk Committee

**Other directorships**

None

**Skills, expertise and experience**

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

Mr Arnold is a past president of the Eastern, Central and Southern African Federation of Accountants as well as past president of the South African Institute of Chartered Accountants (SAICA). He has represented SAICA on the Financial and Management Accounting Committee of the International Federation of Accountants.

**D E (Danisa) Baloyi** (49)

*PhD (International Education and Development)*

Appointed to the board in 2004

Independent director

**Absa board committee memberships**

None

**Other directorships**

An executive director of the national Black Business Caucus with expertise in the fields of business development and strategy. She is the chairperson of the Advertising Standards Authority, the Diabo Share Trust for Telkom employees, Medikredit and the National Skills Authority.

Dr Baloyi serves on a number of other boards, including the Business Unity South Africa (BUSA) Council, SA Tourism (where she is deputy chairperson), the Southern African Enterprise Development Fund, Metrofile Holdings Limited (formerly MGX Holdings Limited) and Enterprise Risk Management Limited. Dr Baloyi is also chairperson of South African Women Investment Holdings (SAWIH), an organisation she founded.

**Skills, expertise and experience**

Dr Baloyi spent 12 years in the US studying and working for, among others, the African-American Institute and the United Nations Development Fund for Women. She also taught at well-known academic institutions, including City University of New York, Essex County College and Rutgers University. She has been involved in many of the empowerment charter processes.

**L (Leslie) Boyd** (68)

*Chartered engineer, Fellow of the Institute of Metallurgists (UK)*

Appointed to the board in 1988

Independent director

**Absa board committee memberships**

Group Remuneration Committee

Board Lending Committee

Credit Committee: Large Exposures

**Other directorships**

Chairman of Imperial Holdings Limited, Datatec Limited and a director of numerous companies listed on the JSE.

**Skills, expertise and experience**

From 1984 to 1992, he was executive director of Anglo American Corporation of South Africa Limited and deputy chairman from 1992 to 2001, having been general manager, managing director and chairman of Highveld Steel and Vanadium Corporation Limited from 1972 to 2001. Former executive vice-chairman of Anglo American PLC and former chairman of AMIC Limited, Anglo American Platinum Corporation Limited, AECI Limited and Altech Limited.

**B P (Brian) Connellan** (64)

*CA(SA)*

Appointed to the board in 1994

Independent director

**Absa board committee memberships**

Group Remuneration Committee

Board Lending Committee

Credit Committee: Large Exposures

**Other directorships**

Director of Nampak Limited, Illovo Sugar Limited, Tiger Brands Limited, Reunert Limited, Sasol Limited and Oceana Group Limited.
He is a member of the Absa Corporate and Merchant Bank divisional board.

**Skills, expertise and experience**

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

**A S (Attie) du Plessis** (61)

*BCom, CA(SA), HDip Tax, AMP*

Appointed to the board in 1992

Independent director

**Absa board committee memberships**

Group Audit and Compliance Committee (chairman)

Group Risk Committee

Board Lending Committee

Credit Committee: Large Exposures

**Other directorships**

He is chairman of Gencor Limited and a director of Sanlam Limited, KWV Group Limited and various companies in the Sanlam Group.

**Skills, expertise and experience**

From 1986 to 2002, he was an executive director of Sankorp Limited and Sanlam Limited.

**G (Garth) Griffin** (56)

*BSc, FIA, FASSA*

Appointed to the board in 2001

Independent director

**Absa board committee memberships**

Group Risk Committee

**Other directorships**

None

**Skills, expertise and experience**

An actuary, he has wide experience in the financial services industry, both locally and internationally. He worked for Old Mutual from 1970 to 1999, at which time he was managing director of Citadel Holdings. He served as the Group chief executive officer of Sage Group from March 2003 to April 2005.

**L N (Lourens) Jonker** (65)

*BSc (Agric)*

Appointed to the board in 1996

Independent director

**Absa board committee memberships**

Directors' Affairs Committee

**Other directorships**

He is chairman of Weltevrede Wine Estates (Proprietary) Limited and a director of Naspers Limited, Heemstede Investments (Proprietary) Limited, Toeloms Investments No 1 (Proprietary) Limited and Weltevrede Cellar (Proprietary) Limited. He is a member of the Absa Corporate and Merchant Bank divisional board.

**Skills, expertise and experience**

Owner of Weltevrede Wine Estate. Joined the board of KWV Co-operative in 1981 and became chairman of KWV Group Limited and KWV Investments Limited in 1994. Mr Jonker led the successful transformation of KWV from a co-operative to a fully commercialised company. He resigned from the KWV board in December 2003. He was adjudged farmer of the year in 1996 and served on various committees in the wine industry.

**P du P (Paul) Kruger** (67)

*BSc Eng (Mining), MBL*

Appointed to the board in 1996

Independent director

**Absa board committee memberships**

Group Audit and Compliance Committee

Group Risk Committee (chairman)

**Other directorships**

Chairman of Sasol Limited and a director of numerous Sasol subsidiaries.

**Skills, expertise and experience**

Joined Sasol in 1964 at the Sigma Colliery in Sasolburg. Appointed managing director of the Sasol Group in 1987.

**L W (Leslie) Maasdorp** (38)

*BA, MSc (Economics)*

Appointed to the board in 2004

Non-executive director

**Absa board committee memberships**

Group Audit and Compliance Committee

**Other directorships**

He is chairman of the Trans Caledon Tunnel Authority and deputy chairman of the South African Weather Services. He also serves on the boards of Coega Development Corporation and the Johannesburg Property Company. He is the deputy chairman of Yard Capital and a governor of Hilton College. He is also a member of the Absa Corporate and Merchant Bank divisional board.

**Skills, expertise and experience**

In 1992, he was appointed as economic policy adviser to the department of Economic Planning of the ANC. From 1994 to 1995, he was a special adviser to the South African Minister of Labour. Thereafter (from 1995 to 1999), he became senior manager: Strategy at Deloitte Consulting. From 1999 to 2002 he served as deputy director-general with responsibility for the restructuring and privatisation of state-owned enterprises.

In 2002 he was appointed as an international adviser with Goldman Sachs International.

**P T (Patrice) Motsepe** (44)

*BA (Legal), LLB*

Appointed to the board in 2004

Non-executive director

**Absa board committee memberships**

None

**Other directorships**

Non-executive chairman of Harmony Gold Mining Company Limited and a director of African Rainbow Minerals Gold Limited and ARM Mining Consortium Limited. Deputy chairman of Sanlam Limited. President of Business Unity South Africa (BUSA), which is the voice of organised business in South Africa. He is also president of the Chambers of Commerce and Industry South Africa (CHAMSA), NAFCOC and Mamelodi Sundowns Football Club.

**Skills, expertise and experience**

Formerly a partner, specialising in mining and business law, at Bowman Gilfillan Inc. He also acted as a legal consultant in South Africa to US law firm McGuire Woods LLP for four years. In 1994, he founded Future Mining (Proprietary) Limited and thereafter founded and was the executive chairman of African Rainbow Minerals Gold Limited (ARMgold), which was listed on the JSE in May 2002. ARMgold merged with Harmony Gold Mining Company Limited in 2003. This ultimately led to the takeover of Anglovaal Mining (Avmin) by ARM. In 2002, he was voted South Africa's business leader of the year by chief executives of the top 100 companies in South Africa and was the winner of the Ernst & Young Best Entrepreneur of the Year award.

**J H (Jacques) Schindehütte** (45)

*BCom (Hons), CA(SA), HDip Tax*

Appointed to the board in 2005

Executive director

**Absa board committee memberships**

Credit Committee: Large Exposures

Attends various other board committee meetings *ex officio*.

**Other directorships**

A director of various companies in the Absa Group.

**Skills, expertise and experience**

Served articles with Arthur Young & Co (now Ernst & Young) from 1981 to 1983. Served in various senior managerial positions in the South African Transport Services, Portnet and Transnet until 1999. Joined Absa as Group executive: Group Finance during 1999. Appointed as Group executive director: Finance in January 2005.

**T M G (Tokyo) Sexwale** (52)

*Certificate in Business Studies*

Appointed to the board in 2001

Non-executive director

**Absa board committee memberships**

Directors' Affairs Committee

**Other directorships**

Executive chairman of Mvelaphanda Holdings (Proprietary) Limited and Mvelaphanda Group (Proprietary) Limited. Chairman of Northam Platinum Limited, Trans Hex Group Limited, Mvelaphanda Resources Limited and a director of Gold Fields Limited.

**Skills, expertise and experience**

Formerly a member of the national executive committee of the ANC and former premier of Gauteng.

**F A (Franklin) Sonn** (65)

*BA (Hons), PTD, FIAC*

Appointed to the board in 1999

Independent director

**Absa board committee memberships**

None, but is a member of the Absa Personal Bank divisional board.

**Other directorships/ trusteeships**

Chairman of African Star Ventures (Proprietary) Limited. Director of the Airports Company South Africa Limited (ACSA), Sappi Limited, Safmarine (Proprietary) Limited, Steinhoff International Holdings Limited, Macsteel Holdings Limited, Metropolitan Holdings Limited, RGA Reinsurance Company of South Africa Limited, RGA SA Holdings (Proprietary) Limited and Ekapa Mining (Proprietary) Limited. Trustee of the Nelson Mandela Foundation and the Legal Resources Trust.

**Skills, expertise and experience**

Rector of the Peninsula Technikon from 1978 to 1994. Served as South African ambassador to the United States of America from 1995 to 1998. Former president of the Afrikaanse Handelsinstituut. President of the Union of Teachers Associations of South Africa for 16 years. Chairperson of the National Education and Training Forum. Currently serves as resident executive of the University of Cape Town Graduate School of Business and chancellor of the University of the Free State.

**P E I (Peter) Swartz** (63)

*Advanced Primary Teacher's Diploma*

Appointed to the board in 1994

Independent director

**Absa board committee memberships**

Group Risk Committee

**Other directorships**

Director of Distell Limited, Sun International Limited and New Clicks Holdings Limited. He is a member of the Absa Commercial Bank divisional board.

**Skills, expertise and experience**

Was a teacher for ten years. Thereafter moved into the private sector with interests in the retail food, liquor, cinema and property development sectors.

**T (Theo) van Wyk** (57)

*BCom, LLB, LLM, HDip Tax*

Appointed to the board in 1991

Non-executive director

**Absa board committee memberships**

Group Audit and Compliance Committee

Directors' Affairs Committee

Group Remuneration Committee

**Other directorships**

Executive director of Rembrandt Group Limited from 1990 to 2000 and thereafter executive director of Remgro Limited. A director of Dorbyl Limited, Sage Group Limited and various companies in the Remgro Group. Deputy chairman of Business Partners Limited and chairman of Wispeco Limited. He is a member of the Absa Financial Services Limited board.

**Skills, expertise and experience**

Former professor of Mercantile Law at Unisa and the University of Stellenbosch. Registrar of Financial Institutions from 1987 to 1990.

**J (Johan) van Zyl** (48)

*PhD, DSc (Agric)*

Appointed to the board in 2004

Non-executive director

**Absa board committee memberships**

None

**Other directorships**

Group chief executive: Sanlam Limited and a director of various companies in the Sanlam Group, including Santam Limited.

**Skills, expertise and experience**

After an academic career in Agricultural Economics at the University of Pretoria, he became vice-chancellor and rector of that institution in 1997. He was appointed chief executive of Santam Limited in 2001 and Group chief executive of Sanlam Limited in 2003.

**L L (Louis) von Zeuner** (43)

*BEcon*

Appointed to the board in 2004

Executive director

**Absa board committee memberships**

None, but attends various board committee meetings *ex officio*.

**Other directorships**

Banking Council South Africa, Article 21 Housing Company, MasterCard, Property24 and SA Payments Strategy Association.

**Skills, expertise and experience**

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

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

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

# Directors' remuneration report

## In ensuring that Absa's employees create value for all the Group's stakeholders, the Group provides a positive, supportive, healthy and diversity-friendly working environment.



### Introduction

This section of the annual report focuses on the structure governing the remuneration of the Group's directors, the remuneration policy as well as executive directors' remuneration, performance bonuses, option allocations and service contracts. It also contains an overview of remuneration matters relating to non-executive directors.

### Remuneration developments

During the year under review, the following developments took place:

- An independent evaluation of the executive bonus scheme. The scheme was found to be in line with current market practices and only minor refinements were required.
- The Group's option scheme is currently under review to bring it in line with best practice.
- The allocation of redeemable cumulative option-holding preference shares to a number of previously disadvantaged individuals, qualifying employees and black non-executive directors in terms of the Group's broad-based black economic empowerment and employee transactions.

### Governance

Governance of directors' remuneration in the Absa Group is performed by the Group Remuneration Committee, a committee of the Absa board of directors.

Its members (D C Brink (chairman), L Boyd, B P Connellan, D C Cronjé and T van Wyk) are all non-executive directors, with the majority being independent directors.

The Group chief executive, the executive director responsible for people management and the Group executive director responsible for finance attend the meetings by invitation but do not participate in discussions and decisions regarding their remuneration and benefits. Meetings are held five times a year*. No executive director is present when his or her own remuneration is discussed.

The Group Remuneration Committee's responsibilities include:

- approving the Group's remuneration philosophy, principles and policy;

**For the 2005 financial year, meetings were held quarterly. Going forward, five meetings will be held annually.*

- approving the remuneration of the Group chief executive, executive committee members and persons reporting directly to them. Remuneration includes all elements of remuneration: incentive scheme payments, the share/option scheme, guaranteed fixed remuneration, variable remuneration and any other form of benefits or perquisites;
- reviewing all payments made in terms of the Group's various incentive schemes;
- recommending to the board the fee structure for directors and the fees for members of board committees for onward recommendation to shareholders;
- determining the Group chairman's remuneration at a meeting from which he recuses himself;
- succession planning for executive directors and top management, including the Group chief executive, executive directors and other individuals in strategic positions/roles; and
- evaluating the performance of the Group chief executive and reviewing the evaluation of the performance of executive directors.

In addition, the Directors' Affairs Committee (DAC) assesses the contribution of those non-executive directors that are retiring by rotation and are up for re-election via an individual director evaluation process. The Group chairman and deputy chairman conduct this process. The DAC and thereafter the Absa board consider the outcomes of this process. The DAC appraises the chairman's performance at a meeting from which he recuses himself. The Group Remuneration Committee, in determining the remuneration of non-executive directors and the chairman, takes these evaluations into account.

## Group executive directors' remuneration

### Absa's remuneration philosophy

The purpose of remuneration is to attract, retain and motivate all employees. Absa has an overarching remuneration philosophy to support this purpose, which, in turn, supports the Group's strategy. Absa's remuneration structure has three components:

- Fixed remuneration = annual salary and benefits.
- Variable remuneration = a short- to medium-term performance-related incentive scheme.
- Share option grants = a long-term performance-related incentive scheme.

Fixed remuneration is reviewed annually to ensure that those who contribute to the success of the Group and who have the potential to sustain performance are remunerated competitively. The Group uses variable remuneration schemes to focus behaviour on important business objectives and to sustain performance.

To achieve this goal, the existing variable remuneration schemes are reviewed annually and adjustments are made to improve their efficiency. The Group has progressed well towards its aim of growing the variable component of remuneration and slowing down the growth of fixed remuneration.

### Absa's remuneration policy

Absa aims to employ individuals of the highest calibre, who embrace the Group's values. In ensuring that Absa's employees create value for all the Group's stakeholders, the Group provides a positive, supportive, healthy and diversity-friendly working environment, thereby enabling employees to achieve their full potential with the assurance of being recognised and rewarded for excellent performance.

Absa's employees (including executive directors) are rewarded as individuals for the value they add through the payment of fixed remuneration, performance bonuses and option allocations. The key principles of Absa's overall remuneration policy are as follows:

- Reward programmes are designed and administered to align employees' interests with those of the Group's stakeholders.
- Reward programmes are clear and transparent to reward the achievement of the Group's desired strategic positioning.
- Rewards are linked to the performance of the business and the individual business units. Reward levels are targeted to be commercially competitive. Reward levels are based on the scope of responsibility and individual contributions made.
- Appropriate benchmarks, industry and comparable organisations' remuneration practices are reviewed regularly. The Group Remuneration Committee determines the overall remuneration packages of executive directors.

In determining the appropriate remuneration for executive directors and top management, Absa makes use of the services of an independent remuneration consulting company, Global Remuneration Solutions (Proprietary) Limited. This consultant advises the Group Remuneration Committee on the remuneration of executive directors and top management, after using surveys of the banking industry as well as the broader industry to make remuneration comparisons. The Group bears all the expenses relating to the appointment of external consultants.

Group People Management also provides advice to the Group Remuneration Committee. The Group People Management division is a Group specialist function and assists the committee by providing supporting information and documentation relating to matters that are presented to the Group Remuneration Committee. This includes comparative data and motivations for proposed salaries, bonuses and option allocations.

### Group executive directors' guaranteed fixed remuneration

Absa applies discretion in all remuneration reviews. As a result, there has never been a minimum across-the-board increase. The sustainable contribution of each employee is used as the basis for remuneration reviews. A total cost-to-company approach is followed for all executive levels of management. Benefits include retirement schemes; death and disability cover; medical cover and other benefits, as dictated by competitive local market practices.

## Group executive directors' guaranteed fixed remuneration

| Executive director* | Note | Directors' fees Absa Group R | Directors' fees Absa Bank and other divisional boards R | Salaries R | Travel allowances R | Retirement fund contri-butions R | Total guaranteed remune-ration R | Growth in total guaranteed remune-ration % change |
|---|---|---|---|---|---|---|---|---|
| **For the year ended 31 March 2005**** | | | | | | | | |
| S F Booysen | 1 | **67 000** | **—** | **2 106 375** | **14 521** | **167 902** | **2 355 798** | **n/a*** ** |
| E R Bosman | 2 & 7 | **30 000** | **—** | **2 929 702** | **16 438** | **224 387** | **3 200 527** | **n/a*** ** |
| F J du Toit | 3 | **71 000** | **—** | **1 320 673** | **2 746** | **103 829** | **1 498 248** | **n/a*** ** |
| G R Pardoe | 4, 7 & 8 | **37 500** | **—** | **4 480 750** | **3 443** | **73 704** | **4 595 397** | **n/a*** ** |
| J H Schindehütte | 5 | **26 000** | **—** | **492 351** | **1 678** | **41 667** | **561 696** | **n/a*** ** |
| L L von Zeuner | 6 | **59 500** | **—** | **1 305 009** | **11 662** | **101 874** | **1 478 045** | **n/a*** ** |
| **Total** | | **291 000** | **—** | **12 634 860** | **50 488** | **713 363** | **13 689 711** | **n/a*** ** |
| **For the year ended 31 March 2004** | | | | | | | | |
| E R Bosman | 7 | 87 000 | — | 3 485 874 | 12 717 | 277 706 | 3 863 297 | 24,7 |
| F J du Toit | | 87 000 | — | 1 569 939 | 4 789 | 125 854 | 1 787 582 | 12,6 |
| G R Pardoe | 7 | 87 000 | — | 3 132 888 | 10 180 | 203 335 | 3 433 403 | n/a*** |
| **Total** | | 261 000 | — | 8 188 701 | 27 686 | 606 895 | 9 084 282 | n/a*** |
| **For the year ended 31 March 2003** | | | | | | | | |
| E R Bosman | | 60 000 | — | 2 785 270 | 26 810 | 225 194 | 3 097 274 | |
| F J du Toit | | 60 000 | — | 1 407 186 | 8 063 | 112 870 | 1 588 119 | |
| G R Pardoe | | 31 667 | — | 1 988 455 | 5 482 | 123 696 | 2 149 300 | |
| **Total** | | 151 667 | — | 6 180 911 | 40 355 | 461 760 | 6 834 693 | |

***Notes***:
*(1) Appointed to the Absa Group board on 1 August 2004.*
*(2) Retired from the Absa Group board on 1 August 2004.*
*(3) Retired from the Absa Group board on 1 January 2005.*
*(4) Resigned from the Absa Group board on 9 July 2004.*
*(5) Appointed to the Absa Group board on 1 January 2005.*
*(6) Appointed to the Absa Group board on 1 September 2004.*
*(7) Included in this amount is offshore remuneration, converted at the appropriate exchange rate.*
*(8) Includes a negotiated severance payment amounting to R3,5 million.*

**Group executive directors' guaranteed remuneration is paid by Absa Bank Limited.*
***Remuneration is pro-rated based on tenure as a Group executive director.*
****Growth rates are not applicable owing to differences in tenure on the Absa Group board.*

The Group has a share option scheme that is designed to link the interests of executive directors and employees with those of shareholders and the long-term desired strategic positioning of the Group.

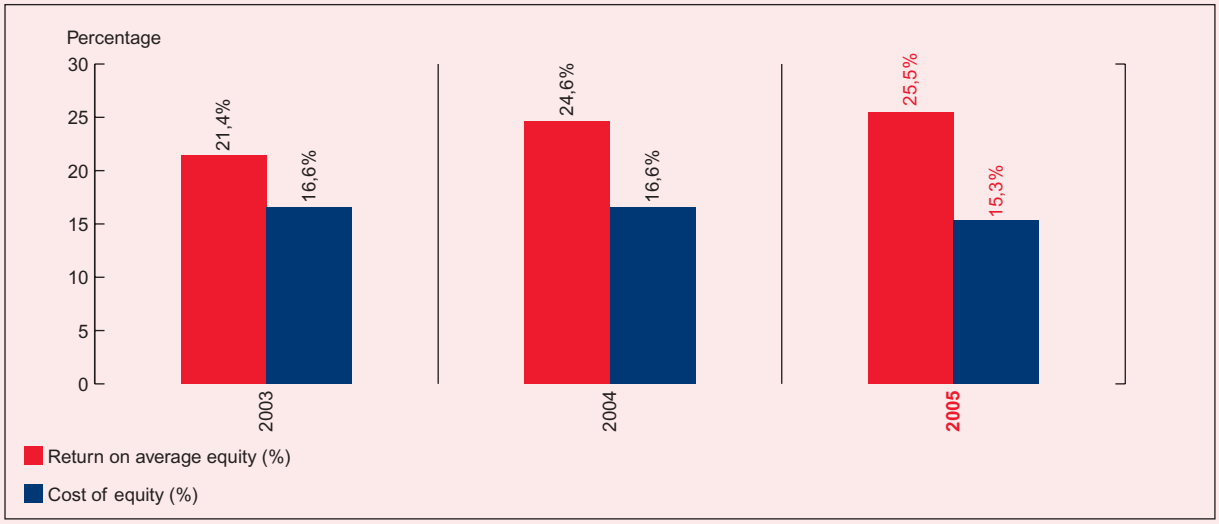


**Group executive directors' performance bonuses (variable remuneration)**

Performance bonuses are linked to business performance in terms of targeted performance goals and are based on an economic value-added approach.

Over the past three years, significant value has been created for shareholders, with the Group's return on average equity increasing from 21,4% in the 2003 financial year to 25,5% in the 2005 financial year.

**Value creation for shareholders**




The Group Remuneration Committee approves a "stretch" annual performance target. This target is converted to a headline earnings target to facilitate ease of communication and understanding.

Performance bonuses are paid only when the Group's financial performance exceeds the cost of equity. The Group's cost of equity for the 2005 financial year was 15,3%.

The headline earnings target on which a bonus pool is made available is set on a sliding scale and is dependent on the Group's performance in the year under review.

The final bonus pool is calculated by multiplying the bonus multiple (which is a function of the achievement of the headline earnings target) by the sum of executive directors' annual pensionable salary. The bonus multiple is capped at two.

Performance bonuses are not guaranteed and vary according to an individual's performance rating.

Two thirds of any performance bonus paid in excess of one bonus multiple is banked and is paid during the next two financial years, subject to sustained performance by the Group.

During the year under review, an independent adviser was contracted to evaluate the executive bonus scheme. The scheme was found to be in line with current market practices and only minor refinements were required.



## Group executive directors' performance bonuses

| | | For the year ended 31 March | | |
|---|---|---|---|---|
| **Executive director** | **Note** | **[1]2005 R** | 2004 R | 2004 R |
| S F Booysen | 2 | **6 470 292** | n/a | n/a |
| E R Bosman | 3 | **3 985 180** | 7 006 508 | 5 693 459 |
| F J du Toit | 4 | **3 596 268** | 2 912 444 | 2 851 567 |
| G R Pardoe | 5 | **1 244 640** | 3 553 626 | 4 679 538 |
| J H Schindehütte | 6 | **4 223 065** | n/a | n/a |
| L L von Zeuner | 7 | **5 014 436** | n/a | n/a |
| **Total** | | **24 533 881** | 13 472 578 | 13 244 564 |

***Notes:***
*(1) Year-on-year growth is not comparable owing to changes in tenure and to resignations, retirements and appointments.*
*(2) Appointed to the Absa Group board on 1 August 2004.*
*(3) Retired from the Absa Group board on 1 August 2004.*
*(4) Retired from the Absa Group board on 1 January 2005.*
*(5) Resigned from the Absa Group board on 9 July 2004.*
*(6) Appointed to the Absa Group board on 1 January 2005.*
*(7) Appointed to the Absa Group board on 1 September 2004.*

### Group executive directors' share option grants

The Group has a share option scheme that is designed to link the interests of executive directors and employees with those of shareholders and the long-term desired strategic positioning of the Group.

All full-time employees are eligible to participate in the scheme, principally based on performance and retention. One third of the options vest on the third anniversary of the date of grant, a further third vest on the fourth anniversary of the date of grant and the final third on the fifth anniversary of the date of grant. All option grants in terms of the scheme have a ten-year expiry period. There are specific provisions governing retirement, death, retrenchment, ill health and contractual termination.

The scheme is benchmarked to market practices and trends to ensure that it remains attractive and competitive. The Group Remuneration Committee considers share option allocations to executive directors annually.

These allocations are aimed at retaining the services of the Group's executive directors and aligning the achievement of the Group's objectives with long-term value creation for shareholders. Share option allocations

are discretionary and are guided by benchmark multiples of annual remuneration cost to the company. The current benchmark multiple for the Group chief executive is eight times his annual remuneration cost to the company. For other executive directors, the benchmark is six. The total issue value of unvested options held should not exceed the benchmark.

Except for the requirement that recipients must be in the employ of the Group on grant dates, there are no preconditions for the allocation of share options. However, the recipients are generally key employees whose current and potential contributions to achieving/implementing Absa's strategy are taken into account.

The option scheme is currently under review to bring it in line with best practice. Absa management is performing this review with the assistance of independent advisers, taking into account the practices employed by Barclays PLC. The aim of the review is to introduce a new share incentive scheme with performance conditions that must be met for shares to vest.

In formulating the above scheme, the Group Remuneration Committee is taking the following into account:

- Share ownership rather than options is preferable in order to create co-ownership;
- Absa will no longer grant options/shares to employees in terms of its long-term incentivisation programme without attaching performance criteria to such grants;
- The impact of International Financial Reporting Standards with regard to share incentive schemes;
- The impact of revised tax legislation affecting employee share incentive schemes; and
- The need to ensure that Absa's long-term incentive arrangements remain competitive and attractive.

**Group executive directors' share options – composition of opening balances**

| Executive director | Note | Opening balance as at 1 April 2004 | Share options granted | | | |
|---|---|---|---|---|---|---|
| | | | Date of grant | Expiry date of options | Number granted | Price R |
| S F Booysen | 1 | | 28 Aug '97 | 28 Aug '07 | 10 000 | 30,47 |
| | | | 28 Aug '98 | 28 Aug '08 | 20 750 | 17,85 |
| | | | 26 Feb '99 | 26 Feb '09 | 50 000 | 27,95 |
| | | | 12 Oct '99 | 12 Oct '09 | 20 000 | 27,68 |
| | | | 12 Jun '00 | 12 Jun '10 | 10 000 | 26,53 |
| | | | 19 Jun '01 | 19 Jun '11 | 70 000 | 37,43 |
| | | | 7 Jun '02 | 7 Jun '12 | 120 000 | 33,67 |
| | | | 5 Jun '03 | 5 Jun '13 | 135 000 | 35,01 |
| | | 435 750 | | | | |
| E R Bosman | 2 | | 25 Nov '94 | *25 Nov '04 | 75 000 | 11,05 |
| | | | 28 Aug '97 | *28 Aug '07 | **55 000 | 30,47 |
| | | | 28 Aug '98 | *28 Aug '08 | **100 000 | 17,85 |
| | | | 12 Oct '99 | *12 Oct '09 | 100 000 | 27,68 |
| | | | 12 Jun '00 | *12 Jun '10 | 40 000 | 26,53 |
| | | | 19 Jun '01 | *19 Jun '11 | 150 000 | 37,43 |
| | | | 7 Jun '02 | *7 Jun '12 | 225 000 | 33,67 |
| | | | 5 Jun '03 | *5 Jun '13 | 340 000 | 35,01 |
| | | 1 085 000 | | | | |

| Executive director | Note | Opening balance as at 1 April 2004 | Share options granted | | | |
|---|---|---|---|---|---|---|
| | | | Date of grant | Expiry date of options | Number granted | Price R |
| F J du Toit | 3 | | 30 Aug '96 | *30 Aug '06 | **31 332 | 20,77 |
| | | | 28 Aug '97 | *28 Aug '07 | **20 342 | 30,47 |
| | | | 28 Aug '98 | *28 Aug '08 | **30 513 | 17,85 |
| | | | 12 Oct '99 | *12 Oct '09 | 40 000 | 27,68 |
| | | | 12 Jun '00 | *12 Jun '10 | 16 000 | 26,53 |
| | | | 19 Jun '01 | *19 Jun '11 | 90 000 | 37,43 |
| | | | 7 Jun '02 | *7 Jun '12 | 90 000 | 33,67 |
| | | | 5 Jun '03 | *5 Jun '13 | 60 000 | 35,01 |
| | | 378 187 | | | | |
| G R Pardoe | 4 | | 17 Sep '01 | *17 Sep '11 | 350 000 | 35,30 |
| | | | 7 Jun '02 | *7 Jun '12 | 60 000 | 33,67 |
| | | | 5 Jun '03 | *5 Jun '13 | 320 000 | 35,01 |
| | | 730 000 | | | | |
| J H Schindehütte | 5 | | 1 Oct '99 | 1 Oct '09 | 100 000 | 23,73 |
| | | | 12 Jun '00 | 12 Jun '10 | 15 000 | 26,53 |
| | | | 19 Jun '01 | 19 Jun '11 | 70 000 | 37,43 |
| | | | 7 Jun '02 | 7 Jun '12 | 70 000 | 33,67 |
| | | | 5 Jun '03 | 5 Jun '13 | 30 000 | 35,01 |
| | | 285 000 | | | | |
| L L von Zeuner | 6 | | 28 Aug '97 | 28 Aug '07 | 10 400 | 30,47 |
| | | | 28 Aug '98 | 28 Aug '08 | 10 000 | 17,85 |
| | | | 12 Oct '99 | 12 Oct '09 | 20 000 | 27,68 |
| | | | 1 Jan '00 | 1 Jan '10 | 20 000 | 27,49 |
| | | | 12 Jun '00 | 12 Jun '10 | 20 000 | 26,53 |
| | | | 1 Apr '01 | 1 Apr '11 | 50 000 | 32,61 |
| | | | 19 Jun '01 | 19 Jun '11 | 65 000 | 37,43 |
| | | | 7 Jun '02 | 7 Jun '12 | 60 000 | 33,67 |
| | | | 5 Jun '03 | 5 Jun '13 | 95 000 | 35,01 |
| | | 350 400 | | | | |

***Notes:***
*(1) Appointed to the Absa Group board on 1 August 2004.*
*(2) Retired from the Absa Group board on 1 August 2004.*
*(3) Retired from the Absa Group board on 1 January 2005.*
*(4) Resigned from the Absa Group board on 9 July 2004.*
*(5) Appointed to the Absa Group board on 1 January 2005.*
*(6) Appointed to the Absa Group board on 1 September 2004.*

**Dates have not been adjusted for retirements or resignations.*
***Purchase scheme.*

## Group executive directors' share option movements

| Executive director | Note | Opening balance | Share options granted: Number | Share options granted: Date of grant | Share options granted: Price R | Share options granted: Expiry date | Share options exercised: Number | Share options exercised: Exercise date | Share options exercised: Exercise price R | Share options exercised: Gains on share options exercised R | Balance of share options |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **For the year ended 31 March 2005** | | | | | | | | | | | |
| S F Booysen | 1 | **435 750** | **300 000** | **7 Jun '04** | **48,73** | **7 Jun '14** | **—** | **—** | **—** | **—** | **735 750** |
| E R Bosman | 2 | **1 085 000** | **—** | **—** | **—** | **—** | ****** | ****** | ****** | ****** | ****** |
| F J du Toit | 3 | **378 187** | **—** | **—** | **—** | **—** | ****** | ****** | ****** | ****** | ****** |
| G R Pardoe | 4 | **730 000** | **—** | **—** | **—** | **—** | ****** | ****** | ****** | ****** | ****** |
| J H Schindehütte | 5 | **285 000** | **186 856** | **31 May '04** | **46,56** | **31 May '14** | **—** | **—** | **—** | **—** | **471 856** |
| L L von Zeuner | 6 | **350 400** | **26 000** | **16 Aug '04** | **48,73** | **16 Aug '14** | **—** | **—** | **—** | **—** | **478 400** |
| | | | **102 000** | **19 Aug '04** | **51,61** | **19 Aug '14** | | | | | |
| **For the year ended 31 March 2004** | | | | | | | | | | | |
| E R Bosman | | 806 611 | 340 000 | 5 Jun '03 | 35,01 | *5 Jun '13 | 61 611 | 1 Sep '03 | 23,56 | 755 967 | 1 085 000 |
| F J du Toit | | 318 187 | 60 000 | 5 Jun '03 | 35,01 | *5 Jun '13 | — | — | — | — | 378 187 |
| G R Pardoe | | 410 000 | 320 000 | 5 Jun '03 | 35,01 | *5 Jun '13 | — | — | — | — | 730 000 |
| **For the year ended 31 March 2003** | | | | | | | | | | | |
| E R Bosman | | 634 483 | 225 000 | 7 Jun '02 | 33,67 | *7 Jun '12 | 52 872 | 29 Nov '02 | 35,97 | 1 190 806 | 806 611 |
| F J du Toit | | 228 187 | 90 000 | 7 Jun '02 | 33,67 | *7 Jun '12 | — | — | — | — | 318 187 |
| G R Pardoe | | 350 000 | 60 000 | 7 Jun '02 | 33,67 | *7 Jun '12 | — | — | — | — | 410 000 |

***Notes:***

*(1) Appointed to the Absa Group board on 1 August 2004.*
*(2) Retired from the Absa Group board on 1 August 2004.*
*(3) Retired from the Absa Group board on 1 January 2005.*
*(4) Resigned from the Absa Group board on 9 July 2004.*
*(5) Appointed to the Absa Group board on 1 January 2005.*
*(6) Appointed to the Absa Group board on 1 September 2004.*

**Dates have not been adjusted for retirements or resignations.*
***Share option movements subsequent to retirement or resignation from the Absa Group board are not disclosed.*

The fringe benefit on low-interest loans for Group executive directors with regard to the share purchase scheme is tabled below. It should be noted that the share purchase scheme is no longer available to the Group's executive directors. Since 2003, only options have been granted.

## Group executive directors' fringe benefits in respect of low-interest loans

| | | Fringe benefits for the year ended 31 March | | | Capital value of the loan on 31 March | | |
|---|---|---|---|---|---|---|---|
| **Executive director** | **Note** | **2005 R** | 2004 R | 2003 R | **2005 R** | 2004 R | 2003 R |
| E R Bosman | | **158 890** | 560 259 | 705 759 | **—** | 3 698 275 | 5 221 534 |
| F J du Toit | | **100 428** | 243 878 | 246 825 | **1 908 132** | 2 007 731 | 2 037 234 |
| L L von Zeuner | 1 | **28 615** | 41 252 | 41 460 | **547 642** | 569 014 | 572 354 |
| **Total** | | **287 933** | 845 389 | 994 044 | **2 455 774** | 6 275 020 | 7 831 122 |

***Notes:***
*(1) Appointed to the Absa Group board on 1 September 2004.*

## Summary of Group executive directors' interest in Absa shares

This table summarises Absa executive directors' interest in Absa as at 31 March 2005, only if the director was in the employ of the Group on that date.

| **Executive director** | **Direct beneficial interest in Absa** | **Share options** | **Non-beneficially owned** | **Total** |
|---|---|---|---|---|
| S F Booysen | **—** | **735 750** | **—** | **735 750** |
| J H Schindehütte | **—** | **471 856** | **20 000** | **491 856** |
| L L von Zeuner | ***20 000** | **458 400** | **—** | **478 400** |
| **Total** | **20 000** | **1 666 006** | **20 000** | **1 706 006** |

**Purchase scheme shares.*

### Group executive directors' service contracts

The service contracts of executive directors do not have a fixed term but provide for a notice period of six months. Group executive directors retire from their positions and from the board (as executive directors) at the age of 60.

### Group executive directors' severance arrangements

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

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

Absa aims to apply the above policy to all employees, including Group executive directors. However, depending on circumstances, it is sometimes necessary to negotiate with the executive director whose contract is being terminated. This is in line with the spirit of the Labour Relations Act.

## Group non-executive directors' remuneration

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

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

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

The remuneration of non-executive directors is submitted to shareholders for sanction at the annual general meeting prior to implementation and payment.

Absa's fee structure, as approved by shareholders, is indicated in the table below.

| Category | Note | Remuneration 1 October 2003 – 30 September 2004 R | Remuneration 1 October 2004 – 30 September 2005 R |
|---|---|---|---|
| Chairman | 1 & 7 | 1 900 000 | 2 300 000 |
| Board member | 2, 3 & 7 | 90 000 | 104 000 |
| Group Audit and Compliance Committee (GACC) member | 4 | 70 000 | 81 000 |
| Group Risk Committee (GRC) member | 5 | 50 000 | 58 000 |
| Group Remuneration Committee (Rem Com) member | 6 | 42 000 | 48 000 |
| Directors' Affairs Committee (DAC) member | | 24 000 | 36 000 |
| Board Lending Committee member | | Pool of R180 000 per annum payable to Board Lending Committee members *pro rata* to the number of facilities reviewed. | Pool of R207 000 per annum payable to Board Lending Committee members *pro rata* to the number of facilities reviewed. |
| *Ad hoc* board fees: | | | |
| • per meeting of *ad hoc* board committees attended | | R8 000 | R9 000 |
| • consultancy work | | R2 000 per hour | R2 300 per hour |

***Notes:***

*(1) In addition to this amount, the chairman receives fees as board chairman equal to twice the fee payable to a board member.*

*(2) The deputy chairman receives fees equal to 1,5 times the fee payable to a board member.*

*(3) Executive directors of Absa Group Limited receive fees, as members of the Absa Group Limited board, equal to the fees payable to a board member.*

*(4) The GACC chairman receives fees equal to twice the fee payable to a GACC member.*

*(5) The GRC chairman receives fees equal to twice the fee payable to a GRC member.*

*(6) The Remuneration Committee chairman receives fees equal to twice the fee payable to a Remuneration Committee member.*

*(7) The fees payable to non-executive directors of Absa Group Limited in respect of subsidiary companies are not included above as the shareholders of the respective subsidiaries approve these fees.*

As a result of the additional time spent by Dr D C Cronjé in regard to Absa matters during the period August 2004 to May 2005, over and above his current contractual arrangement with Absa, the Group Remuneration Committee approved the payment of a one-off additional remuneration of R1,5 million.

## Group non-executive directors' remuneration

The following table indicates Absa's non-executive directors' emoluments.

| | | Fees for the year ended 31 March | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2005 | | | | | 2004 |
| **Non-executive directors** | **Note** | ****Absa Group Limited R** | ****Absa Bank and its subsidiaries R** | ****Committees and divisional boards R** | *****Ad hoc* fees R** | ***Total R** | ***Total R** |
| D C Cronjé (chairman) | | **2 294 000** | **155 000** | **—** | **55 000** | **2 504 000** | 2 169 445 |
| D C Brink (deputy chairman) | | **145 500** | **116 250** | **204 000** | **130 415** | **596 165** | 487 089 |
| L N Angel | 1 | **67 000** | **53 500** | **19 333** | **—** | **139 833** | — |
| D C Arnold | | **97 000** | **77 500** | **129 500** | **—** | **304 000** | 241 833 |
| D E Baloyi | 2 | **26 000** | **20 750** | **—** | **—** | **46 750** | — |
| N B Bam | 3 | **—** | **—** | **—** | **—** | **—** | 62 500 |
| L Boyd | | **97 000** | **77 500** | **45 000** | **57 036** | **276 536** | 263 596 |
| B P Connellan | | **97 000** | **77 500** | **99 000** | **45 666** | **319 166** | 263 098 |
| A S du Plessis | | **97 000** | **77 500** | **205 000** | **135 883** | **515 383** | 429 200 |
| G Griffin | | **97 000** | **77 500** | **54 000** | **—** | **228 500** | 212 667 |
| L N Jonker | | **97 000** | **77 500** | **54 000** | **16 000** | **244 500** | 208 167 |
| P du P Kruger | | **97 000** | **77 500** | **183 500** | **113 000** | **471 000** | 367 500 |
| L W Maasdorp | 1 | **67 000** | **53 500** | **46 333** | **—** | **166 833** | — |
| P T Motsepe | 4 | **74 500** | **59 500** | **—** | **—** | **134 000** | — |
| T M G Sexwale | | **97 000** | **77 500** | **—** | **16 000** | **190 500** | 164 000 |
| F A Sonn | | **97 000** | **77 500** | **54 000** | **—** | **228 500** | 200 167 |
| P E I Swartz | | **97 000** | **77 500** | **108 000** | **—** | **282 500** | 244 750 |
| T van Wyk | | **97 000** | **77 500** | **195 500** | **16 000** | **386 000** | 302 333 |
| J van Zyl | 5 | **97 000** | **77 500** | **—** | **—** | **174 500** | — |
| **Total** | | **3 838 000** | **1 388 500** | **1 397 166** | **585 000** | **7 208 666** | 5 616 345 |

***Notes:***
*(1) Appointed on 16 August 2004.*
*(2) Appointed on 31 December 2004.*
*(3) Retired on 22 August 2003.*
*(4) Appointed on 9 July 2004.*
*(5) Appointed on 19 April 2004.*

**The growth rate between 2005 and 2004 has not been provided because the bases (representation, attendance, etc) in many cases are dissimilar, making the calculation meaningless.*
***All emoluments to non-executive directors are made by Absa Bank Limited, except as disclosed in note 32.4 in the annual financial statements.*

### Absa ordinary shares held by Group non-executive directors

Certain non-executive directors have an interest in the Group through beneficial and Group non-beneficial interests in Absa shares.

The table below indicates the interest, in the form of Absa ordinary shares, which non-executive directors have in the Absa Group as at 31 March 2005. Non-executive directors' preference shareholdings are disclosed in the following section of this report.

**Group non-executive directors' interest in Absa**

| Non-executive director | Direct beneficial interest in Absa[1] | Direct non-beneficial interest in Absa[2] | Indirect beneficial interest in Absa[3] | Indirect non-beneficial interest in Absa[4] | Total |
|---|---|---|---|---|---|
| D C Cronjé (chairman) | 253 942 | — | — | — | 253 942 |
| D C Brink (deputy chairman) | — | — | 30 900 | — | 30 900 |
| L N Angel | — | — | — | — | — |
| D C Arnold | 1 000 | — | — | — | 1 000 |
| D E Baloyi | — | — | — | — | — |
| L Boyd | 11 086 | — | — | — | 11 086 |
| B P Connellan | — | — | 600 | — | 600 |
| A S du Plessis | — | — | — | 4 000 | 4 000 |
| G Griffin | 2 000 | — | — | — | 2 000 |
| L N Jonker | — | — | — | 3 479 | 3 479 |
| P du P Kruger | — | — | — | — | — |
| L W Maasdorp | — | — | — | — | — |
| P T Motsepe | — | — | — | — | — |
| T M G Sexwale | — | — | — | — | — |
| F A Sonn | — | — | 3 000 | — | 3 000 |
| P E I Swartz | 2 049 | — | — | 765 | 2 814 |
| T van Wyk | — | — | — | — | — |
| J van Zyl | — | — | — | — | — |
| **Total** | 270 077 | — | 34 500 | 8 244 | 312 821 |

***Notes:***
*(1) The number of shares held in a director's own name and which are to a director's benefit.*
*(2) The number of shares held in a director's name, but which are for the benefit of someone else.*
*(3) The number of shares held by someone else, but for a director's benefit.*
*(4) The number of shares held by someone else, not for a director's benefit, but which a director may have some interest in.*

### Preference shareholding in Absa

Shareholders approved the allocation of redeemable cumulative option-holding preference shares to a number of previously disadvantaged individuals, qualifying employees, and black non-executive directors in terms of the Group's broad-based black economic empowerment and employee transactions on 25 June 2004. These allocations were made to Batho Bonke Capital (Proprietary) Limited (73 152 300 shares) and the Absa Share Ownership Trust (6 085 200 shares).

Absa's broad-based black economic empowerment and employee transactions entail an 11% interest in Absa being allocated in the form of redeemable cumulative option-holding preference shares. These redeemable preference shares have the same rights as ordinary shares, including voting rights, save for the rights relating to dividends, redemption and option liquidation. The option exercise period is from 2 July 2007 to 1 July 2009.

A variable option strike price is a core element of the transaction and is as follows:

- If the Absa share price ≤ R70,00, the strike price is R48,00; or
- If the Absa share price > R70,00, but ≤ R100,00, the strike price is R48,00 + 70 cents for each completed R1,00 increment in the share price over R70,00; or
- If the Absa share price > R100,00, the strike price is R69,00.

The Group's broad-based black economic empowerment and employee transactions create value for all Absa stakeholders by providing a platform for meaningful wealth creation for as many previously disadvantaged individuals as possible, enhancing employee loyalty and commitment, expanding the Group's customer base and improving customer loyalty.

The following Absa directors hold Absa preference shares indirectly through their direct and indirect holdings of ordinary shares in Batho Bonke:

| Group non-executive director | Absa preference shares |
|---|---|
| L N Angel | 2 560 328 |
| D E Baloyi | 100 000 |
| L W Maasdorp | 2 560 328 |
| T M G Sexwale | 2 703 705 |
| F A Sonn | 500 000 |
| P E I Swartz | 500 000 |
| **Total** | **8 924 361** |

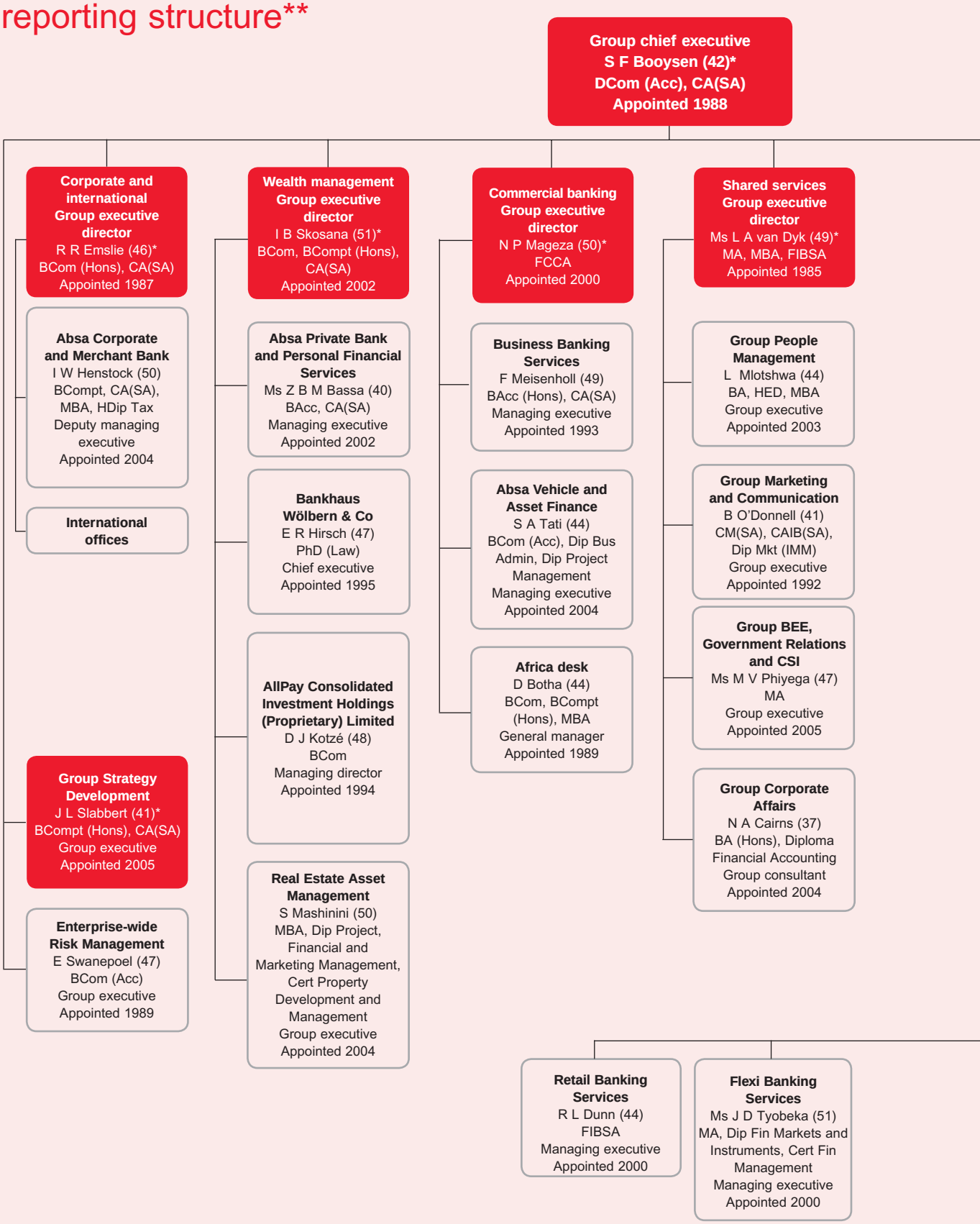
### Group non-executive directors' terms of employment

Non-executive directors do not have service contracts. Letters of appointment confirm the terms and conditions of their service.

## In conclusion

The Group Remuneration Committee and the Absa Group board are satisfied that fair remuneration practices are followed in the Absa Group.

# Group Executive Committee reporting structure**




*Member of the Group Executive Committee.
**As at April 2005.
**Note:** Age as at 31 March 2005.
Date of appointment indicates the year of joining Absa or its predecessors.

## Corporate governance
Group Executive Committee reporting structure

**Retail banking Group executive director**
L L von Zeuner (43)*
BEcon
Appointed 1981

**Absa Home Loans**
J J Grobler (47)
CBSI, CIAG
Managing executive
Appointed 1979

**Delivery Channel Services**
Ms J R K du Preez (52)
BCom (Acc), CAIB (SA)
Managing executive
Appointed 1998

**Personal Bank Sales**
P J Reyneke (50)
BJuris, CFP
Group executive
Appointed 1998

**Absa Card**
P J W van Wyk (54)
BCom
Deputy managing executive
Appointed 1973

**Retail banking**
V Naidoo (37)*
BSc
Operating executive
Appointed 2001

**Group Payment Systems**
W V Volker (46)
BSc, MBL
General manager
Appointed 1990

**Small Business**
G J Clark (50)
Dip IOB
General manager
Appointed 1988

**Information technology and operations Group executive director**
J P van der Merwe (56)*
BA (Econ), CA(SA)
Appointed 1989

**Group Credit**
F J Geldenhuys (46)
BCom (Hons)
Group executive
Appointed 1985

**Group Business and Technology Services**
L du Rand (50)
BA (Hons), MCom
Group executive
Appointed 1987

**Information Management**
D A Donkin (43)
BSc (Hons), CPIM
Group executive
Appointed 2001

**Group Administration**
J S Steele (60)
General manager
Appointed 1970

**Finance Group executive director**
J H Schindehütte (45)*
BCom (Hons), CA(SA)
HDip Tax
Appointed 1999

**Group Finance**
E Wasserman (42)
BCom (Hons), CA(SA)
Group executive
Appointed 2000

**Office of the General Counsel**
C J van der Walt (42)
BLC, LLM
Acting general counsel
Appointed 1995

**Group Secretariat and Corporate Governance**
W R Somerville (48)
ACIS, ACMA, Dip Corp Law
Group secretary
Appointed 1990

**Group Economic Research**
C W Luüs (44)
BCom (Hons), MBL, FIFM
Group economist
Appointed 1985

**Corporate Development**
H J E Bulwer (45)
BCom, CA(SA)
General manager
Appointed 1996

**Group Investor Relations**
W J Roux (61)
BA, APR
General manager
Appointed 1983

**Bancassurance Group executive director**
C Erasmus (54)*
BSc, ASA, FIA
Appointed 1978

**Absa Fiduciary and Investment Services**
A S Swart (58)
BCom (Acc), MBL
Operating executive
Appointed 1966

**Absa Life Limited**
W T Lategan (36)
BCom (Hons), FFA
Managing director
Appointed 1995

**Absa Health Care Consultants (Proprietary) Limited**
L J Botha (50)
BCom, BCompt (Hons), CTA, CFP
Managing director
Appointed 1994

**Absa Brokers (Proprietary) Limited**
P J Reyneke (50)
BJuris, CFP
Group executive
Appointed 1998

**Absa Insurance Company Limited**
C F de Jager (44)
BSc, FIA, CFP
Managing director
Appointed 1985

**Absa Consultants and Actuaries (Proprietary) Limited**
M J Grobler (48)
BSc, MBL, CFP
Managing director
Appointed 1985

**Absa Investment Management Services (Proprietary) Limited**
C M Harris (53)
FIAC, RPP
Managing director
Appointed 1998

**Absa Syndicate Investments Holdings Limited**
A D Hussey (43)
Managing director
Appointed 1998

# Group Executive Committee – Biographical details*

## S F (Steve) Booysen (42)

*DCom (Acc), CA(SA)*

(Group chief executive)

**Tenure at Absa**

17 years (appointed 1988)

**Year appointed as an Executive Committee member:** 2001

**Areas of responsibility**

All the Group's executive directors report to Steve. In addition, the Group executive: Enterprise-wide Risk Management and Group executive: Group Strategy Development report to him.

**Skills, expertise and experience**

After completing his articles with Ernst & Young (1980-1983), he became a senior lecturer in accounting at the University of South Africa (1983-1988). His first appointment with the Group was as senior manager: Finance at TrustBank (1988-1992). From 1992 to 1994, he was assistant general manager: Group Finance at Absa. He then joined Absa Corporate Bank (later Absa Corporate and Merchant Bank). He held the positions of general manager and deputy operating executive until he was appointed as a Group executive director in 2001. He was appointed as Group chief executive of Absa in August 2004.

## R R (Robert) Emslie (46)

*BCom (Hons), CA(SA)*

**Tenure at Absa**

18 years (appointed 1987)

**Year appointed as an Executive Committee member:** 2004

**Areas of responsibility**

Responsible for Absa Corporate and Merchant Bank and the Group's international wholesale banking operations.

**Skills, expertise and experience**

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

From 1998 until 2000, Robert was a member of the Absa Corporate and Merchant Bank executive committee and was responsible for volume transactional products and the back office environment. In 2000, he was appointed as the managing executive responsible for Business Banking Services and in 2003 he became the managing executive of Absa Corporate and Merchant Bank.

## C (Charles) Erasmus (54)

*BSc, FIA, ASA*

**Tenure at Absa**

27 years (appointed 1978)

**Year appointed as an Executive Committee member:** 1997

**Areas of responsibility**

Responsible for Absa's bancassurance operations (Absa Life Limited, Absa Investment Management Services (Proprietary) Limited, Absa Brokers (Proprietary) Limited, Absa Health Care Consultants (Proprietary) Limited, Absa Insurance Company Limited, Absa Trust Limited, Absa Fund Managers Limited, Absa Mortgage Fund Managers (Proprietary) Limited, Absa Stockbrokers (Proprietary) Limited, Absa Portfolio Managers (Proprietary) Limited, Absa Consultants and Actuaries (Proprietary) Limited and Absa Syndicate Investments Holdings Limited).

**Skills, expertise and experience**

Prior to joining the Absa Group, Charles worked for Sanlam and Rondalia Life. He became a general manager in the Absa Group in 1988 and was appointed as Absa's Group actuary in 1992. In 1995, Charles was appointed managing director of Absa Insurance Company, Absa Life, Absa Consultants and Actuaries and Absa Health Care Consultants. He was appointed as a Group executive director in 1997.

**Participation in external entities**

A fellow of the Institute of Actuaries and of the Actuarial Society of South Africa, an approved pension fund valuator and an associate of the Society of Actuaries, and a board member of the Life Offices' Association of South Africa.

## N P (Peter) Mageza (50)

*FCCA*

**Tenure at Absa**

Five years (appointed 2000)

**Year appointed as an Executive Committee member:** 2003

**Areas of responsibility**

Responsible for commercial banking, which includes Business Banking Services, Absa Vehicle and Asset Finance, and the Group's African operations.

**Skills, expertise and experience**

Peter joined Absa in January 2000 to take over a number of executive functions at the Group's instalment finance arm and was appointed as an executive director in 2003.

He started his career in the audit environment, working for Coopers & Lybrand Chartered Accountants (SA) as audit senior, supervisor and manager.

He also worked in Transnet Limited's Group Internal Audit Services. He moved into general management at Autonet, the road passenger and freight logistics division of Transnet Limited. He held the positions of executive manager: Tours Express, general manager: Passenger Businesses as well as chief executive officer: Autonet.

In 1988, he moved to the financial services sector to join Nedcor Limited's Technology and Operations Process Management division.

**Participation in external entities**

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

**As at April 2005.*

***Note:*** *Age as at 31 March 2005.*

## V (Alfie) Naidoo (37)

*BSc*

**Tenure at Absa**

Four years (appointed 2001)

**Year appointed as an Executive Committee member:** 2005

**Areas of responsibility**

Responsible for Retail Banking Services, Flexi Banking Services, Small Business and Group Payment Systems.

**Skills, expertise and experience**

Alfie has a background in technology, business management and sales with a career in the manufacturing, consulting and high-tech industries. He joined Absa in 2001, having been appointed managing executive: Electronic Channels. In 2004, Alfie assumed responsibility for Absa Card. In March 2005, he was appointed to the Group Executive Committee with responsibility for customer segments and payments systems.

**Participation in external entities**

He represents Absa's external interests in various industry bodies and joint ventures.

## J H (Jacques) Schindehütte (45)

*BCom (Hons), CA(SA), HDip Tax*

**Tenure at Absa**

Six years (appointed 1999)

**Year appointed as an Executive Committee member:** 2005

**Areas of responsibility**

Responsible for Group Finance, the Office of the General Counsel, Group Economic Research, Group Investor Relations, Group Secretariat and Corporate Governance and Corporate Development.

**Skills, expertise and experience**

Served articles with Arthur Young & Co (now Ernst & Young) from 1981 to 1983. Served in various senior managerial positions in the South African Transport Services, Portnet and Transnet until 1999. Joined Absa as Group executive: Finance during 1999. Appointed as Group executive director: Finance in January 2005.

## I B (Israel) Skosana (51)

*BCom, BCompt (Hons), CA(SA)*

**Tenure at Absa**

Three years (appointed 2002)

**Year appointed as an Executive Committee member:** 2002

**Areas of responsibility as at 31 March 2005**

Responsible for wealth management, which includes Absa Private Bank, Personal Financial Services, AllPay Consolidated Investment Holdings (Proprietary) Limited, Real Estate Asset Management, Abvest Holdings (Proprietary) Limited and Bankhaus Wölbern & Co.

**Skills, expertise and experience**

Prior to joining the Group, he was a financial accountant with International Business Machines (IBM) (1976-1977), a senior accountant with Deloitte & Touche (1977-1984), a divisional auditor at Anglo American Corporation of South Africa Limited (1984-1988), a director and deputy managing director of the Get Ahead Foundation (1988-1990) and an executive director of National Sorghum Breweries Limited (1990-1996).

From 1996 to 1999, Israel was first deputy managing director and then managing director of South African Express Airways. He then became Group managing director of Sarhwu Investment Holdings Limited (1999-2002).

**Participation in external entities**

Israel holds the positions of honorary professor in the Department of Accountancy and Financial Management at the University of Pretoria and Professor Extraordinaire in the Department of Applied Accountancy at the University of South Africa. He is a Fellow of the Institute of Directors. Israel is also a commercial member of the Special Tax Court.

## J L (James) Slabbert (41)

*BCompt (Hons), CA(SA)*

**Tenure at Absa**

Appointed 2005

**Year appointed as an Executive Committee member:** 2005

**Areas of responsibility**

Responsible for Group Strategy Development.

**Skills, expertise and experience**

James is a qualified chartered accountant, with extensive experience in the financial services industry. He worked at Nedcor as a senior financial manager for five years, before joining Merrill Lynch SA in 1995 as a top-rated banking and financial services analyst. James also served as managing director of research at Merrill Lynch SA and deputy head of emerging markets.

In 2002, James co-founded J&J Financial Services, a subsidiary of the J&J Group (an empowered investment company supported by Old Mutual), and became the chief executive officer of First South Financial Services, a 100% subsidiary of J&J Financial Services.

## J P (Pieter) van der Merwe
(56)

*BA (Econ), CA(SA)*

**Tenure at Absa**
16 years (appointed 1989)

**Year appointed as an Executive Committee member:** 2001

**Areas of responsibility**

Responsible for information technology and operations, including Group Administration, Information Management, Group Credit, and Group Business and Technology Services.

**Skills, expertise and experience**

Pieter completed his articles at Brink, Roos and Du Toit (1971-1974) and then began a career in banking. Pieter was chief accountant and also held other senior positions in Boland Bank (1974-1983) before joining Volkskas Merchant Bank. There, he rose to general manager (1983-1989). He joined TrustBank as general manager: Finance in 1989 and was appointed as general manager of the Johannesburg region in 1990. From January 1992, he was general manager of Bankorp's group finance division.

After the amalgamation of Absa and Bankorp in 1992, Pieter was appointed as general manager: Finance. Between 1993 and 1995, he led a project on profit improvement in Absa and then took over as provincial general manager of the Western Cape (1995-1999). In 2000, he was appointed operating executive of Absa Commercial Bank.

## L A (Laetitia) van Dyk
(49)

*MA, MBA, FIBSA*

**Tenure at Absa**
19 years (appointed 1985)

**Year appointed as an Executive Committee member:** 2003

**Areas of responsibility**

Responsible for shared services, namely Group Marketing and Communication, Group Black Economic Empowerment, Government Relations, and Corporate Social Investment, Group Corporate Affairs and Group People Management.

**Skills, expertise and experience**

Laetitia is a qualified industrial psychologist. She began her career in 1978 at the Pretoria Technikon. She then became the head of recruitment and selection at the Military Psychological Institute (1979-1981). From 1982 until 1984, she completed her internship in industrial psychology at Transnet. In 1985, she joined Volkskas Bank as training and development manager.

Laetitia held numerous positions in the Group's People Management division, culminating in her appointment as Group executive: People Management in 1998.

**Participation in external entities**

Laetitia is the chairperson of the Bankmed board of trustees and a director of AllPay Consolidated Investment Holdings (Proprietary) Limited and Absa Development Company (Proprietary) Limited. She is a member of the Real Estate and Asset Management divisional board and a trustee of the Absa Foundation.

## L L (Louis) von Zeuner
(43)

*BEcon*

**Tenure at Absa**
23 years (appointed 1981)

**Year appointed as an Executive Committee member:** 2001

**Areas of responsibility**

Responsible for Delivery Channel Services, Personal Bank Sales, Absa Home Loans, Absa Card and the Group's retail banking operations.

**Skills, expertise and experience**

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

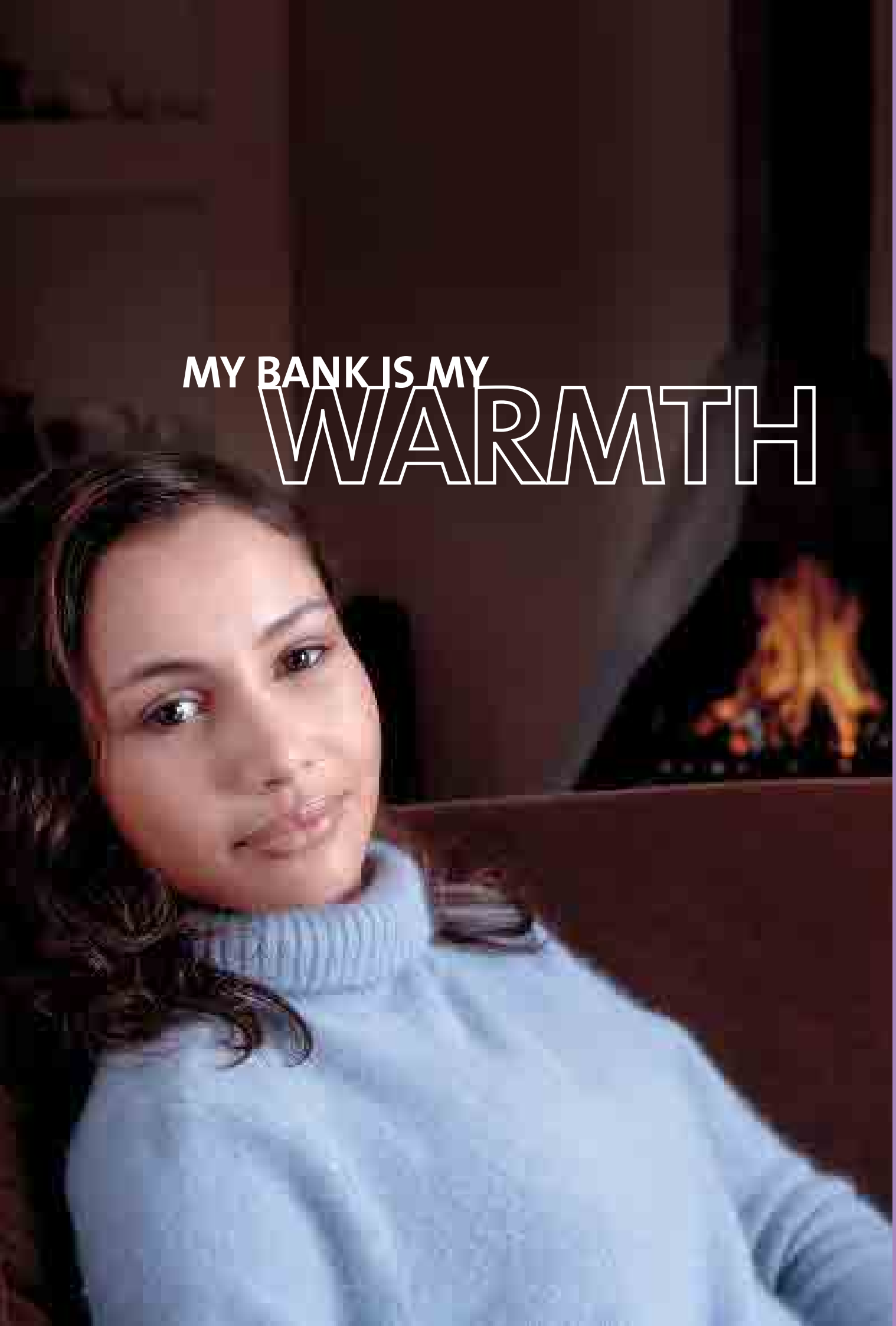
His appointment as regional manager for the Northern Cape (1995-1996) elevated him to Absa's general management. He then became provincial general manager of the Northern Province (1996-1998) and the Free State (1998-1999).

In 2000, Louis moved to Absa's head office, where he became operating executive of Absa Commercial Bank.

He was appointed as an executive director on the Absa Group board in September 2004.

**Participation in external entities**

Other than serving as a director on many Absa divisional boards, Louis also represents Absa on the boards of the Banking Council, Article 21 Housing Company, MasterCard, Property24 and SA Payments Strategy Association.


MY BANK IS MY
WARMTH

# Risk management

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The responsibility for the management of risk resides with management at all levels, from members of the board to individuals throughout the Group.

# Risk management report

## The management of risk is fundamental to Absa's business and plays a crucial role in enabling management to operate more effectively in an uncertain and risky environment.

### Introduction

Risk management is a core capability of the Absa Group, and is integral to the execution of its activities, evaluating strategic alternatives and setting objectives aligned with its strategy.

Absa's risk philosophy is underpinned by its objective of creating shareholder value through sustainable and profitable growth, consistent with shareholders' expectations of the Group's risk-bearing capacity and risk appetite.

Absa's risk and ethical culture is aligned with its risk philosophy. The Group's objective is to ensure that a world-class risk management culture is sustained throughout its operations.

The management of risk is fundamental to Absa's business and plays a crucial role in enabling management to operate more effectively in an uncertain and risky environment.

Absa adopts the following approach to risk management:

- All risks must be identified and managed. The returns must be commensurate with the risks taken, relative to Absa's risk appetite;
- The effectiveness of risk management processes throughout the Group is ensured through formal governance and comprehensive, regular reporting processes in a well-defined control environment; and
- Each individual, relative to his or her position, is responsible for identifying with the Group's declared priority of risk management, recognising real or anticipated risks and taking appropriate action.

### Risk management developments for the 2005 financial year

The Group's focus areas for enterprise-wide risk management for the year under review have been achieved. Risk management is well entrenched throughout Absa, as shown by the following achievements:

- Successful implementation of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework and principles in the Group.
- A re-focus of the audit approach by the Group's internal audit function through enhanced monitoring and end-to-end audit assignments with full consideration of value chain process management.
- Satisfactory compliance with the Financial Intelligence Centre (FIC) Act, with ongoing challenges regarding employee training and data monitoring. Compliance with the FIC Act will remain a focus area for the year ahead.
- Achievement of independent risk management at business unit level through the business risk officers (BROs). The BROs have a hands-on risk management approach to ensure that Absa's risk management framework is maintained Group-wide.
- Separation of the Group's Enterprise-wide Risk Management Committee into three committees – the Credit Risk Committee, the Market Risk Committee and the Operational Risk Committee – in April 2004. The main objective in establishing the three committees was to align developments in the three risk areas with the requirements of Basel II and to ensure that the Group's risk-reward profile supports its overall risk appetite and tolerance in an integrated manner.

Absa's status in terms of the key risks that it faces is indicated in the following table:

| Risk type | Absa's current position |
|---|---|
| **Credit risk** | • From a credit risk perspective, the 2004 calendar year was a benign year, as favourable economic conditions benefited consumer and corporate lenders through improved balance sheets. Although the improving trend is expected to continue well into 2005, continuous monitoring and forecasting of credit risk sensitive factors allow for early detection and assessment.<br>• Absa is adequately capitalised for potential unforeseen credit losses, should they occur, with surplus capital held for credit risk in excess of regulatory minimum requirements.<br>• The Group has processes to identify, measure, monitor, control and report in respect of credit risk. |
| **Market risk** | |
| • Trading risk | • Absa operates within an acceptable risk profile and capital is held against trading position risk in accordance with the capital adequacy requirements (CAR) of the South African Reserve Bank (SARB) calculated in terms of Absa's model approved by the SARB. |
| • Investment risk | • Absa's investment risk profile is acceptable and reflects an improving trend. |
| • Interest rate risk | • The banking book interest rate risk profile is considered to be within acceptable risk levels and is managed effectively. |
| • Liquidity risk | • Liquidity risk is proactively managed on a daily basis and Absa complies with the prudential requirements of the SARB and other appropriate requirements. |
| **Underwriting risk** | • Underwriting risk is managed through a process that measures and manages the risk in the Group's insurance companies. |
| **Operational risk** | • The Group's operational risk profiles were within the risk tolerance levels set and were considered to be acceptable during the year under review. The Group's specialist functions, Group Business and Technology Services and Group Information Management, have a clearly defined strategy, effective processes and procedures in place to address information and communication technology risk, a specialised area of operational risk. Likewise, through Group People Management, a comprehensive people management strategy is deployed across the Group. |
| **Strategic risk** | • The Group's strategic risk profiles were considered to be acceptable during the year under review. |
| **Reputational risk** | • The required functions, processes and procedures to manage the Group's reputation are in place. |

Overall risk management policies, risk appetite and tolerances are established on a comprehensive, organisation-wide basis by senior management, and reviewed with, and, where appropriate, approved by the board of directors.



Absa's current risk management focus areas are:

- the Basel II programme, which aims to ensure full compliance with the requirements of the Basel II capital accord by 2008. The Group recognises the significance of Basel II in aligning regulatory capital to risk and further entrenching risk-reward principles and practices in bank management and decision-making. The Group's integrated enterprise-wide Basel II programme is on schedule to meet the regulatory implementation timeline. Data collection, rating systems and capital measurement systems to address Pillar 1 requirements of the new accord are already at an advanced stage of implementation. Design of processes and systems to address Pillar 2 requirements regarding internal risk-based capital management, as well as the disclosure requirements of Pillar 3, are in progress. Absa views Basel II as a strategic imperative and not merely a regulatory compliance requirement. To this end, Basel II building blocks will be leveraged in core business processes, such as capital and performance management, customer relationship management and operations management, in order to extract the maximum competitive benefits.
- ongoing improvements to current risk management and control methodologies, measurement and processes through applying international best practice and standards; and
- enhancing capital and performance measurement capabilities in the Group.

## Risk management principles

Risk management in Absa is guided by several principles, the most important of which are:

- the assignment of appropriate responsibility and accountability for all risks and resulting returns;
- the adoption of a framework for integrated risk management which applies across all businesses and all risk types;
- the protection of the Group's reputation;
- comprehensive risk assessment, measurement, monitoring and reporting;
- independent review; and
- formal risk governance processes.

### Responsibility and accountability

The responsibility for risk management resides with management at all levels, from members of the board to individuals throughout the Group.

Overall risk management policies, risk appetite and tolerances are established on a comprehensive, organisation-wide basis by senior management, and reviewed with, and, where appropriate, approved by the board of directors. These policies, appetites and tolerances are clearly communicated throughout the Group and apply to all business units in the various divisions, wholly owned subsidiaries, as well as non-wholly owned subsidiaries and majority equity stakes over which the Group has management control.

***Board and executive management responsibility***

The Absa board is responsible for annually approving the Group's risk appetite. This risk appetite is translated into risk limits per business unit and per risk type. Adherence to these limits is monitored and reported monthly and culminates in a risk-reward profile for the Group.

The Group applies an earnings-at-risk (EaR) approach to measuring and monitoring quantifiable risks across risk types and business units Group-wide. EaR is defined as the amount of potential underachievement of earnings targets at a 99% confidence level over a 12-month horizon. EaR forms the basis from which risk appetite and risk tolerance are calculated.

EaR is a sophisticated risk measure, but does not specifically address all types of operational risk, inadequate corporate governance processes, reputational risk and long-term strategic risk. These risks are addressed in the Group's enterprise-wide risk management framework. This framework is formally communicated to Absa's board by means of various quantitative and qualitative risk profiles, compiled at least twice a year. The operational management of these risks is the responsibility of the respective business units and support functions.

***Business unit/subsidiary accountability***

Business units/subsidiaries are accountable for managing the risks associated with their activities within established and approved tolerance limits, as well as for the results, both positive and negative, of taking those risks.

In discharging this responsibility, business units are assisted by the Group's enterprise-wide risk management (ERM) division, the Group's independent risk management function and by applying an established risk management approach.

**Framework for integrated risk management**

Absa's risk management framework is effective, comprehensive and consistent, and fully supports the principles of COSO for enterprise-wide risk management. The ERM division is responsible for ensuring that an integrated and effective risk management framework is maintained throughout the Group.

To discharge this role as efficiently and effectively as possible, ERM is supported by other role-players in the risk governance structures. Responsibility for risk management remains with line management. Management allocates resources to support the framework.

Risks are appropriately identified, evaluated and managed, fully considering the interrelationships between risks.

The current risk management framework is continuously enhanced by adapting ERM's operating model to incorporate leading risk management principles.

**Protection of the Group's reputation**

A strong corporate reputation is a valuable asset to a financial institution. Absa recognises the benefit of maintaining and improving its corporate reputation at all times.

By managing and controlling the risks incurred in the course of business, the Group protects its reputation. This means avoiding large concentrations of exposures of all kinds, as well as transactions that are sensitive for tax, legal, regulatory, social, environmental or accounting reasons. A cautious approach is adopted to other risks that cannot be sensibly evaluated or priced.

## Structured risk assessments take place in an integrated manner across all risk types and businesses in accordance with the established risk management framework.

Absa aspires to the highest standards in protecting the confidentiality and integrity of customer information, and aims to maintain the highest ethical standards in all businesses.

Protecting the Group's reputation must be an overriding concern of each employee, particularly those involved in risk decisions.

### Comprehensive risk assessment, measurement, monitoring and reporting

All risks are qualitatively evaluated on a recurring basis and, wherever practical, the evaluation includes quantitative analysis. Risk assessments consider the effects of both likely and unlikely events.

Structured risk assessments take place in an integrated manner across all risk types and businesses in accordance with the established risk management framework. A process of risk identification, assessment, response, monitoring and reporting is followed, as described in more detail in this annual report. Monitoring includes ongoing processes built into the normal, recurring operating activities of the Group, as well as the internal and external audit recommendations. All risks are comprehensively and regularly reported across the Group.

### Independent review

All risks are reviewed by ERM. The division has sufficient resources, authority and expertise to assess the risks, test the adequacy and effectiveness of risk management activities, and make recommendations for remedial action.

ERM is an independent specialist function accountable to the Group Audit and Compliance Committee (GACC) and the Group Risk Committee (GRC). The activities of this division are evaluated and governed by the Group chief executive through the effective functioning of the Credit Risk Committee, Market Risk Committee, Operational Risk Committee and the divisional/subsidiary risk, audit and compliance forums.

External validations of ERM and the Group's risk management processes are performed by independent external parties. These external validations are performed over two financial years to cover individual ERM functions, as well as a comprehensive review of the whole ERM division.

### Risk governance

Risk governance refers to the approach that balances the demands for entrepreneurship, control and transparency, while supporting the Group's objectives with an efficient decision-making process. Formal risk governance processes are established in Absa.

The management of risk in the Group is guided and monitored by a number of committees. The details regarding the composition and main responsibilities of Absa's board of directors and board committees are contained in the corporate governance statement on page 49 of this annual report.

The most influential role-players in the risk management framework (as indicated in the governance structure) and their responsibilities are detailed in the pages that follow.

***Governance structure***

| Responsible for: | | Accountable to: |
|---|---|---|
| ***setting and approval of:***<br>• risk philosophy<br>• risk management principles<br>• risk appetite and tolerance | ***Board of directors*** | • stakeholders<br>• regulators<br>• community |
| ***implementation of:***<br>• risk management principles<br>• approving risk policies<br>• risk limits | ***Group Audit and Compliance Committee***<br>***Group Risk Committee***<br>***Board Lending Committee***<br>***Credit Committee: Large Exposures***<br>***Group chief executive***<br>***Group Remuneration Committee***<br>***Directors' Affairs Committee*** | • board of directors<br>• regulators<br>• stakeholders |
| ***oversight of:***<br>• risk profile of the Group<br>• risk limits per business unit/subsidiary and risk type<br>• control and compliance environment | **Enterprise-wide Risk Management** | • board of directors<br>• Group Audit and Compliance Committee<br>• Group Risk Committee<br>• Group chief executive |
| ***specialist input:***<br>• operational guidance and assistance | **Reliance placed on specialist functions, shared services, committees and councils and focus on main risk areas through the Credit Risk Committee, the Market Risk Committee and the Operational Risk Committee** | • Group Executive Committee |
| ***management of:***<br>• all risk exposures within the business unit/ subsidiary | **Business unit/subsidiary management assisted by the effective functioning of subsidiary/divisional risk, audit and compliance forums** | • Group Executive Committee |

The Credit Risk Committee (CRC), Market Risk Committee (MRC) and Operational Risk Committee (ORC) were established by Group Exco in April 2004 to manage the credit, market and operational risk-reward profiles of the Absa Group.



### *Absa Group board and board committees*

Information on Absa's board and its various committees can be found in the corporate governance statement on page 49 of this annual report.

### *Group chief executive*

The Group chief executive is appointed by the board to manage, with the assistance of the Group Executive Committee (Group Exco), the Group's business within an acceptable risk profile and to achieve sustainable profits. The main responsibilities of the Group chief executive and Group Exco with regard to risk include the following:

- Overseeing all risk processes at an executive level;
- Monitoring the management of all risks within acceptable qualitative and quantitative risk profiles;
- Ensuring that appropriate internal controls are in place by developing and providing a strong control environment;
- Ensuring that enterprise-wide risk management policies are approved and implemented from a Group and business unit perspective;
- Ensuring that information and reporting systems pertaining to risk management and control are adequate, accurate and effective;
- Ensuring that risk is taken into account in long-term plans and investments; and
- Regularly reporting on risk to the board.

### *Management risk committees*

The Credit Risk Committee (CRC), Market Risk Committee (MRC) and Operational Risk Committee (ORC) were established by Group Exco in April 2004 to manage the credit, market and operational risk-reward profiles of the Absa Group. The overall objective of the three committees is to align developments in the three risk areas with the requirements of Basel II and to ensure that the risk-reward profile supports the overall risk appetite and tolerance of the Group (including all business units and subsidiaries that are controlled by the Absa Group) on an integrated basis.

Through the combination of Group Exco, the three risk committees, the divisional/subsidiary risk, audit and compliance forums and other governance bodies, the Group responds to various legal, regulatory and accounting developments, as well as to external economic and environmental changes affecting the financial position and risks of the Group.

The three committees have functioned effectively since their establishment and convene monthly.



### *Divisional/subsidiary risk forums and divisional/subsidiary audit and compliance forums*

Divisional/subsidiary risk forums and divisional/subsidiary audit and compliance forums were established by the Group Audit and Compliance Committee (GACC) and the Group Risk Committee (GRC) to assist Group Exco, divisional/subsidiary boards, the GACC and the GRC to discharge their responsibilities from a business unit perspective.

Business Risk Officers (BROs), who complement the risk management effort provided by the central risk function, are an integral part of the divisional/subsidiary risk structures. The overall responsibility of BROs is to assist business unit heads with the effective functioning of the divisional/subsidiary risk governance structures in accordance with Absa's enterprise-wide risk management framework.

### *Enterprise-wide Risk Management (ERM) division*

ERM is responsible for ensuring that an integrated and effective risk management framework is maintained in the Group. The division consists of a number of departments, including the internal audit and compliance functions, that together are responsible for risk integration in a well defined control environment across all businesses of the Group.

Absa's current risk management framework fully supports the principles of a best practice environment.

### *Specialist functions, shared services, committees and councils*

Absa's operating model is designed to obtain maximum operational efficiency from a number of shared services in the Group. Specialist functions, aided by specialist committees, assist with risk management, including strategic investment activities, in the Group. These are conducted according to clear governance guidelines.

The main role-players, together with the risk management areas whose specialised knowledge is relied on, are listed in the table below:

| Specialist functions, committees and councils | Risk management areas supported by the risk governance structure |
|---|---|
| **Specialist functions and shared services** | |
| Group Finance | Accounting, taxation and compliance risk |
| Group Secretariat | Compliance and governance risk |
| Group Credit | Credit process risk |
| Group Legal Services/Office of the General Counsel | Legal risk and compliance risk |
| Group Treasury | Market risk, specifically trading, investment, interest rate and liquidity risk |
| Group Administration | Maintenance of an effective control environment, operational risk pertaining to processes |
| Delivery Channel Services | Operational risk pertaining to processes |
| Group People Management | Operational risk pertaining to people |
| Group Investor Relations | Reputational and compliance risk |
| Group Economic Research | Financial risk |
| Group Marketing and Communication | Reputational risk |
| Group Strategy Development | Strategic risk |
| Group Business and Technology Services, and Group Information Management | Technology and information risk, operational risk pertaining to systems |
| Real Estate Asset Management | Valuation and recovery of physical security, operational risk pertaining to external events |
| Absa Life, Absa Insurance Company, Absa Manx and Absa Syndicate Investments Holdings | Underwriting and investment risk |
| **Monitoring** | |
| ERM Compliance | Regulatory compliance monitoring |
| ERM Forensic Services | Anti-money laundering, fraud investigations |
| ERM Internal Audit | Internal audit assurance and advisory |
| **Committees** | |
| Management risk committees | Governance of risk management process |
| Group Investment Committee | Strategic investment risk |
| Group Tax Committee | Taxation risk |
| Absa Life Valuation Committee | Actuarial valuations in the life assurance business |
| **Councils** | |
| Group Strategy Council | Strategic risk |

## Enterprise-wide risk management framework

Absa's ERM framework rests on two key pillars: risk management and risk control. These areas, as well as the Group's risk structure, approach and the measurement of the respective risks, are detailed in the following pages:

### Risk structure

| Supportive of: | Structure | Supported by: |
|---|---|---|
| Risk management culture and environment in the Group | **Board of directors** | Board committees<br>Group Exco<br>Divisional/ subsidiary boards |
| Risk management policies, guidelines, risk appetite and risk tolerance | **Group Audit and Compliance Committee (GACC)**<br>**Group Risk Committee (GRC)**<br>**Board Lending Committee**<br>**Credit Committee: Large Exposures** | Divisional/ subsidiary risk forums<br>Divisional/ subsidiary audit and compliance committees<br>Group Exco |
| Risk management framework | **Group chief executive and Group Exco** | CRC, MRC and ORC |
| GRC, GACC, Group chief executive and Group Exco | **Credit Risk Committee, Market Risk Committee, Operational Risk Committee**<br>**These committees focus on market risk, credit risk, operational risk, strategic and reputational risk, and risk control** | ERM, specialist functions |
| GRC, GACC, CRC, MRC, ORC, divisional/ subsidiary risk forums and audit and compliance forums/ committees | **ERM process** | Absa board, GRC, GACC, Group chief executive, Group Exco, specialist functions, shared services, committees and councils |
| | **Group specialist functions** ↔ **ERM division** | |
| | **Risk management dimensions** / Risk management and risk control departments | |
| | **Group Finance** / **Group Business and Technology Services** / **Group People Management** / Forensic Services / Internal Audit / Compliance | |
| | **Group Economic Research** / **Other (Group Legal Services, Group Tax, Group Strategy)** / Business unit risk officers / Risk process / Risk types: Credit Market Operational | |

Controls and policies are focused on risks that could prevent the Group from achieving its business objectives and the desired added value for shareholders.

### Risk management dimensions

As risks are highly interdependent and cannot be segmented, Absa's enterprise-wide risk management approach and process adds significantly more value than could be achieved through fragmented risk management. It remains the Group's objective to continually enhance the level of integration of its risk evaluations.

The dimensions of Absa's integrated risk management framework are:

- risk management objectives and processes;
- a centralised and decentralised approach;
- a risk type focus; and
- risk control.

#### *Risk management objectives and processes*

The overall objective of the risk management process in Absa is to enhance shareholder value. Controls and policies are focused on risks that could prevent the Group from achieving its business objectives and the desired added value for shareholders. Absa's risk management framework seeks to reduce volatility in its operating performance and lower the cost of equity by effective risk management.

The objective is met by ensuring that Absa has an integrated and effective enterprise-wide risk management framework, where all risks are consistently assessed and managed in order to achieve an optimal risk-reward profile. This entails co-ordinated risk assessment and management techniques across the various risk types facing the Group, as well as integrated risk evaluation across Absa's various geographical locations, legal entities and business units.

Enterprise-wide risk management ensures that a process is in place to set objectives and align them with the Group's strategy in a manner consistent with its risk appetite.

The enterprise-wide risk management process steps are derived from the way in which the Group runs its business, and are integrated with business management processes. The process steps (which are fully aligned with COSO) are:

- **Internal environment** – The internal environment influences how strategy and objectives are established, business activities are structured and how risks are managed in Absa. Absa's risk management philosophy, risk culture and governance form part of the internal environment.
- **Objective setting** – The setting of strategic and related objectives, from both a business and a risk perspective, ensures alignment with Absa's mission, vision and strategy, and consistency with the organisation's risk appetite and linked risk tolerances.

- **Event identification** – The identification of events as factors influencing strategy and objectives, methodologies and techniques, event interdependencies, event categories, and risks and opportunities includes setting risk policies that are consistent with business requirements and international best practice. The risk identification process is dynamic and takes cognisance of actual and potential risk. Key risk indicators are used as forward-looking early warning signals.
- **Risk assessment** – This includes considering inherent and residual risks, likelihood and impact, methodologies and techniques, correlation, as well as comprehensive risk reporting to management against approved risk limits. Properly designed performance measures that align the objectives of business units with those of the Group are central to the value-creation process. To ensure that value creation remains the ultimate objective of a business unit, target performance measures are set. These measures or hurdle rates take into account a business unit's specific risk profile.
- **Risk response** – This incorporates identifying possible risk responses, evaluating of possible responses and selecting a suitable response, while taking an appropriate portfolio view. Risk response specifically refers to the process whereby Absa applies mitigation principles to ensure that it is safeguarded from the unacceptable consequence of certain risks. The decision on the appropriate management and mitigation strategy to follow is taken in respect of each identified and measured risk in relation to its priority.
- **Control activities** – The actions taken to help ensure that the selected risk responses are properly executed, including various types of control activities, such as general controls and application controls, and configuring these specifically for Absa.
- **Information and communication** – Pertinent information from both internal and external sources has to be identified, captured and communicated in an appropriate form and timeframe to enable employees to carry out their responsibilities.
- **Monitoring** – This incorporates a suitable process that assesses both the presence and functioning of the above process components and the quality of their performance over time.

***A centralised and decentralised approach***

Risk management in the various business units and subsidiaries is conducted in accordance with the enterprise-wide risk management framework. This encompasses both a centralised Group-wide approach as well as a focused business unit approach. Dedicated BROs have been appointed in all major business units to ensure that the enterprise-wide risk management framework is adequately maintained and supported in the business units.

***Risk type focus***

The main risk type categories are: credit risk, market risk, underwriting risk, operational risk, strategic risk and reputational risk. The total risk universe is encompassed by these categories. These risks are described in detail on the following pages.

## Absa continually looks for opportunities to strengthen its credit risk controls, with particular attention on avoiding undue concentrations.

### *Credit risk*

#### Definition of credit risk

Credit-risk is defined as the risk of counterparties failing to honour their financial obligations, both on- and off-balance sheet, to the Group. Counterparties include governments, banks, non-bank financial institutions, corporations and individuals. Credit risk consists of the following types:

- **Counterparty/borrower risk** is the risk of a counterparty being unable to meet its financial and/or contractual obligations during the lifetime of a transaction;
- **Country risk** is the risk of a counterparty being prevented from meeting its foreign financial and/or contractual obligations because its country is either not in a position to, or not willing to, honour foreign financial and/or contractual obligations; and
- **Delivery/settlement risk** is the risk of a counterparty not delivering on its contractual commitment on maturity date. This includes the settlement of money, the delivery of securities (scrip) and deposits drawn on another bank/party being dishonoured.

Credit risk arises in many of Absa's business activities through lending and trading transactions. These include loans, advances and conditional contracts to lend money in future under specific terms, settlement receivables, and unconditional contracts to support customers' obligations to third parties. The Group has processes to identify, measure, monitor, control and report in respect of credit risk.

#### Objectives of credit risk management

Growth, consistent returns and capital are jeopardised if risk is not controlled. Absa's credit risk management framework seeks to reduce volatility in its operating performance and lower the cost of equity by managing risks both within and across businesses.

Absa limits its credit and overall risk profile by diversifying risk and revenue sources, growing fee-based and recurring revenues and minimising its breakeven point by carefully managing fixed costs. Other credit risk management objectives include closely monitoring risk-taking and long-term exposure to illiquid assets.

Absa continually looks for opportunities to strengthen its credit risk controls, with particular attention on avoiding undue concentrations. At all levels of the Group, sound corporate governance and oversight policies and employee integrity are recognised as critical to effectively manage risk and protect the interests of shareholders.

#### Credit risk management structure and process

To ensure that credit risk is appropriately managed, the organisational structure distinguishes between the roles played by ERM and Group Credit. This ensures the independence of both functions and ensures the appropriate focus.

| Title | Group executive: ERM | Group executive: Group Credit |
|---|---|---|
| Responsibility and accountability | • Responsible for Absa's risk management framework. | • Responsible and accountable for ensuring that the agreed risk profile is achieved. |
| Activities | • Formulates credit policies, limits and guidelines.<br>• Addresses credit risk methodologies, including counterparty risk and credit risk capital allocation.<br>• Prepares independent reports used for monitoring, decision-making and external reporting.<br>• Monitors consumer credit risk performance across all portfolios in order to ensure an appropriate risk-reward relationship in accordance with Absa's risk appetite.<br>• Calculates and recommends to the board Absa's credit risk appetite.<br>• Monitors economic trends to manage emerging risk in the portfolios. | • Ensures approval of all credit exposure within a mandate structure. Authority varies based on the aggregate size of a customer's exposure and the size, maturity and risk level of the transaction.<br>• Assigns risk ratings.<br>• Reporting on and monitoring of credit activities.<br>• Collaborates with customer executives to monitor credit quality via periodic reviews of customer documentation, financial data and industry trends.<br>• In terms of workouts and restructurings, specialists within Group Credit manage such wholesale exposure. |



### Objective setting

The Group has a well-defined process of setting financial and non-financial targets for the short and long term. The attainment of these targets is monitored regularly.

### Credit risk event identification

The Group identifies risk by dynamically assessing the potential impact of internal and external factors on transactions and positions. Business and risk professionals develop appropriate mitigation strategies for the identified risks.

### Credit risk assessment – Measurement

The Group measures risk by using a variety of methodologies, including calculating probable loss and unexpected loss, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed to ensure that the risk estimates are reasonable and reflect underlying positions.

## Risk ratings are assigned and reviewed on an ongoing basis and revised, if needed, to reflect the borrowers' current risk profile and the related collateral and structural position.

To measure credit risk, Absa employs several methodologies to estimate the likelihood of counterparty default. Losses generated by retail loans are more predictable than wholesale losses, but are subject to cyclical and seasonal factors. Although the frequency of loss is higher on retail loans than on wholesale loans, the severity of loss on the former is typically lower and more manageable. As a result of these differences, methodologies vary depending on certain factors, including type of asset (for example, consumer instalment versus wholesale loan), risk measurement parameters (for example, delinquency status and credit bureau score versus wholesale risk rating) and risk management and collection processes (for example, retail collection centre versus a centrally managed unit specialising in wholesale recoveries and restructuring).

Credit risk measurement is based on the amount of exposure should the counterparty default, and the loss severity given a default event.

Based on these factors and related market-based inputs, Absa estimates both expected and unexpected losses for the wholesale and retail portfolios.

Expected loss/es (EL), reflected in the provision for credit losses, are statistically based estimates of credit losses over time, anticipated as a result of counterparty default. However, EL are not the sole indicators of risk. If losses were entirely predictable, the EL rate could be factored into pricing and covered as a normal and recurring cost of doing business. Unexpected losses (UL), reflected in the allocation of risk capital for credit risk, represent the potential volatility of actual losses relative to the probable level of losses. Risk measurement for the wholesale portfolio is primarily based on risk-rated exposure, and for the retail portfolio it is based on credit-scored exposure.

### *Wholesale portfolio: Risk-rated exposure*

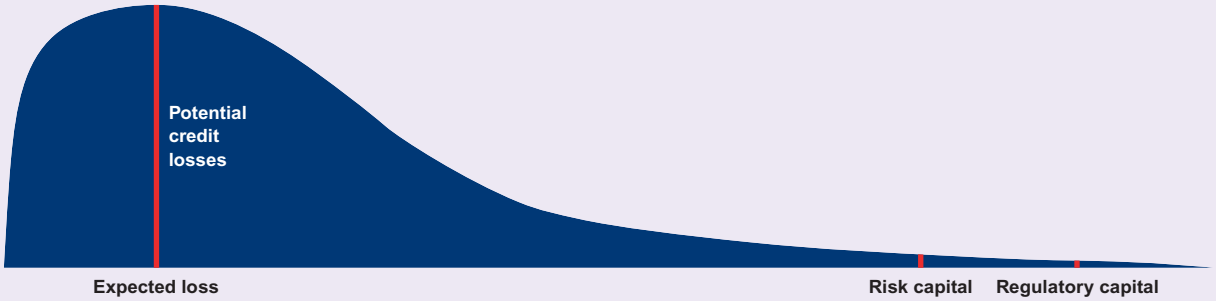
For portfolios that are risk-rated, expected and unexpected loss calculations are based on estimates of probability of default (PD) and loss given default (LGD).

Probability of default is expected default calculated on a counterparty basis. Loss given default is an estimate of losses based on collateral and structural support for each credit facility. Calculations and assumptions are based on management information systems and methodologies under continual review. Risk ratings are assigned and reviewed on an ongoing basis and revised, if needed, to reflect the borrowers' current risk profile and the related collateral and structural position.

*Retail portfolio: Credit-scored exposure*

For credit-scored portfolios, EL is based on a statistical analysis of inherent losses over discrete periods of time. EL is estimated using sophisticated portfolio modelling, credit scoring and decision-support tools to project credit risks. In addition, common measures of credit quality derived from historical loss experience are used to predict consumer losses. Other risk characteristics evaluated include recent loss experience in the portfolios, changes in origination sources, portfolio seasoning, loss severity and underlying credit practices, including loss write-off policies. These analyses are applied to Absa's current portfolios to forecast delinquencies and the severity of losses, which determine the amount of probable losses. These factors and analyses are updated regularly.

As at 31 March 2005, EL on Absa Bank's credit portfolio was adequately provided for. The undiversified risk capital required on that date to absorb potential unexpected losses was less than the capital held according to the current regulatory capital adequacy requirements based on risk-weighted assets. These relationships are depicted diagrammatically below:




Absa Bank is adequately capitalised for potential unforeseen credit losses should they occur, with actual capital held for credit risk in excess of the risk capital requirement measured on a conservative (undiversified) basis. The table below outlines the relative (risk) contributions in terms of risk capital consumption by asset class:

| For the year ended 31 March 2005 | Regulatory capital contribution % | Risk capital contribution % |
|---|---|---|
| Residential mortgages | 25,7 | 20,7 |
| Revolving credit | 4,5 | 5,4 |
| Other retail | 18,4 | 8,3 |
| Retail: SME | 11,0 | 8,3 |
| Corporate: SME | 16,2 | 17,4 |
| Corporate: Large | 18,1 | 22,8 |
| Banks | 3,2 | 10,0 |
| Sovereign | 0,0 | 0,9 |
| Corporate: Large (partial standard) | 2,4 | 3,9 |
| Equities | 0,5 | 2,3 |
| **Total** | 100,0 | 100,0 |

## Absa Bank is adequately capitalised for potential unforeseen credit losses should they occur, with actual capital held for credit risk in excess of the risk capital requirement measured on a conservative (undiversified) basis.



*Credit risk response (including mitigation)*

Absa has a well-developed risk response process aimed at all levels of business. The main elements of the risk response process are:

- **Absa's rating system.** All business units operate an authorised rating system complying with the Group's standard methodology. Absa uses a master rating scale structure with ratings corresponding to a range of probabilities of future default.
- **Portfolio analysis.** Group Credit and ERM jointly identify and define portfolios of credit and related risk exposures and key benchmarks, behaviours and characteristics by which portfolios are managed in terms of credit risk exposure. This entails the production and analysis of regular portfolio monitoring reports for review by the Credit Risk Committee (CRC).

  To further enhance the ability to measure and predict future risk, Absa continues to develop new policies and risk management systems.
- **Counterparty limits.** Exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities. Approval requirements for each decision are based on the transaction amount, the customer's aggregate facilities, credit risk ratings and the nature and term of the risk. Regular reports on significant credit exposures are provided to Group Exco and the board.
- **Cross-border and cross-currency exposures.** Country limits are authorised and managed by a dedicated unit, taking into account economic and political factors.
- **Settlement risk.** Trading activities may give rise to risk at settlement. Settlement risk is the risk of loss owing to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

  For many types of transactions, settlement risk is mitigated by closing the transaction through a clearing agent, acting as a stakeholder for both parties. The trade is only settled once both parties have fulfilled their obligations.

  Where no such settlement system exists, as is commonly the case with foreign exchange trades, the simultaneous commencement of the payment and the delivery parts of the transaction is common practice between trading partners (free settlement). In these cases, Absa may seek to mitigate its settlement risk through the execution of bilateral payment netting agreements. Absa is an active participant in industry initiatives to reduce settlement risks. Acceptance of settlement risk on free settlement trades requires approval from Absa's credit risk personnel, either in the form of pre-approved settlement risk limits or through transaction-specific approvals. Absa does not aggregate settlement risk limits with other credit exposures for credit approval purposes, but takes the aggregate exposure into account when considering whether a given settlement risk would be acceptable.

The most significant element of Absa's settlement risk arises from foreign exchange transactions, but the Continuous Linked Settlement (CLS) system, an industry initiative which is in its first year of operation, allows transactions to be settled on a delivery versus payment basis, eliminating settlement risk.

- **Concentration risk** is the formulation of concentration limits per industry, sector and geographical area. Sector caps that reflect risk appetite are set to monitor exposures to prevent excessive concentration of risk.
- **Credit derivatives** are a method of transferring credit risk from one counterparty to another and of managing exposure to selected counterparties. Credit derivatives include credit swaps, credit spread options and credit linked notes. Absa has limited exposure to such instruments.
- **Credit mitigation** techniques include, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral should unfavourable events occur, the right to call for collateral when certain exposure thresholds are exceeded and the purchase of credit default protection. Absa conducts regular portfolio reviews, monitors counterparty creditworthiness, and evaluates transaction risk with a view to early problem identification and protection against unacceptable credit-related losses. Absa enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent (master netting agreements) with the majority of its derivative counterparties to mitigate settlement risk.

A number of tools, including Absa's Group level credit risk management policy, are used to control the Group's exposure to undue levels of credit risk:

- Credit policies designed to ensure a balanced and managed approach to identifying and mitigating credit risk. The traditional method of taking security is considered to be Absa's main credit risk mitigation tool;
- Lending guidelines that define the responsibilities of lending officers, thus providing a disciplined and focused benchmark for credit decisions;
- Independent review of credit exposures at divisional and Group level;
- Sector caps, encompassing both industry sectors and specific product types, are established to communicate the Group's risk tolerance for specific types of business, primarily in the non-retail markets;
- Establishing and maintaining Absa's large exposure and provisioning policies in accordance with regulatory reporting requirements;
- Monitoring scorecards. Absa uses statistically-based decision-making techniques (primarily credit scoring and performance scoring) for its principal consumer lending portfolios. The CRC reviews and monitors new and material changes to scorecards;
- Maintaining a facilities database. A centralised database of large corporate, sovereign and bank facilities is designed to monitor aggregate exposure throughout the Group; and
- Communicating and providing general guidance on all credit-related risk issues, including regulatory changes and environmental risk policy, to promote consistent and best practice throughout the Group.

Day-to-day credit management and asset quality within each business is a joint responsibility of Group Credit and the relevant business unit executive. Businesses have established credit policies and processes reflecting the Group's policy. Divisional lending authority officers delegate lending authority to businesses.

## Day-to-day credit management and asset quality within each business is a joint responsibility of Group Credit and the relevant business unit executive.

In addition to the activities performed by Group Credit, including comprehensive monitoring and reporting, credit quality is supported by specialist units established within the Group's business units. These units provide intensive management and control, security, maintenance and retention, expertise in documentation for lending and associated products, sector-specific expertise, and legal services applicable to the particular market place and product range offered by the business.

Credit risk exposures in the insurance businesses arise primarily from holding investments and from exposure to reinsurers. Control is exercised over those exposures through a suitable combination of formal limits, credit policy parameters and high level committee oversight.

In order to meet its credit risk management objectives, Absa maintains a diverse risk profile in terms of borrower, product type, industry and geographic concentration. Additional diversification of Absa's exposure is accomplished through syndication of credits, participations, loan sales, securitisations, credit derivatives and other risk-reduction techniques.

### *Credit risk monitoring*

Absa's policies and practices are designed to preserve the independence and integrity of decision-making and ensure credit risks are accurately assessed, properly approved, continually monitored and actively managed at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, credit limits, risk-rating methodologies, portfolio-review parameters and problem-loan management. Wholesale credit risk is continually monitored on both an aggregate portfolio level and on an individual customer basis. For retail credit risk, the key focus items are trends and concentrations at the portfolio level, where potential problems can be remedied through changes in underwriting policies and portfolio guidelines. ERM monitors trends against business expectations and industry benchmarks.

### *Credit risk reporting*

Aggregate credit exposure, credit metric forecasts, hold-limit exceptions and risk profile changes are regularly reported to senior credit risk management to monitor credit risk and decision-making. Detailed portfolio reporting of industry, customer and geographic concentrations occurs monthly, and the appropriateness of the allowance for credit losses is reviewed by senior management on a regular basis. Through the risk governance structure, credit risk trends and limit exceptions are regularly provided to, and discussed with, the Credit Risk Committee, Group Exco, Board Lending Committee, Credit Committee: Large Exposures and the Group Risk Committee.

*Portfolio credit risk*

Since the risk arising from credit extension can have a profound impact on earnings and capital reserves, Absa regards its initiatives toward portfolio efficiency and a portfolio view of credit as a strategic imperative.

The portfolio approach to credit risk management ensures that:

- there is a Group-wide portfolio view of credit risk;
- the concentration and diversification of credit risk is measured Group-wide;
- the potential negative impact on Group earnings of unexpected credit losses is monitored; and
- the interaction between credit risk and other risks (such as market risk) is understood and managed.

*Risk capital charge*

Exposure at default, recovery rate, probability of default and the unexpected loss factor have an impact on the credit risk capital charge calculated. The measurement of probability of default (PD) and unexpected losses (UL) were discussed above. The table and graph on the following page give an overview of these factors.

*Exposure at default*

Exposure in the event of default represents the expected level of usage of the credit facility when default occurs. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit. When Absa evaluates loans, it takes exposure at default into consideration, using its extensive historical experience. It recognises that customers may make heavier than average use of their facilities as they approach default.

For derivative instruments, exposure in the event of default is the estimated cost of replacing contracts with a positive value if counterparties should fail to perform their obligations.

Contingent liabilities consist of financial and performance guarantees, standby letters of credit and indemnity agreements.

*Current exposure*

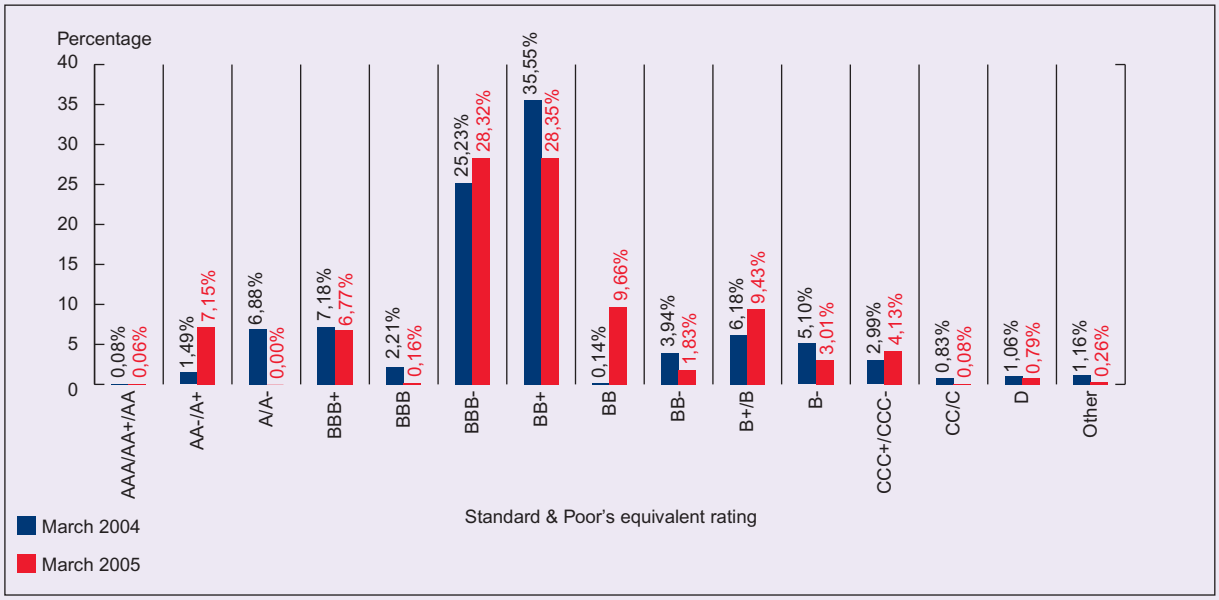
Current exposure of loans and advances is disclosed per geographic region, product, industry sector and maturity in the annual financial statements on pages 299 and 300.

In addition, Absa also categorises its current exposure according to creditworthiness criteria in respect of retail and wholesale exposures. The combined borrower and facility rating composition (borrower ratings adjusted for available collateral and other forms of risk mitigation) of Absa's retail exposure is as follows:

| Standard & Poor's equivalent | Moody's equivalent | Minimum EL* | Maximum EL* | Distribution EL* as % of total EL | |
|---|---|---|---|---|---|
| | | | | March 2005 | March 2004 |
| | | % | % | % | % |
| AAA/AA+/AA | Aaa/Aa/A1 | 0,00 | 0,02 | **0,06** | 0,08 |
| AA-/A+ | A2 | 0,03 | 0,05 | **7,15** | 1,49 |
| A/A- | A3 | 0,05 | 0,07 | **0,00** | 6,88 |
| BBB+ | Baa1 | 0,08 | 0,12 | **6,77** | 7,18 |
| BBB | Baa2 | 0,13 | 0,15 | **0,16** | 2,21 |
| BBB- | Baa3 | | 0,30 | **28,32** | 25,23 |
| BB+ | Ba1 | 0,30 | 0,52 | **28,35** | 35,55 |
| BB | Ba2 | 0,52 | 0,75 | **9,66** | 0,14 |
| BB- | Ba3 | 0,75 | 1,30 | **1,83** | 3,94 |
| B+/B | Ba4 | 1,30 | 1,70 | **9,43** | 6,18 |
| B- | B1 | 1,70 | 2,56 | **3,01** | 5,10 |
| CCC+/CCC- | B2/B3 | 2,56 | 5,00 | **4,13** | 2,99 |
| CC/C | Caa/Ca/C | 5,00 | 7,50 | **0,08** | 0,83 |
| D | D | 7,50 | 10,00 | **0,79** | 1,06 |
| Other | 0 | 10,00 | 50,00 | **0,26** | 1,16 |

*Expected loss.

**Comparative distribution of EL (Retail portfolio)**



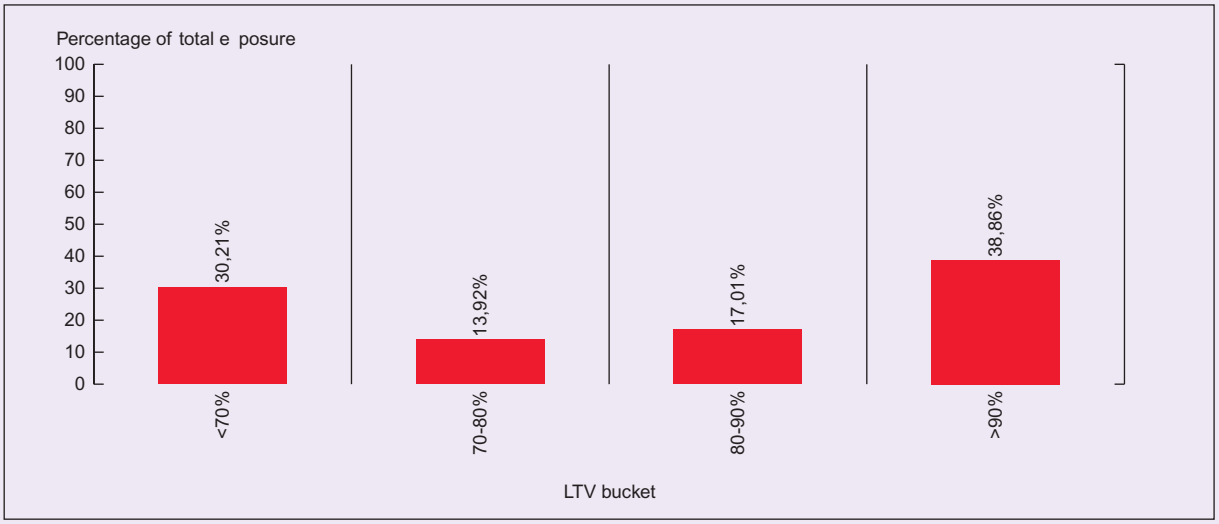
*Future exposure*

The Group has a well-established financial planning process. Future credit risk exposure is reviewed as part of this process and is incorporated in the risk assessments of business plans.

*Recovery rate*

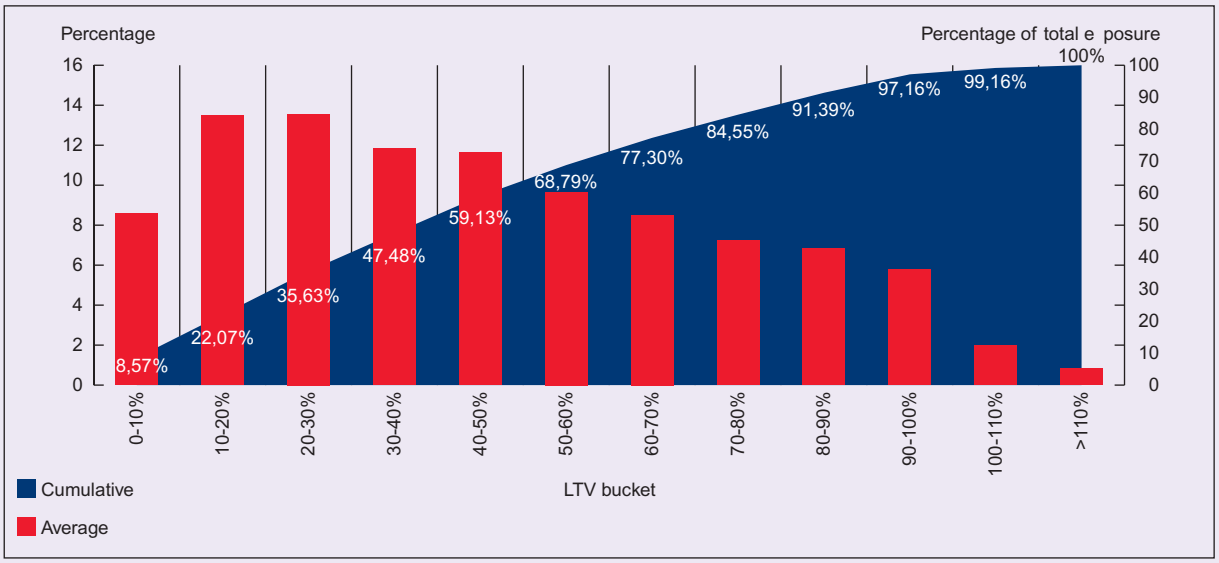
The level of loss given default (LGD) depends on the type of collateral (if any); the seniority or subordination of the exposure; the industry in which the customer operates (if a business); the jurisdiction applicable and workout expenses. The outcome is also dependent on economic conditions that may determine, for example, the prices that can be realised for assets or whether businesses can readily be refinanced. Individual defaults show a wide range of outcomes, varying from full to nil recovery and all points in between. The following graph details the distribution of loan to value (LTV) ratios in the mortgage portfolio.

**Analysis of loan-to-value (LTV) ratios of mortgages on the home loan portfolio at 31 March 2005**




The valuations in the chart are those which applied at the last credit decision on each loan, namely when the customer last requested an increase in the limit or, if there has been no increase, at inception of the loan. Since house prices have risen sharply over the past few years, most loan-to-value ratios would be considerably lower if updated to current market values. The effects of increased property values can be seen in the risk-to-value graph on the following page.

**Analysis of risk-to-value ratios of mortgages on the home loan portfolio at 31 March 2005**




This graph uses a valuation model to estimate the current market values of properties in the mortgage book based on the latest capital balance of each loan account. Other factors affecting changes in the LTV ratios include the rate of repayment and growth in the book, which is largely a function of prevailing interest rates.

### *Non-performing advances*

The process discussed above is in respect of the total credit portfolio – including the portion classified as non-performing. Note 7 of the Group's financial statements contains information on non-performing advances.

### *Impairments*

It is Absa policy to provide for credit asset impairments when it considers that credit quality has deteriorated or that recovery is doubtful on defaulted obligations. Risk managers continually review the quality of the exposures and make provisions where necessary, based on their knowledge of the customer or counterparty, developments in the industry and country of operation.

The estimation of potential credit asset impairments is inherently uncertain and depends on many factors, including general economic conditions, possible future deterioration in credit quality, structural changes within industries that alter competitive positions, and other external factors such as legal and regulatory requirements.

Total impairments consist of two components, viz: specific impairments and portfolio impairments.

- **Specific impairments** are raised when the Group considers that the creditworthiness of a borrower has deteriorated to such an extent that recovery of the whole or part of an outstanding advance is in serious doubt.
- **Portfolio impairments** reflect credit quality deteriorations that, although they have not yet emerged in the form of defaults, are known from experience to be present in the lending portfolio at the balance sheet date. These impairments are adjusted at least at half-yearly intervals by an appropriate charge or release.

Portfolio impairments are also created with respect to the recoverability of assets arising from off-balance sheet exposures and transfer risk, all prepared in a manner consistent with the portfolio impairment methodology.

- **Write-off occurs** when, and to the extent that, the whole or part of a debt is considered irrecoverable.

Please refer to page 301 of the annual financial statements for further information on Absa's impairment charge.



### *Credit risk profile*

The credit risk profile was considered to be acceptable for the 2005 financial year. The Group Risk Committee has approved the risk tolerance for the next financial year and the profile is expected to be within the tolerance limits approved.

### *Interest rate sensitivity of the retail portfolio*

Various economic factors will impact on the actual credit losses to be realised going forward. While the non-retail segment of Absa's credit portfolio is influenced by several economic factors, changes in interest rates are the main driver of credit quality for the retail segment.

Analysis of the historical relationship between interest rates and impairments indicates that the lower the interest rates, the weaker the correlation, and vice versa. Consumers will be able to absorb some increase in the current low level of debt servicing cost relative to disposable income, before cash flow strains are experienced.

At extreme interest rate increase scenarios, the sensitivity becomes more severe as additional factors determining credit risk (such as recovery rates and loan growth) are negatively affected.

Sensitivity levels are considered acceptable and in line with risk appetite and tolerances.

### *Basel II and credit risk*

The Basel Committee on Banking Supervision published the new Basel II framework in 2004 in an effort to update the original international bank capital accord (Basel I), in effect since 1988. The goal of the Basel II framework is to improve the consistency of capital requirements internationally, make regulatory capital more risk sensitive and promote enhanced risk management practices among large, internationally active banking organisations. Absa supports the overall objectives of the Basel II framework.

Basel II will significantly impact banks' credit risk management practices worldwide. Absa has made significant progress in the implementation of internal credit rating systems in accordance with the Basel II requirements for the internal ratings based (IRB) approach. During the year under review, major Basel II implementation focus areas have been internal rating systems that segment borrowers based on homogenous risk characteristics, measure default risk, assign facility ratings and measure recovery risk.

### *Quantitative impact study 4 (QIS4)*

During the year under review, Absa participated in the fourth comprehensive quantitative study of the capital implications of the Basel II capital adequacy standard on the Group's retail and wholesale banking credit exposure classes. Overall, the indication is that the credit risk capital impact of the new standard will be favourable.

Absa's trading risk management approach is based on the principle that all trading risks must be properly identified, measured and reported in order to facilitate effective risk-based decisions in terms of the governance structures described in this report.



### *Market risk*

#### Definition of market risk

Market risk is the possibility that changes in financial market prices, interest rates, exchange rates, market volatilities and correlations and liquidity could adversely impact Absa's financial condition. Market risk consists of trading, investment, banking book interest rate and liquidity risk.

#### Trading risk

Market risk in the trading area is the potential loss in the trading portfolio as a result of changes in market conditions, including changes in market variables (for example interest rates, foreign exchange rates, credit spreads, equity prices, commodity prices and their related volatilities) and changes in market liquidity.
The trading area is operationally managed by Absa's Treasury, a department within Absa Corporate and Merchant Bank.

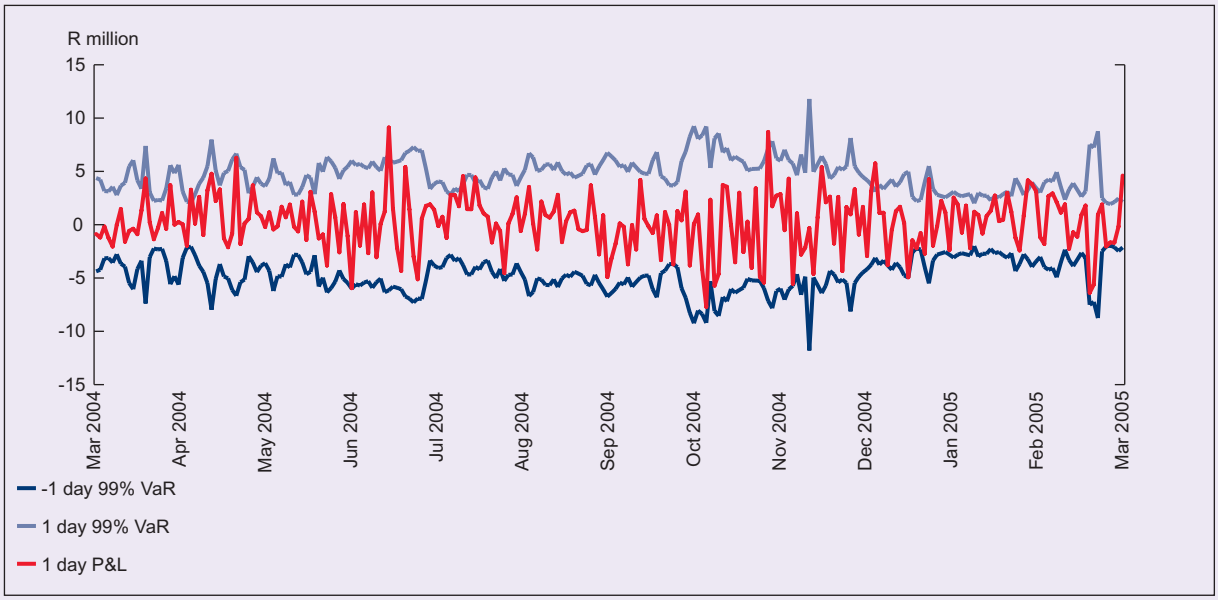
Absa's trading risk management approach is based on the principle that all trading risks must be properly identified, measured and reported to facilitate effective risk-based decisions in terms of the governance structures described earlier in this report. To this end, a set of comprehensive and complementary measures encompassing Value-at-Risk (VaR), stress testing and sensitivity measures is used. A key aspect of the risk management approach is compliance with the capital adequacy requirement (CAR) in respect of the use of internal models to ensure the ongoing approval of Absa's internal model with the lowest possible capital multiple. The outcome of SARB's official annual evaluation of Absa's internal model to calculate its capital adequacy requirements was favourable.

Risk limits are set to govern the trading activities within the risk appetite of the Group. Criteria for setting risk limits include, amongst others, relevant market analysis, market liquidity and business strategy. Trading risk limits are set at an aggregate and portfolio level and are expressed in terms of VaR and exposure limits. Appropriate performance triggers are also utilised as part of the risk management process.

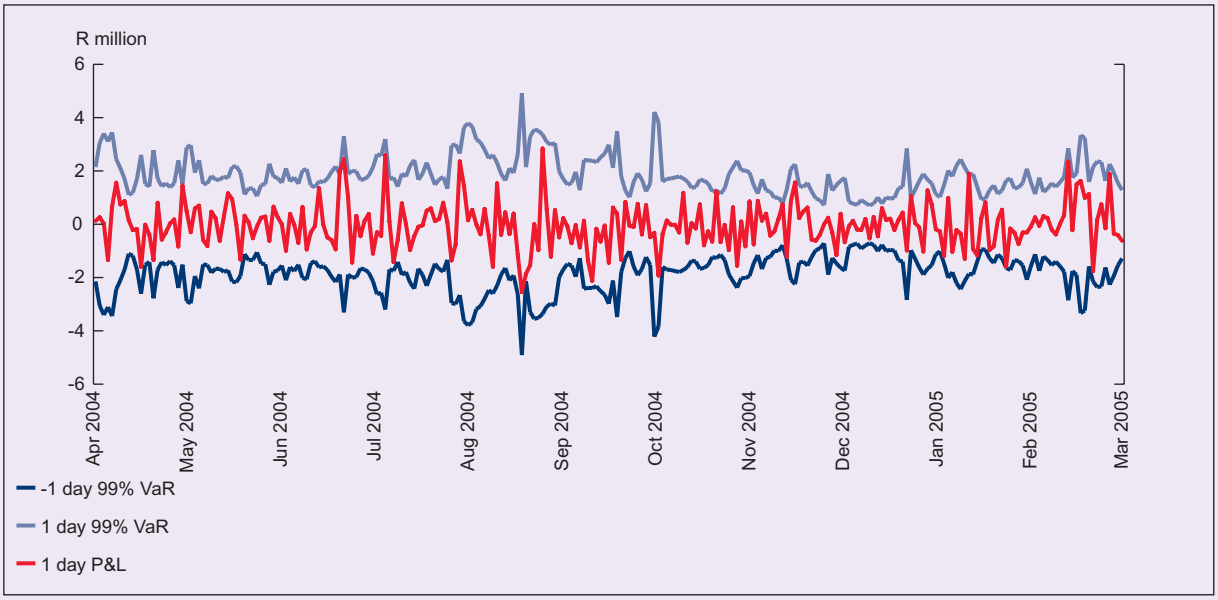
VaR is the maximum expected loss in the value of a portfolio at a chosen confidence level over an assumed holding period. Absa's primary VaR measure, calculated daily, is computed consistent with Basel requirements for calculating position risk capital (a 99% confidence level with a holding period of ten days is used). Absa's VaR approach recognises diversification across instruments and portfolios. In addition, recent observations are given a greater weighting than older observations in the datasets used in the VaR computation.

The quality of VaR models is assessed through backtesting (the comparison of risk estimates with profit/loss realisations). The charts on the following page show the acceptable results of backtesting for the local and offshore operations for the financial year.

**Backtesting of portfolio Domestic operations**




**Backtesting of portfolio Offshore operations**



Absa's ten-day trading book VaR for domestic, offshore and Africa operations is stated in the following table:

| | Minimum | Maximum | Average | Year | Previous year |
|---|---|---|---|---|---|
| Interest rate products | **3,1** | **18,7** | **8,9** | **6,8** | 8,1 |
| Foreign exchange | **0,7** | **22,0** | **5,8** | **3,9** | 8,4 |
| Commodities | **0,2** | **12,5** | **2,2** | **0,6** | 2,7 |
| Equities | **1,3** | **21,1** | **5,2** | **4,0** | 2,7 |
| Money market | **2,0** | **16,6** | **6,5** | **4,5** | 3,5 |
| Credit derivatives | **1,3** | **4,9** | **2,5** | **4,6** | — |
| Non-linear derivatives* | **0,7** | **17,6** | **4,3** | **2,3** | 7,1 |
| **Total – domestic operations** | **6,5** | **29,2** | **14,9** | **6,7** | 14,9 |
| Offshore operations | **2,3** | **15,8** | **6,0** | **4,1** | 11,6 |
| Africa operations | **0,4** | **15,0** | **7,4** | **8,0** | 11,6 |
| **Total – Absa Group** | **5,5** | **38,5** | **17,9** | **13,4** | 25,8 |

**Non-linear products centralised from the individual portfolios into a separate portfolio as from September 2004.*

The results of the VaR computation are used in the computation of position risk capital and as part of active capital management. The sensitivity of the capital computation to changes in market conditions is computed through the use of stress VaR, which is based on historical stress scenarios for volatility of risk factors and correlation between risk factors. Stress VaR is calculated on a daily basis and reported to senior management.

VaR measures potential loss up to a particular confidence level, but does not indicate potential losses outside the confidence interval. Stress testing is used to supplement VaR computations by assessing Absa's potential vulnerability to exceptional but plausible events. Vulnerability in this context refers to conditions under which large losses could be suffered or difficult-to-hedge positions arise in the trading environment. Based on the results of the analysis and the institution's risk appetite, an assessment can be made as to whether the potential losses and positions are acceptable or not. Such an assessment may necessitate position reduction.

## Investment risk

Investment risk refers to the possibility of changes in the value of investments owing to price risk. Investments exclude trading positions taken in equities and refer to longer-term investments made for strategic or operational reasons.

Risk measurement of Absa's equity investments made for operational reasons is based on the value-at-risk (VaR) methodology. The holding period is set at three months, compared with ten days in the case of the trading portfolios.

The Group's private equity portfolios and strategic equity investments are subject to equity price risk. Absa employs the risk management process for risk measurement and control of this equity risk. The process is co-ordinated with the Group's overall equity and asset investment framework.

The Group Investment Committee ensures that the policy for equity and asset investment is applied in a consistent manner across the Group. In respect of private equity exposures, risk is initially managed through the use of industry and other diversification limits, as well as an overall investment limit. Frequent reviews are conducted of the existing investments and a disciplined approach is taken to evaluation and monitoring of performance. All new private equity and strategic investments are subject to a thorough due diligence process.

The Market Risk Committee (MRC) reviews the risk-reward profile of the ACMB, Business Bank and Absa Financial Services equity portfolios quarterly. The Group Investment Committee and Group Risk Committee (GRC) review the total Group profile twice a year.

The investment risk profile for the year under review was acceptable and reflected an improving trend. The GRC has approved risk tolerance limits for the next financial year in respect of investment risk.

### Interest rate risk

Interest rate risk refers to the potential variability in the Group's financial condition owing to changes in the level of interest rates. From an earnings perspective, changes in interest rates affect a bank's net interest income and the level of other interest-sensitive income and operating expenditure, as well as credit risk. However, from an economic value perspective, changes in interest rates affect the underlying value of assets, liabilities and off-balance-sheet instruments. Measurement of the latter is under development as part of the Basel II programme.

Through matched funds transfer pricing and asset/liability repricing, risk is transferred from businesses. The inherent mismatch is managed centrally within an agreed risk tolerance at net interest income level (taking cognisance of diversification between the different components of net interest income). In doing so, the effects of interest rates on other aspects of the business, which may offset the impact of interest rates on net interest income, are also considered.

Interest rate risk pertaining to the risk associated with the components of net interest income (the asset, liability and mismatch margins), is managed within the total portfolio context, taking into account relevant mitigants between different components of earnings. While assumptions and views on the interest rate cycle may not be realised, the aim remains to dynamically and optimally manage the risk-reward profile at total portfolio level, within approved risk tolerance levels, given the occurrence of any interest rate environment up to a given confidence limit.

Given a common metric of risk, specific types of risk (for example, credit risk and banking book interest rate risk – two of the primary risks) are considered for aggregation. One of the frontier issues, on which development is continuing, involves the extent to which different risks are correlated and the benefits that might be obtained from diversification. There is a certain amount of correlation within and among the primary risks that Absa faces and derives from common factors that affect the risks.

## The primary objective of Absa's interest rate risk management is to contain reductions in net interest income resulting from changes in interest rates to an appropriate level.

Quantitative limits for interest rate risk are established to meet Absa's goal of containing its exposure to adverse consequences arising from changes in prevailing interest rates. The quantitative risk limits are defined for the impact of hypothetical changes in prevailing interest rates on earnings. In setting the limits, several factors are taken into account, including:

- the sensitivity of net interest income over a 12-month period to changes in interest rates, using projections and assumptions that reflect expected changes in asset and liability growth, composition, pricing and repricing (referring here to the asset and liability margins and resultant impact on the mismatch margin);
- changes in administered interest rates and market interest rates; and
- all other material variables that can reasonably be approximated.

The primary objective of Absa's interest rate risk management is to contain reductions in net interest income resulting from changes in interest rates to an appropriate level. This is established by taking diversification of this risk type with other risks, primarily credit risk, into consideration, so that Absa ultimately remains within total earnings at risk limits.

Such reductions are maintained within the limits specified in the Group Risk Management policy using the measurement procedures, risk reduction activities and controls specified in the policy.

Interest rate risk hedging (risk reduction) strategies considered by the MRC include the following:

- Strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- The execution of applicable derivative contracts if it is deemed that such activity is necessary to maintain the Group's interest rate risk exposure within the limits.

For strategies involving hedging of interest rate risk in the banking book via derivative contracts, applicable accounting rules (including cash flow hedging and fair value hedging) as stipulated in the Group's accounting policy are followed.

Standard measures of interest rate risk include the repricing/maturity gap and the impact of standardised interest rate shocks, the latter to facilitate the supervisor's monitoring of interest rate risk across institutions. Such monitoring is conducted both statically and dynamically, based on current and projected balance sheets as well as derivative positions. Absa's monthly three-month cumulative repricing gap is depicted in the graph and table which follow.

**Three-month cumulative repricing gap**

## Repricing analysis (R million)

| Repricing maturity period | Call to 3 months | 4 to 6 months | 7 to12 months | Over 12 months | Not rate sensitive |
|---|---|---|---|---|---|
| **As at 31 March 2005** | | | | | |
| Interest rate sensitivity gap | **33 825** | **(17 635)** | **(17 649)** | **16 742** | **(15 282)** |
| Derivatives* | **(17 128)** | **(2 601)** | **(427)** | **20 154** | |
| Cumulative interest rate gap | **16 696** | **(3 540)** | **(21 615)** | **15 282** | |
| Cumulative interest rate gap including NBC and Banco Austral, Sarl | **15 536** | **(4 322)** | **(22 199)** | **15 177** | |
| **As at 31 March 2004** | | | | | |
| Interest rate sensitivity gap | 29 417 | (10 973) | (9 387) | 10 801 | (19 858) |
| Derivatives* | (11 107) | 5 690 | 4 656 | 761 | |
| Cumulative interest rate gap | 18 310 | 13 027 | 8 296 | 19 858 | |
| Cumulative interest rate gap including NBC and Banco Austral, Sarl | 17 465 | 12 258 | 7 670 | 19 752 | |

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

Assuming no management action in response to interest rate movements, Absa's repricing sensitivity to a hypothetical immediate and sustained parallel fall of 100 basis points in all interest rates for a 12-month forward period is indicated in the following table:

**Repricing sensitivity as a percentage of net interest income**

| | **2005** | 2004 | 2003 | 2002 |
|---|---|---|---|---|
| As at 31 March | **2,89** | 1,84 | 1,11 | 1,76 |

Simulation techniques involve detailed assessments of the potential effects of changes in interest rates and are instrumental in evaluating the interest rate (mismatch) risk-reward profile. This is complemented by stress scenarios, in addition to more probable events, to support meaningful evaluation of the effect of stressful market conditions.

The banking book interest rate risk profile was considered to be within acceptable risk limits and managed effectively during the financial year under review.

## Liquidity risk

Liquidity risk is the possibility that operations cannot be funded and financial commitments met timeously and cost-effectively. Prudent management of liquidity contributes positively to earnings, with sound liquidity risk management being pivotal to the viability of the Group and the maintenance of overall banking stability. Absa believes that the management of liquidity should encompass an overall balance sheet approach, which consolidates all sources and uses of liquidity.

In terms of the existing governance framework, the MRC is responsible for the management of the liquidity risk profile within set tolerance limits. Management focus points for liquidity risk, which is actively managed at Absa, include:

- measuring and managing the expected, in addition to the contractual, maturity mismatch profile between assets and liabilities and projected cash flows, ensuring that sufficient liquidity is available to meet requirements;
- monitoring and managing the cost of liquidity in the Group;
- ensuring the Group holds, at all times, a set amount of liquid assets that could easily be liquidated as protection against an unforeseen disruption in cash flow;
- considering and managing the characteristics and risks of different sources of liquidity, by adopting appropriate funding strategies (including the mix of funding sources, with due cognisance of stability of funding sources) to meet liquidity needs; and
- liquidity stress-testing.

Liquidity risk is monitored daily and reported to management. The liquidity risk profile was considered to be within acceptable risk limits and managed effectively during the financial year under review.

A summary of Absa's liquidity profile is reflected in the table that follows. Additional information is provided on pages 343 to 345 in the notes to the annual financial statements.

| | On demand Rm | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Total Rm |
|---|---|---|---|---|---|
| **As at 31 March 2005** | | | | | |
| Total assets | **64 114** | **78 179** | **77 103** | **129 291** | **348 687** |
| Total liabilities | **117 034** | **184 430** | **14 704** | **8 555** | **324 723** |
| Total liabilities and shareholders' funds | **121 134** | **185 178** | **14 909** | **27 466** | **348 687** |
| **As at 31 March 2004** | | | | | |
| Total assets | 48 577 | 85 128 | 70 742 | 102 401 | 306 848 |
| Total liabilities | 120 848 | 129 436 | 21 750 | 15 293 | 287 327 |
| Total liabilities and shareholders' funds | 120 848 | 130 103 | 21 750 | 34 147 | 306 848 |
| **As at 31 March 2003** | | | | | |
| Total assets | 50 711 | 58 738 | 61 135 | 98 480 | 269 064 |
| Total liabilities | 110 149 | 124 743 | 9 865 | 7 200 | 251 957 |
| Total liabilities and shareholders' funds | 110 149 | 125 297 | 9 865 | 23 753 | 269 064 |

*Basel II and market risk*

Absa's progress towards compliance with the Basel II market risk requirements is in line with the SARB and industry timelines. The SARB Accord Implementation Forum Market Risk Task Group initiatives, in which Absa actively participates, have gained momentum since the beginning of 2005. Work on trading risk is nearing completion and entering a continual enhancement phase.

Progress is being made on investment risk, banking book interest rate risk and liquidity risk – areas on which local regulatory requirements are in the process of being clarified. Since March 2005, the preparations for implementation of an integrated credit and market risk measurement system have added focus and momentum to outstanding work. Absa expects to start realising multiple second-order benefits in the near future, as a result of the work towards compliance with Basel II market risk requirements.

# Procedures to ensure the proper management of underwriting risk are maintained both in life assurance and short-term insurance.

### *Underwriting risk*

#### Definition of underwriting risk

Underwriting risk, originating from insurance activities, refers to unexpected losses caused by events that result in the predetermined reasonable claims experience being exceeded. Underwriting risk consists of the following elements:

- Life assurance risk is that associated with insuring the life and/or health of an individual or groups of individuals; and
- Short-term insurance risk is that associated with the short-term underwriting of fixed and/or moveable assets, accidents, guarantees and liabilities.

Forecast exposures are based on assumptions with respect to mortality, morbidity, frequency and severity of claims. This is influenced by the nature of underwriting exposures involved in the products and services provided, portfolio characteristics, external events, the nature and extent of reinsurance cover, and the risk appetite of the insurance companies and the Group.

Procedures to ensure the proper management of underwriting risk are maintained in both life assurance and short-term insurance.

#### Life assurance

Procedures to monitor and manage underwriting risk originating from life assurance include:

- annual reporting by the statutory actuary on the actuarial soundness of the premium rates in use and the profitability of the business, taking into consideration the reasonable benefit expectations of policyholders. All new rate tables are approved and authorised by the statutory actuary prior to being issued;
- regular investigations into mortality and morbidity experience;
- setting guidelines and limits which must be adhered to by individual underwriters as well as using experienced underwriters to evaluate all applications for risk cover in excess of specified limits against established standards;
- conducting specific testing in specialised and high risk areas where risk cover exceeds predetermined limits; and
- having an appropriate reinsurance philosophy, including the use of reassurance manuals, defining treaty limits where all exposures above a certain limit are reassured and conducting facultative reassurance where individual risks are in excess of the set guidelines or fall outside the available expertise.

### Short-term insurance

Procedures to monitor and manage underwriting risk originating from short-term insurance include:

- identifying all rating factors (factors that have an impact on the risk facing the insurer) and pricing scientifically according to these factors;
- regular investigations into claim frequency and claim severity across all rating factors;
- monitoring the geographical and other spread of risks to avoid accumulation of risks;
- regular monitoring of claims costs and investigations into methods of controlling costs; and
- reinsurance of individual risks and accumulation of risk in excess of specified monetary amounts.

Details pertaining to the embedded value and capital adequacy of the life assurance company can be found on page 366 of the annual report, whereas note 23 of the notes to the annual financial statements contains details relating to the year-end balances of insurance funds.

## *Operational risk*

### Definition of operational risk

Operational risk is defined as the potential for loss resulting from inadequate and/or failed internal processes, people and systems 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, be it failure of activities, systems or people.

For the purpose of the Basel II regulatory operational risk capital charge, legal risk is included, but strategic and reputational risks are excluded.

Operational risk management forms part of the day-to-day responsibilities of all business unit and specialist function management. Several specialist functions also attend to specialised areas of operational risk management contained within the causal structure of the operational risk definition, as indicated below:

| Specialised areas of operational risk | Absa specialist functions |
|---|---|
| Internal fraud, external fraud and money laundering | ERM Forensic Services |
| People risks (including HIV/Aids risk) | Group People Management |
| Technology and information risk, information security, systems risk, IT disaster recovery | Group Business and Technology Services, Group Information Management |
| Process risks | Group Administration, Delivery Channel Services |
| Physical security | Real Estate Asset Management |
| Business continuity management | Real Estate Asset Management |
| Legal risk | The Group Legal Function |
| Compliance risk | ERM Compliance, Group Finance, Group Secretariat, the Group Legal Function |

The aim is to integrate, based on international norms and best practices, all operational risk activities in the Group and to compile a reliable operational risk profile contributing to the Group's risk-reward profile.



## Measuring and managing operational risk

The role of ERM Operational Risk is to establish and implement an integrated and effective operational risk management framework for modelling and managing the Group's operational risk, while reinforcing an enabling operational risk management culture throughout the Group.

The aim is to integrate, based on international norms and best practices, all operational risk activities in the Group and to compile a reliable operational risk profile contributing to the Group's risk-reward profile. Within the COSO-aligned operational risk management framework, qualitative and quantitative methodologies and tools are applied on a Group-wide basis to identify and assess operational risks and to provide management information for determining appropriate mitigating measures. These include:

- a loss database of operational risk events categorised according to the Basel II operational risk event types;
- a database of key risk indicators (KRIs) and key performance indicators (KPIs). These metrics, reported on scorecards, are used to track levels and trends of identified operational risk drivers;
- a bottom-up control self-assessment (CSA) to facilitate Group-wide consistent qualitative assessing, treating, monitoring and communicating of operational risks and controls associated with business processes and activities; and
- a top-down CSA resulting in a qualitative operational risk profile based on business management's evaluation of its control environment.

For the modelling of operational risk, all the above measures must be integrated. To achieve this, an underlying framework is incorporated into all the tools to ensure the linking of losses, causative factors, indicators, and controls. The components of this framework are: Absa's value chain process model (VCPM), control universe, operational risk universe, organisational structure and product dimension. With increasing development, this framework will enable the reporting of operational risk per end-to-end process, thereby further facilitating a proactive operational risk response and the informed improvement of processes and controls.

## Monitoring operational risk

Effective operational risk management protects and enhances shareholder value by reducing operational losses – both high impact, low frequency events that may imperil the Group's financial position, and low impact, more frequently occurring events that may add unnecessarily to operating costs. In essence, operational risk management is about using resources effectively by improving process efficiency, ensuring the effectiveness of controls, prioritising efforts and sharing good practices. To eliminate all operational risks is not cost-effective and Absa manages operational risk in accordance with its agreed operational risk tolerance levels.

In terms of the existing governance framework, the Operational Risk Committee (ORC) is responsible for the management of the operational risk profile within the set tolerance limits.

The effectiveness of the ORC is enhanced by the support of various specialist functions and governance structures.

The business risk officers play a key role in the successful implementation of Absa's integrated operational risk management framework.

There is a close link between operational risk and the control environment. In this regard the work undertaken by Internal Audit, Forensic Services and Compliance also plays a part in the containment of operational risk to acceptable levels.

Currently there are three independent but integrated qualitative measures of Absa's control environment: the top-down qualitative operational risk profile, the assurance profile and the compliance profile. Each of the three measures presents a different view of Absa's control environment:

- The top-down qualitative operational risk profile is management's view and presents a high-level assessment of the critical control measures;
- The assurance profile is derived from internal audit results and considers detailed information on specified aspects of the critical control measures; and
- The compliance profile relates the requirements of the regulatory environment and the critical control measures.

The risk tolerance levels set for these related views of Absa's control environment are aligned.

Operational risk assessments are validated by Internal Audit and Compliance. External consultants perform a quality assurance review. Absa's operational risk profiles were within the risk tolerance levels set and were considered to be acceptable during the year under review.

### Basel II and operational risk

Absa recognises the significance of operational risk and is committed to the enhanced operational risk measurement and management requirements of Basel II. In this regard, the key focus for the following year includes:

- maintaining the loss event and indicator data capturing and refinement, inclusive of data quality enhancement;
- continuing and maintaining the bottom-up control self-assessment roll-out;
- further developing the quantification of operational risk (for Basel II Pillars 1 and 2);
- enhancing integrated operational risk reporting at the various levels of Absa's risk governance structure; and
- further refinements of the operational risk tolerance levels to include the bottom-up qualitative operational risk assessment and quantification of operational risk.

## *Strategic risk*

### Definition of strategic risk

There are various definitions of strategic risk, but in essence it is the potential that Absa's strategy may be inappropriate to support long-term corporate goals (such as sustainable growth) because of an inadequate strategic planning and/or decision-making process or the inadequate implementation of such strategies. This includes the risk of having a strategy that is unclear, or clear but not viable, or clear and viable, but badly implemented. It also includes the risk of having an otherwise effective strategy fail as a result of unexpected circumstances.

### Strategic risk measurement and management

There is industry consensus that strategic risk is the most important (and difficult) risk to manage, because it overlays all other risks. The identification of strategic risk is a well-established component of the strategic and

Regular strategic planning sessions are held across the Group at board, executive director and executive management level. These sessions include quantitative and qualitative assessments of the risks in Absa's strategic plan.



business planning process. The main role-players in Absa are Group Strategy Development, Group Business Change Enablement and divisional management. The process includes risk-reward profile assessments for strategies, on a business unit level, to which due consideration is given during the annual budgeting and strategic planning process.

During the year, actual performance is measured against strategic targets, both financial and non-financial. The risk event identification process aims to ensure that all material potential risks are identified and incorporated into appropriate management strategies for the Group.

### Strategic risk approach

Regular strategic planning sessions are held across the Group at board, executive director and executive management level. These sessions include quantitative and qualitative assessments of the risks in Absa's strategic plan. The Group's strategy and those of its constituent businesses are reviewed and approved by the board. Regular reports on the progress of the Group's key strategies and plans are provided to Group Exco and the board. ERM conducts oversight to ensure the business plans remain consistent with the Group's strategy.

Investment decisions require formal assessment and approval. Formal risk assessment is conducted as part of the approval process. Significant mergers and acquisitions require board approval. All new investments are subject to a standard due diligence process that includes an independent risk assessment of the target investment. Revenue and capital investment decisions require additional formal assessment and approval. Formal risk assessment is conducted as part of the financial approval process.

Significant company mergers and acquisitions require specific approval by the board. In addition to the standard due diligence conducted during a merger or acquisition, ERM conducts, where appropriate, an independent risk assessment of the target company and its proposed integration into the Group.

### Strategic risk profile

Absa's strategic risk profile for the year under review was acceptable.

### Capital and performance measurement

A common approach to assess the creation of shareholder value is applied across the Group. This is measured by value added (the profit attributable to shareholders, less a notional charge, calculated at a risk-adjusted rate, for the equity invested in the business). The focus on value added allows the Group to compare the returns being made on capital employed in each business. The use of more risk sensitive-based risk capital and regulatory capital is closely monitored at business and Group level. The Group's risk capital model covers credit, market, insurance, business and operational risks.

#### *Risk appetite*

Risk appetite is the Group's chosen methodology to balance risk and return in the implementation of business plans as it recognises a range of possible outcomes. The risk appetite is approved annually by the Group Risk Committee and

the board. Risk appetite and risk tolerance setting is an integrated process that relies on the quantitative and qualitative risk assessments done by all the risk types.

The risk appetite is validated by estimating Absa's sensitivity to macroeconomic events using stress testing and scenario analysis.

Changes in certain macroeconomic variables represent environmental stresses that may reveal systemic credit and market risk sensitivities in Absa's retail and wholesale portfolios. The stresses considered include, for example, the following sensitivities:

- General economic scenarios including variables relating to gross domestic product, employment, interest rates, interest rate curve shifts, property prices and currency values; and
- Business specific sensitivities relating to asset and liability levels and product pricing.

More complex scenarios, such as recessions, can be represented by combinations of variables. These scenarios allow senior management to gain a better understanding of how the Group is likely to react to changing economic and business conditions. Insights gained are fully integrated into the management process and the risk appetite framework. These analyses and insights and the close involvement of management also provide the basis for fulfilling the stress testing requirements of the new Basel II capital accord.

### *Reputational risk*

#### Definition of reputational risk

Reputational risk is the threat to earnings or capital that results from negative public opinion. The Financial Services Authority defines it as: "the risk that the firm may be exposed to negative publicity about its business practices or internal controls, which could have an impact on the liquidity or capital of the firm, or cause a change in its credit rating".

A company's success depends not only on its prudent management of credit, market, operational and business risks, but equally on the maintenance of its reputation among many stakeholders.

#### Reputational risk measurement and management

The management of reputational risk is an integral part of management at all levels and is supported by the risk governance framework. Various role-players follow formal processes in executing the Group's communication strategies.

#### Reputational risk approach

Attention to reputation has always been a key aspect of Absa's practices, and maintenance of reputation is the responsibility of everyone in the Group. Absa supports this individual responsibility in many ways: through its code of ethics, training, policies and oversight functions that approve transactions.

Primary responsibility for adherence to the policies and procedures designed to address reputational risk lies with the business units conducting the transactions. The Group's product approval process requires review and sign-off from, among others, the internal legal, compliance, taxation and finance functions.

#### Reputational risk profile

Absa's reputational risk is evaluated as part of its operational and compliance risk profiles. These profiles establish links to key processes, systems and controls. The reputational risk profile presented to the Group Risk Committee was considered acceptable for the year under review.

Absa's compliance function supports management in managing compliance risk in the organisation. It monitors whether effective compliance policies and procedures are followed and whether corrective action is taken when compliance breaches are identified.



***Risk control***

***Compliance***

Absa is committed to, and requires all its employees to display the highest standards of integrity, professionalism and ethical behaviour, and to comply with all relevant laws, rules and standards when conducting the business of the Group. Since behaviour that may be legally defensible can still damage the reputation of the Group, these requirements go beyond minimum legal standards and embrace broader norms of integrity and fair dealing.

Compliance risk is the potential that the procedures implemented by the entity to ensure compliance to relevant statutory, regulatory and supervisory requirements are not adhered to and/or inefficient and ineffective.

Absa's board, through the Group chief executive and Group Exco, delegates the authority to the Group compliance officer to ensure that the compliance process is running effectively and to monitor that the statutory, regulatory and supervisory requirements are adhered to. The Group compliance officer and the Group chief executive are required to submit a monthly checklist to SARB about adherence to specific sections of the Banks Act and regulations.

Absa's compliance function supports management in managing compliance risk in the organisation. It monitors whether effective compliance policies and procedures are followed and whether corrective action is taken when compliance breaches are identified. Absa's compliance function is an independent function that identifies, assesses, advises on, monitors and reports on the Group's compliance risk. Without impairing independence, compliance employees are located in the different business units to oversee the application of the policy. The function is further assisted by other legal functions in the Group. Although independent, the compliance function is an integral part of the broader risk management framework, established in the interests of joining forces and providing an integrated view on risk.

The compliance function follows an integrated risk management approach. The major methodologies currently used are control self-assessment (CSA) and the Compliance Institute of South Africa's compliance methodology. Compliance risk management tools provided to management include compliance manuals, compliance risk profiles, compliance risk management plans, compliance opinions, and compliance control adequacy and effectiveness reports. These tools are increasingly technology-enabled.

Absa views compliance with laws, regulations and supervisory requirements as very important. Compliance risk management is a formalised, distinct risk management discipline and a core risk management activity within the Group. Apart from reducing losses, mitigating risks and contributing to effective corporate governance, the efficient compliance process also unlocks strategic business value.

Value is realised through new product and business approval processes, increased vigilance, freed-up capital from reduced risk premiums, and enhanced reputation and relationships. Absa further leverages its compliance capabilities to the benefit of the wider financial services community through proactive industry involvement.

The following current and future activities, co-ordinated by the centralised compliance department, deserve special mention:

- **The FIC Act and the Protection of Constitutional Democracy Against Terrorist and Related Activities (PROCDATRA) Act:** The year under review witnessed the implementation of control measures to ensure that Absa complies with the FIC Act deadlines for the identification and verification of high priority customers, trusts and partnerships. The identification process is supported by technology that tracks progress on a continual basis and allows for restricted transactional ability in the event of non-compliance. Absa's FIC Act project is currently focusing its resources on the identification of the balance of existing customers, as prescribed by the Government Gazette of 30 June 2004.

  PROCDATRA legislation became effective on 20 May 2005, and provides, amongst other things, for the following:

  – Measures to prevent and combat terrorist and related activities;

  – The definition of offences of terrorism and associated activities;

  – The use of international instruments dealing with terrorist and related activities;

  – A mechanism to comply with the relevant UN Security Council Resolution; and

  – Investigative measures in respect of terrorist-related activities.

  As a financial institution, Absa is mainly affected by the measures to prevent and combat the financing of terrorists and related activities. The business impact of the new law on Absa is predominantly a revision of existing control measures surrounding the detection of possible terrorist-related activities and their financing, reporting incidents to the authorities and implementing awareness programmes and training.

- **FAIS Act:** The Financial Advisory and Intermediary Services (FAIS) Act became operational on 30 September 2004. Within the Group, 14 licences to become authorised financial services providers (AFSPs) have been applied for, of which 12 have been approved by the Financial Services Board (FSB). It is expected that the other two will soon be approved.

  A Group-wide project addressed the obligations imposed by this Act, resulting in the implementation of controls in key areas to ensure compliance. Ongoing compliance with the FAIS Act is a major focus for the Group, which strives to be an industry leader in customer satisfaction.

- **National Credit Bill:** A Group-wide National Credit Bill project has been established. Its purpose is to ensure Absa's compliance with the bill, which is expected to become effective in October 2005. The core project team is currently assisting affected business units with scope definition workshops. A National Credit Bill intranet site has been created.

- **Industry involvement:** Absa was extensively involved in industry compliance initiatives to develop training material and solutions to common problems experienced with the implementation of new regulatory requirements. In particular, generic training material and videos about corporate governance and compliance awareness were developed in conjunction with Bankseta and the other major South African banks. These training interventions aim at changing behaviour in respect of compliance and corporate values.

  Absa also continued its active involvement with the Compliance Institute of South Africa and various other committees in the industry, in so doing contributing substantially to setting standards for the industry.

- **Business unit level compliance:** During the past year, enhancements and expansion continued in respect of the compliance monitoring activities and support provided at business unit level, for both local and international operations. This included assistance with due diligence reviews, the conduct of compliance risk assessments in respect of new acquisitions and new product developments, and assistance with the implementation of new and amended regulatory requirements to the business units.

## The Absa Group board is responsible for establishing, maintaining and reporting on an effective system of internal control.

- **Other focus areas:** Continued compliance methodology enhancement will remain a focus going forward.



### *Internal Audit*

The Absa Group board is responsible for establishing, maintaining and reporting on an effective system of internal control. Internal Audit provides assurance to the board by auditing the adequacy and effectiveness of the control measures applied by management. This provides a basis for formulating an opinion on the acceptability of the overall control environment for the Group.

Absa's overall control profile was considered to be acceptable for the 2005 financial year.

Internal Audit is an independent and objective function designed to provide:

- assurance that the management processes are adequate to identify and monitor significant risks;
- confirmation of the effective operation of the established internal control systems;
- credible processes for feedback on risk management and assurance; and
- objective confirmation that the board receives the correct quality of assurance and information from management and that the information is reliable.

The function provides a basis from which the board can form an opinion and report on the overall control profile of the Group, as required by Regulation 39 of the Banks Act, 1990.

The reporting structures within the Group ensure that the chief internal auditor has unrestricted access to the Group Audit and Compliance Committee (GACC), the Group chief executive and the chairman of the Absa Group board. This ensures that the function remains independent and has the necessary support to perform its duties.

Divisional audit and compliance forums assist the GACC to discharge its responsibilities in an efficient and effective manner by focusing on control aspects of the main business units. The annual coverage plan process is conducted in accordance with set standards as prescribed by the Institute of Internal Auditors, the Group's policies and procedures as well as best practice principles. Coverage plans are updated quarterly, taking into account input from management, results from previous audit reviews, monitoring of critical risk indicators, external factors and the GACC requirements.

Formal rating criteria are used to highlight and prioritise individual audit findings as well as the overall acceptability of the control environment within the area under review. Critical control issues and unacceptable assignment reviews are escalated to the GACC.

To meet rising stakeholder expectations and demands, regulatory compliance as well as staying abreast of best practice principles, Internal Audit is constantly improving its processes and procedures. This includes small enhancements to existing processes as well as conceptualising, designing and implementing strategic initiatives. A strong focus during the next financial year will be the implementation of continuous assurance techniques and tools. This project will enable Internal Audit to:

- widen its responsibility to provide assurance that all levels of risk within the Group are being controlled;
- widen its scope from a functional business dimension to include process, product and value chain views; and

- improve and increase the utilisation of technology to implement continuous, integrated assurance of key risks, indicators and implemented management controls.

Internal Audit assists the board and management, through consultation and facilitation, to identify, evaluate and assess significant organisational risks to objectives, and provides independent assurance about the adequacy and effectiveness of related internal controls and the risk management process. However, management remains ultimately responsible for the adequate implementation, effectiveness, efficiency and maintenance of control measures.



### *Forensic Services*

Forensic Services is dedicated to combating the onslaught of financial crime, embracing the following principles:

- Maintaining high standards of integrity, professionalism and ethical behaviour;
- Preventing the Group's employees, associates, agents or systems from being used for illegal purposes;
- Terminating business relationships with those involved in illegal activities; and
- Taking relevant action against persons who fall foul of these principles.

The department has three focus areas to address the risk of crime. These are forensic investigations, strategic initiatives and proactive solutions, and money laundering control.

#### Forensic investigations

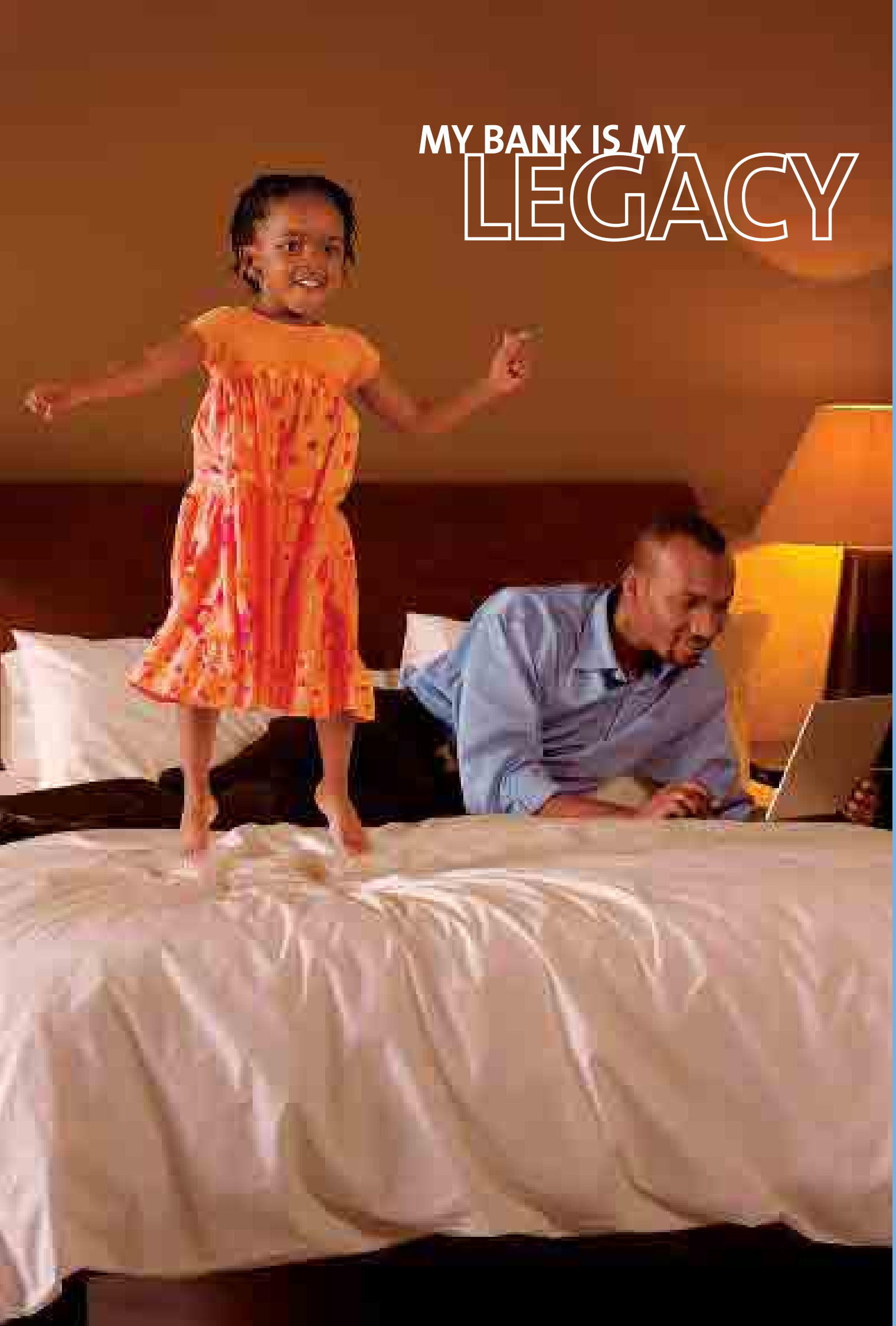
The core function remains the investigation of losses and incidents relating to illegal activity. The bulk of the investigations regarding the retail banking environment are dealt with in a decentralised structure with representative offices situated in each province. In addition to the decentralised structure, a core team of specialist investigators deals with Group-related matters as well as cases that are sensitive and pose a greater risk. A centralised reporting and case management system ensures that information relating to all incidents is managed and aggregated in a single environment. This ensures efficient management reporting.

#### Strategic initiatives and proactive solutions

Forensic Services recognises the importance of adequate measures to train employees and proactive steps to combat crime. A dedicated area identifies the training needs of employees and develops material to meet these needs, raise awareness and facilitate communication. Control breakdowns and root causes proactively identified during the investigative stage are analysed and communicated to business units for the implementation of risk mitigation measures. Information is aggregated and analysed for investigative purposes using electronic methods and actions identified when risks are detected. Forensic Services' expertise is used in various Group projects to identify possible project risks prior to the implementation of products and processes. Forensic Services' inputs are also provided during due diligence and post-acquisition reviews.

#### Money laundering control

The Group's money laundering control officer resides within the forensic services environment and plays a pivotal role in advising the business on controls to be implemented to mitigate the risk of money laundering, as well as in reporting suspicious and unusual transactions in terms of the FIC Act and the more recent requirement to report suspected terrorist activity in terms of the PROCDATRA Act to the Financial Intelligence Centre.


MY BANK IS MY
LEGACY

# Black economic empowerment

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Absa embraces black economic empowerment (BEE) as a business imperative and strives to meet and exceed the Financial Sector Charter (FSC) targets.

# A specific focus on black economic empowerment and the Financial Sector Charter

## Absa commits itself to actively promoting a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa and contributes to the establishment of an equitable society.



### Introduction

The growth of the South African economy will largely depend on the extent to which black South Africans participate in the economy. Absa aims to facilitate increased participation by enhancing its engagement with black individuals and black-owned companies as shareholders, customers, suppliers, employees and communities.

Growing the black banking market is an important way of supporting sustained economic growth, development and social transformation in South Africa. Capturing an increased share of that market is a key business imperative.

### Key developments

- Improved diversity in the Group, with 47,8% of employees from the Black, Coloured and Indian race groups.
- 24,8% of Absa's weighted spend with BEE companies for the 2004 calendar year.
- The operationalisation of the Group's broad-based BEE transaction.
- The launch of the Mzansi account and a larger footprint, improving access to financial services.
- Continued focus on corporate social investment initiatives with a spend of R19,3 million for the 2004 calendar year.

### Absa's approach to BEE

Absa commits itself to actively promoting a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa and contributes to the establishment of an equitable society. Two of the ways Absa aims to contribute towards this vision are by providing accessible financial services and by directing investment into targeted sectors of the economy.

Absa embraces black economic empowerment (BEE) as a business imperative and strives to meet and exceed the Financial Sector Charter (FSC) targets.

## BEE governance

Absa has a defined BEE strategy, the ownership of which resides with the Group's Executive Committee, as does strategy approval and the evaluation of the execution of strategy against targets.

Business units are responsible for setting segment-specific strategies that are aligned with the Group's overall BEE strategy. Each of the business units has targets for the respective perspectives of the charter scorecard. Thus each business unit plays its role in assisting the Group to achieve its strategic intent.

Absa has a dedicated BEE department. The aim of this department is to provide the framework and process to develop, enable and monitor Absa's BEE strategy.

Absa's BEE status is reported to the board quarterly.

## Absa's BEE policy

Absa's BEE policy is based on a long-term strategy with short- and medium-term objectives and is guided by economic imperatives and statutory requirements. It includes a process of consultation with all role-players. All executives and managers participate in the BEE process by participating in formulating strategies and setting targets in line with their business plans and the Group's BEE strategy.

The objectives of Absa's BEE policy are to:

- create awareness and demonstrate Absa's commitment to BEE externally and internally;
- develop a shared framework and understanding on BEE;
- assess the current business status, identify gaps and address these where applicable; and
- monitor and evaluate progress in achieving agreed BEE targets.

The Group's BEE policy was implemented in May 2002 and is reviewed annually. Ownership rests with the Group Executive Committee.

## Absa's BEE strategy

The goal of Absa's BEE strategy is to ensure that Absa plays a meaningful role in South African transformation and the black empowerment process to create sustainable future market growth and profitability. Compliance with the FSC is a key component of the Group's BEE strategy.

The Group follows a holistic approach, with emphasis on Absa's relevant stakeholders:

- **Shareholders** – To ensure that the Group's shareholding and directorships include a meaningful proportion of black shareholders and directors.
- **Customers** – Developing customer value propositions to satisfy the needs of specific markets and the adoption of an integrated, holistic approach to cover footprint, product and service offerings.
- **Employees** – Enhancing Absa's ability to value and grow diversity.

Absa is a proud signatory to the FSC. The FSC provides for significant increases in black ownership, control, management and skills development over a 10-year period, effective from January 2004 to December 2014.



- **The community** – Contributing positively to sustainable business growth as well as towards the socio-economic development of the communities in which Absa operates.
- **Governments and regulators** – Building a better South Africa and Africa by supporting transformation and the development of financial services markets.

A number of process-linked objectives need to be fulfilled to realise the Group's BEE strategic objectives for all its stakeholders. These include establishing and leveraging strategic alliances and partnerships to optimise Absa's impact on BEE, implementing the Group-wide FSC process, enhancing current information systems in the Group to support reporting and decision-making requirements, refining credit and scoring processes, increasing and empowering Absa's supplier base, and educating leadership forums nationally and regionally, thereby ensuring increased participation by Absa's business units.

## Achievement of BEE objectives

The core metric used for measuring the achievement of the Group's BEE objectives is the achievement of the targets set by the FSC.

### The Financial Sector Charter

With increasing pressure on the financial sector to address the needs of low-income earners, the financial services industry, including life assurance companies, proactively approached the Black Business Council with the aim of addressing the issue. In August 2002, at the Nedlac Financial Sector Summit, the process formally started. On 17 October 2003, the FSC was signed. The FSC was formally implemented on 1 January 2004 and is a voluntary agreement between the South African government and the financial services sector to promote black economic empowerment.

Absa is a proud signatory to the FSC. The FSC provides for significant increases in black ownership, control, management and skills development over a 10-year period, effective from January 2004 to December 2014. Interim targets have been set for 2008. These targets are as indicated in the table below and on the page to follow:

| FSC perspective | 2008 target % |
|---|---|
| **1. Human resource development** | |
| **Employment equity** | |
| ***Senior management level*** | |
| • Black people as a percentage of senior management | 20-25 |
| • Black women as a percentage of senior management | 4 |
| ***Middle management level*** | |
| • Black people as a percentage of middle management | 30 |
| • Black women as a percentage of middle management | 10 |
| ***Junior management level*** | |
| • Black people as a percentage of junior management | 40-50 |
| • Black women as a percentage of junior management | 15 |
| ***Skills development*** | |
| • Percentage of payroll spent per annum on skills development of black employees | 1,5 |
| • Learnerships as a percentage of total employees | 4,5 |
| **2. Procurement and enterprise development** | 50 |
| **3. Ownership and control** | |
| **Ownership** | |
| ***Direct ownership:*** *(a maximum of four bonus points can be obtained on a sliding scale: 0,5 when direct ownership is 13,75% to 17,49%, 1,0 for 17,5% to 21,24% and 2,5 for 21,25% to 24,99% and 4 for 25% and over)* | 10% by 2010 |
| ***Indirect ownership*** | 15% by 2010 |

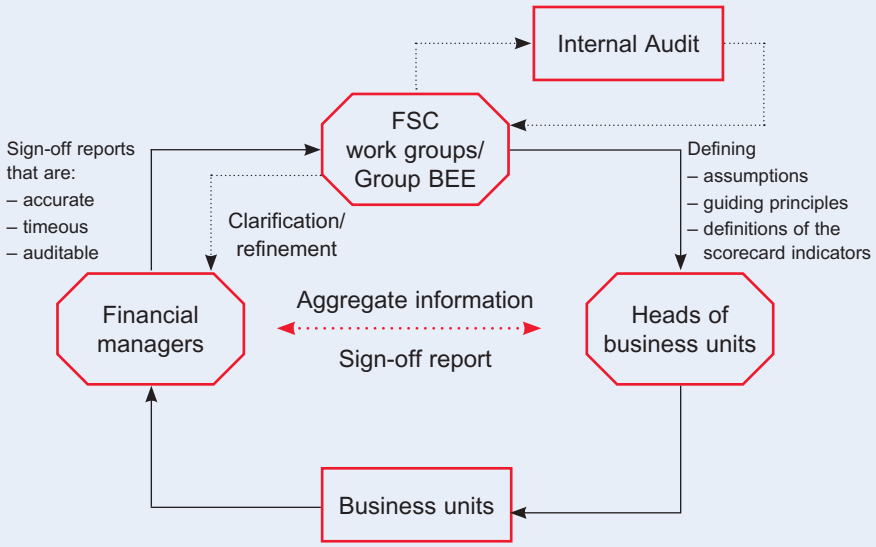
All Absa's business units are involved in the process, which entails the gathering of information by business units and the verification of the information by business unit heads and their respective financial managers.



| FSC perspective | 2008 target % |
|---|---|
| **Control** | |
| ***Board representation*** | |
| • Black people as a percentage of directors | 33 |
| • Black women as a percentage of directors | 11 |
| ***Executive management*** | |
| • Black people as a percentage of executive management | 25 |
| • Black women as a percentage of executive management | 4 |
| **4. Access to financial services** | |
| **Reach to 80% of the population in the LSM 1 – 5 bracket** | Target set at an industry level |
| • Full banking services | Within 15 km of residence |
| • ATM facilities | Within 10 km of residence |
| **Origination** | Target set at an industry level |
| **Consumer education** | |
| • Percentage of post-tax operating profit directed to consumer education | 0,2 |
| **5. Empowerment financing** | Target set at an industry level |
| **6. Corporate social investment** | |
| **Percentage of post-tax operating profit directed to consumer education** | 0,5 |

Absa's status relative to the FSC targets is collated by the Group's BEE department. The process entails gathering information for the six perspectives through to sign-off. All Absa's business units are involved in the process, which entails the gathering of information by business units and the verification of the information by business unit heads and their respective financial managers. This information is then supplied to the various FSC work groups and the Group's BEE department and validated by the Group's internal audit function.

The diagram below describes the process:




***Absa's status relative to FSC targets***

Formal reporting to the FSC charter council will be undertaken annually, based on the applicable calendar year. Absa will be required to report its status to the council for the first time for the year ended 31 December 2005.

As formal reporting on Absa's status in relation to the FSC targets for the 2004 calendar year has not been required by the charter council, Absa's 2005 annual report therefore aims to paint an overall picture of Absa's BEE status as opposed to providing specific metrics. However, specific metrics have been provided for certain areas of the scorecard where applicable.

Full disclosure regarding the measurement of Absa status in terms of the scorecard will be provided in its annual report for the nine months ended 31 December 2005 if the charter council has been able to audit the Group's submission.

As the FSC council requires information to be reported for the respective calendar years and not financial years, statistics provided in this section of the annual report will generally relate to the calendar year ended 31 December 2004 and, in some instances, the financial year ended 31 March 2005.

***Human resource development***

Two areas of the FSC relate to human resource practices in the Group, namely employment equity and skills development. Sound business practices are employed in the pursuit of these transformational targets.

With reference to ***employment equity (EE),*** the Group's strategy ensures that the Department of Labour and the FSC targets are simultaneously addressed. Absa's EE strategy is aimed at enhancing the Group's strategy while also ensuring compliance with legislation. The table that follows provides Absa's status in terms of its achievement against the FSC targets with reference to EE.

## Absa spent 24,8% (weighted expenditure) of its qualifying procurement spend with BEE companies during the 2004 calendar year, against a target of 20%.

| Management levels | FSC target (for 2008) % | Absa's status 31 March 2005 % | Absa's status 31 December 2004 % |
|---|---|---|---|
| **Senior management** | | | |
| • Black people as a percentage of senior management | 20-25 | 16,9 | 15,6 |
| • Black women as a percentage of senior management | 4 | 3,4 | 3,4 |
| **Middle management** | | | |
| • Black people as a percentage of middle management | 30 | 20,1 | 18,4 |
| • Black women as a percentage of middle management | 10 | 7,1 | 6,2 |
| **Junior management** | | | |
| • Black people as a percentage of junior management | 40-50 | 25,2 | 23,5 |
| • Black women as a percentage of junior management | 15 | 12,1 | 11,4 |

In general, satisfactory progress has been made in respect of the appointment of black people and women on a senior management level. All business units are actively addressing the gaps identified on junior and middle management levels.

With reference to ***skills development,*** Absa's people management division, and specifically the learning and development function, gives attention to the development and advancement of black employees by means of training programmes, learnerships, succession planning, career pathing, mentorships, targeted recruitment, promotion and retention, cultural diversity and gender programmes.

Absa is participating in and supporting the banking sector's external learnership programme (the Letsema learnership) by providing more than 200 external learners with workplace learning. Absa employees coached and mentored these learners over the past 12 months. A total of 119 of these learners have been offered employment after completing the learnership.

The above initiative strives to address the unemployment situation in the country, develop and enhance the skills levels of the South African workforce (especially the youth), promote sectoral transformation and address employment equity. The learnership is co-funded by Bankseta and the National Skills Fund. The funding includes the payment of institutional learning costs as well as learner salaries. Participation in the learnership initiative is co-ordinated by Absa's people management function.

In terms of Absa's skills spend, each business unit has a target to ensure that the Group is able to meet FSC targets. Absa is on a three-year cycle to reach the industry's 2008 targets aimed at learnership programmes.

### *Procurement and enterprise development*

A standardised approach to procurement has been adopted in Absa through the introduction and implementation of Group procurement policies. Absa has adopted a proactive stance towards BEE procurement principles for the Group. This set of policies deals with the aspect of sourcing and procuring goods or services from BEE suppliers.

Absa spent 24,8% (weighted expenditure) of its qualifying procurement spend with BEE companies during the 2004 calendar year, against a target of 20%, and has an FSC target of 27,5% for the year ended 31 December 2005. Absa's procurement policies support the guiding principles of the FSC and set out to achieve an appropriate geographical spread of upliftment and a fair distribution between existing corporate suppliers and upcoming vendors.

Absa has implemented a BEE supplier development programme, which aims to contribute positively towards the growth and creation of small to medium businesses. This is in line with the government's stated macro-economic objectives of empowerment, job creation and contributing to the emergence of previously marginalised entrepreneurs.

In addition, in ensuring that Absa continues to comply with the procurement requirements contained in the FSC, individual targets have been set for the various Absa business units and support functions for the 2005 calendar year. These targets will be actively monitored throughout the period.

### *Ownership*

On 6 April 2004, Absa announced its intention to enter into a broad-based BEE transaction with the Batho Bonke consortium and create an employee share ownership programme (ESOP) for Absa employees. The aim is to ensure the optimal positioning of Absa so that its shareholders, employees and customers reflect the demographics of South African society over time. A further aim is to increase acceptance of Absa among all South Africans and provide further commitment towards transformation at all levels of business.

On 25 June 2004, 81% of Absa's shareholders approved the Group's broad-based BEE transactions and on 1 July 2004, Batho Bonke officially became an Absa shareholder. Allocations were made to Batho Bonke Capital (Proprietary) Limited (73 152 300 shares) and the Absa Share Ownership Trust (6 085 200 shares).

Absa's broad-based BEE and employee transactions entail an 11% interest in Absa being allocated in the form of redeemable cumulative option-holding preference shares. These redeemable preference shares have the same rights as ordinary shares, including voting rights, save for the rights relating to dividends, redemption and option liquidation. The option exercise period is from 2 July 2007 to 1 July 2009.

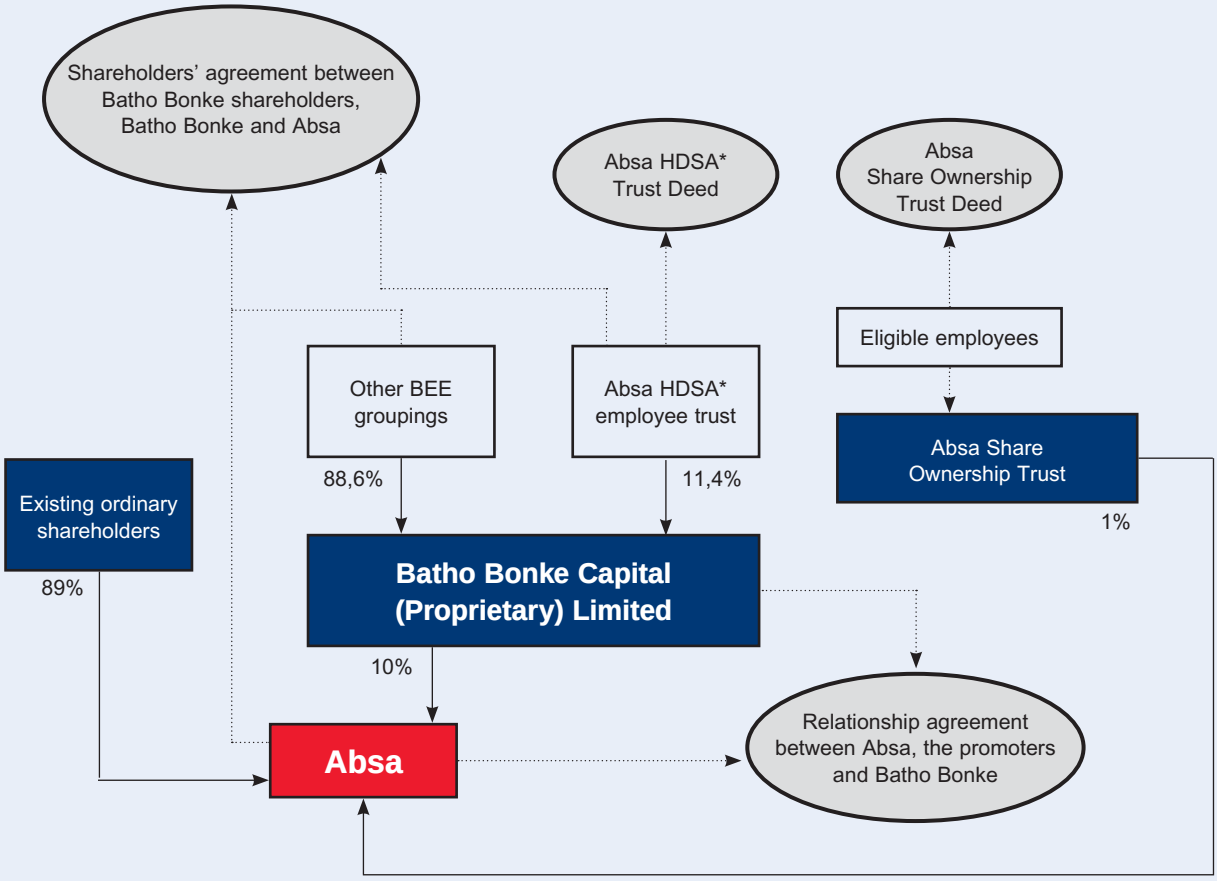
A variable option strike price is a core element of the transaction and is as follows:

- If the Absa share price ≤ R70,00, the strike price is R48,00; or
- If the Absa share price > R70,00, but ≤ R100,00, the strike price is R48,00 + 70 cents for each completed R1,00 increment in the share price over R70,00; or
- If the Absa share price > R100,00, the strike price is R69,00.

## Absa's broad-based BEE and employee transactions entail an 11% interest in Absa being allocated in the form of redeemable cumulative option-holding preference shares.



The structure of the Group's BEE transactions is depicted in the following diagram:




*Historically disadvantaged South African.*

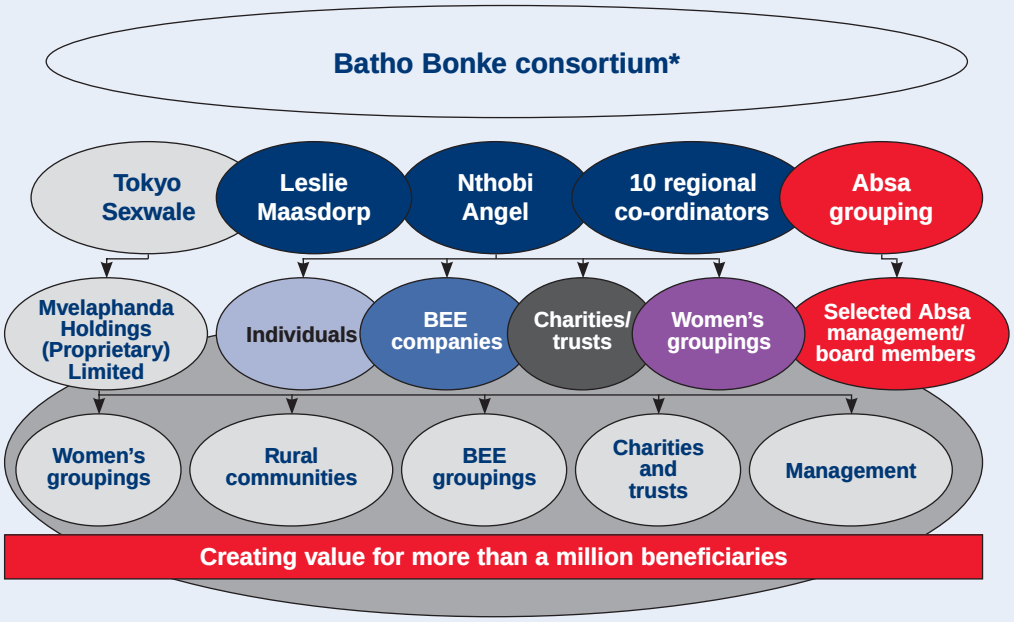
The Batho Bonke consortium's interest is held via Batho Bonke Capital (Proprietary) Limited, a special purpose, broad-based BEE investment vehicle. Batho Banke Capital (Proprietary) Limited's role is to facilitate a widespread BEE initiative, ensure that the shares issued remain in the hands of the identified (BEE) target groupings, to facilitate funding requirements for the individual BEE groupings, to provide a meaningful combined shareholding and to facilitate representation on the Absa Group board.

The selection of the promoters of Batho Bonke was undertaken by invitation, with the criteria used for the selection process including leadership qualities, BEE profile, the ability to participate in the Group, entrepreneurial flair and the ability to enhance or add value to the Group. Mr Tokyo Sexwale was selected to lead the empowerment transaction with the mandate to propose and appoint appropriately qualified co-leaders (Mr Leslie Maasdorp and Ms Nthobi Angel). The leader and co-leaders were tasked with selecting the broad-based empowerment groupings. The selection of the broad-based empowerment groupings took place within an agreed conceptual framework incorporating the following criteria:

- Ability to add meaningful value to Absa;
- Consisting of groups rather than individuals;
- Having strong leadership;
- Having appropriate national representation; and
- Representing a broad range of BEE shareholders.

Members of the Batho Bonke consortium include broad-based empowerment companies, community-based development trusts or foundations, individuals who have not previously benefited on a large scale from BEE initiatives, emerging entrepreneurs and groups promoting the empowerment of women and youth.

The shareholder allocation to the members of Batho Bonke is as follows:




The charities and trusts chosen are those that focus on the upliftment of women in rural areas via job creation, the implementation of HIV prevention programmes, taking care of HIV/Aids orphans, the sick and the disabled, and providing educational services to the youth.

The BEE companies tend to be those with a specific focus on small and medium enterprises, that have adequate representation of women in business and that house up-and-coming entrepreneurs representing various sectors of the economy.

**Structure represents the Batho Bonke consortium transaction and not the Absa Group employee share ownership programme as this is a separate transaction.*

During 2005 four new black directors were appointed to the Absa Group board. This resulted in the Group having seven black Absa Group board members, with two black women directors as at 31 March 2005.

The individuals chosen are people that have a high standing in their respective communities and tend to be professional people, business people and community leaders.

The shareholding allocation to the Batho Bonke consortium is as follows:

| | Shareholding % |
|---|---|
| **Tokyo Sexwale grouping** | 20,0 |
| • Mvelaphanda Holdings (Proprietary) Limited | |
| **Leslie Maasdorp grouping** | 10,0 |
| • Leslie Maasdorp | 3,5 |
| • Community trust | 5,0 |
| • Individuals | 1,5 |
| **Nthobi Angel grouping** | 10,0 |
| • Nthobi Angel | 3,5 |
| • Community trust | 5,0 |
| • Individuals | 1,5 |
| **Absa grouping** *(selected historically disadvantaged South African (HDSA) managers, provincial, divisional and main board members, and selected HDSA individuals)* | 15,7 |
| **Regional groupings** | 27,0 |
| • Regional co-ordinators | 9 x 0,8 |
| • Community trusts | 9 x 0,6 |
| • BEE companies | 9 x 0,8 |
| • Individuals | 9 x 0,8 |
| **Other groupings** *(women's groupings, broad-based trusts, BEE groups and HDSA individuals not included above)* | 17,3 |
| **Total** | 100,0 |

The Absa grouping is such that 15,7% of Batho Bonke's shares were made available to Absa for allocation to identified historically disadvantaged South African (HDSA) managers as well as selected HDSA provincial and divisional directors, and Absa Group board members. This interest is held in a trust and participants are not shareholders of Batho Bonke, but beneficiaries of the trust. The allocation is indicated in this table:

| | Shareholding (% of Batho Bonke) |
|---|---|
| Selected HDSA Absa managers | 11,4 |
| • Junior management | 2,3 |
| • Middle management | 3,4 |
| • Senior management | 3,1 |
| • Executive management | 2,6 |
| Selected HDSA provincial, divisional and main board members | 4,0 |
| Other selected HDSA individuals | 0,3 |
| **Total** | 15,7 |

The Group's broad-based BEE and employee transactions create value for all Absa stakeholders by providing a platform for meaningful wealth creation for as many previously disadvantaged individuals as possible, enhancing employee loyalty and commitment, expanding the Group's customer base and improving customer loyalty.

### *Control*

During 2005 four new black directors were appointed to the Absa Group board, being Ms Angel (16 August 2005), Dr Baloyi (31 December 2004), Mr Maasdorp (16 August 2004) and Mr Motsepe (9 July 2004). This resulted in the Group having seven black Absa Group board members, with two black women directors as at 31 March 2005.

Absa has also increased black representation on its executive management, where executive management is defined as members of the Group Operating Council (GOC). The table below summarises Absa's status in terms of control.

| | | Absa's status | |
|---|---|---|---|
| **Board and executive management** | **FSC target (For 2008) %** | **31 March 2005 %** | **31 December 2004 %** |
| **Board representation** | | | |
| • Black people as a percentage of the board | 33 | 33,3 | 30,0 |
| • Black women as a percentage of the board | 11 | 9,5 | 5,0 |
| **Executive management** | | | |
| • Black people as a percentage of executive management | 25 | 25,5 | 23,9 |
| • Black women as a percentage of executive management | 4 | 8,5 | 8,7 |

The banking sector has committed to providing full banking services within 15 kilometres to 80% of the population in the LSM 1 – 5 bracket, and ATM facilities within 10 kilometres, by 2008 in order to improve access to financial services.



### *Access to financial services*

This is a key focus area in the Group, with initiatives being put in place to increase the Group's reach. During the year under review, the Group grew its outlet footprint, with outlets in previously disadvantaged areas growing from 54 to 63. A number of outlets were also closed. The Group also increased the number of outlets undertaken in partnership with the community from three to five. In addition, the Group's ATM network grew significantly, with 576 new ATMs being installed. As at 31 March 2005, the Group had 195 ATMs in previously disadvantaged areas.

Absa recently opened the first fully functional portable branch situated at Baragwanath Hospital in Soweto. Limited-function portable branches will also be opened in Marikana, close to Rustenburg, and Itsoseng (both in the North West) and in Tembisa in Gauteng. These branches provide Absa's customers with convenient access to sales and service. The look and feel of the branches is consistent with that of any other branch, providing a consistent experience for customers. The branches are also situated in high-volume areas, which increases the visibility of the Absa brand.

In addition, the banking sector has committed to providing full banking services within 15 kilometres to 80% of the population in the LSM 1 – 5 bracket, and ATM facilities within 10 kilometres, by 2008 in order to improve access to financial services.

The new low-cost account (Mzansi) was launched nationally on 25 October 2004. The Mzansi initiative forms a major part of the FSC commitment to increase access to financial services for as many South Africans as possible.

Absa's Mzansi account exceeded expectations. By the end of the 2005 financial year, Absa had achieved the leading market share of the big four banks for this product. Solid progress has also been made towards meeting the physical and electronic access targets.

Consumer education receives close attention in Absa. Developments during the year included the launch of the consumer education drive. This drive includes programmes aimed at empowering consumers with knowledge to enable them to make more informed decisions about their finances and lifestyles. The programmes are categorised mainly into the following areas:

- Financial literacy, such as managing debt and investment decisions;
- Education around products and services, covering attributes like suitability and access to products;
- Education around the use and function of channels in accessing banking products; and
- Vocational training such as the targeting of SME and micro-enterprise owners.

### *Empowerment financing*

Empowerment financing consists of targeted investment and BEE transactions. The targeted investment target to be reached by 2008 has been set at an industry level. Absa aims to achieve its targets through a focused approach on transformational infrastructure, low-income housing, agricultural development and investment in black SMEs. Absa's involvement in BEE transactions is spread across various industry sectors served by the Group's various business units.

A number of transactions bear highlighting:

- **The Absa Incubator fund** – This is a private equity fund earmarked for the advancement of BEE and providing funding to black entrepreneurs who do not have access to capital or have sufficient collateral to meet the requirements of normal bank lending. Typical types of investments include the unbundling of groups involving BEE, black businesses with growth potential, management buy-outs and buy-ins or black shareholders acquiring equity from retiring or outgoing shareholders. As at 31 March 2005, the Incubator fund paid out over R103 million to 24 BEE investees in the SME segment of the economy.
- **The Rustenburg Water Services Trust** – Absa has underwritten a project finance facility of R241,6 million for the extension and upgrading of the Rustenburg Sewage Treatment Works, the Boitekong Sewage Treatment Works and the Bospoort Water Purification Works with the purpose of supplying 40 megalitres per day of potable water to the Rustenburg Local Municipality under a 25-year agreement.
- **Roodeplaat Temba Water Services Trust** – Absa has underwritten a project finance facility of R530 million for the Roodeplaat and Temba Water Supply Schemes. The Roodeplaat Water Supply Scheme will draw raw water from the Roodeplaat Dam in terms of a licence issued by the Department of Water Affairs (Dwaf) to Tshwane, take possession of, by leasing, the existing reservoirs, bulk distribution pipelines and pump stations and provide 60 megalitres per day into Tshwane's water distribution system.

  The extensions to the Temba Water Supply Scheme consist of drawing raw water from the Leeuwkraal Dam on the Apies River in terms of licences issued by Dwaf to Tshwane; taking possession of, by leasing, the existing raw water pumping station, raw water pump main, Temba reservoirs, high lift pump station and pumping main up to and including the Sekampaneng Reservoir, creating a 30 megalitre per day water treatment plant at Temba, and supplying 60 megalitres per day to the Tshwane Metropolitan Municipality.

### *Corporate social investment*

The FSC requires that financial services organisations direct 0,5% of post-tax operating profit to corporate social investment (CSI) spend. This is a shift in the way in which Absa funded CSI initiatives in the past. In the past, Absa funded CSI initiatives through a disbursement of 2% of the Group's dividends. With the advent of the FSC targets, the Group has changed its funding disbursement to align with the FSC scorecard.

For the calendar year 2004, Absa achieved a spend of R19,3 million (this amount relates directly to CSI initiatives and excludes other community-related initiatives such as sport sponsorships). Information pertaining to Absa's CSI initiatives is available in the community section on page 442 of this annual report.

MY BANK IS MY
FREEDOM

# Operational review

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The Group's business units primarily serve the personal, commercial and wholesale markets in South Africa. In addition, a number of international operations offer a range of niche products and services to selected customer bases.

# Introduction

## The Group redefined its personal banking segment to enhance synergies. With the inclusion of Small Business, the focus on this market segment, which was formerly on the individual, broadened. Retail banking now serves all entities with a strong reliance on the Group's delivery footprint.



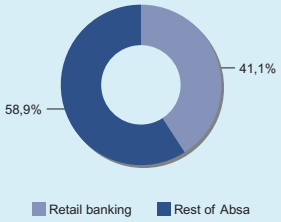
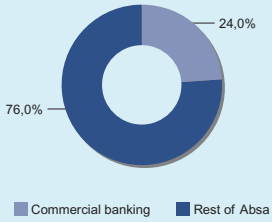
This section provides a detailed perspective on Absa's business units.

The Group's business units primarily serve the personal, commercial and wholesale markets in South Africa. In addition, a number of international operations offer a range of niche products and services to selected customer bases. Absa's customer-centric business model places the customer at the core. By adopting a matrix approach, specific business units are able to focus on the needs of identified target markets. In addition, products are provided by specialised product-focused business units and delivered through an integrated delivery platform.

### Key developments during the year under review

- The Group redefined its personal banking segment to enhance synergies. With the inclusion of Small Business, the focus on this market segment, which was formerly on the individual, broadened. Retail banking now serves all entities with a strong reliance on the Group's delivery footprint.
- MLS Bank was integrated into Personal Financial Services.
- A new business unit, Personal Bank Sales, was created to focus on the sale of financial services products to the personal customer base. This unit became operational on 1 April 2005.
- A new department, Corporate Development, was established shortly after the end of the 2005 financial year to focus on Group initiatives.
- Absa's 50% stake in Stonehage Financial Services Holdings was sold.
- Group Communications and Public Affairs was split into two business units: Group Corporate Affairs, which primarily maintains media relationships, and a business unit responsible for black economic empowerment, government relations and corporate social investment. The internal communication function was transferred to Group Marketing and Communication.

# Segmental reporting

| | Retail banking | Commercial banking |
|---|---|---|
| **Scope** | Banking services to personal customers and small businesses throughout South Africa. | Banking services and solutioning to medium to large businesses and vehicle and asset financing to all market segments. |
| **Contribution to headline earnings**<br>*(Calculated after the allocation of capital and funding centre, and corporate centre costs.)* | **2005**<br>  <br> | **2005**<br>  <br> |

| **Financial performance** | **2005** | 2004 | **2005** | 2004 |
|---|---|---|---|---|
| • **Headline earnings (Rm)** | **2 406** | 1 771 | **1 403** | 992 |
| • **RoE (%)** | **40,0** | 31,9 | **27,8** | 21,9 |
| • **Impairment charge (%)** | **0,30** | 0,60 | **0,92** | 1,23 |
| • **Cost-to-income ratio (%)** | **62,8** | 65,1 | **49,4** | 52,8 |

| | Retail banking | Commercial banking |
|---|---|---|
| **Business units** | **Segment-focused business units**<br>• Absa Private Bank<br>• Personal Financial Services (including MLS)<br>• Retail Banking Services<br>• Flexi Banking Services (includes UB Micro Loans)<br>• Small Business<br>• Meeg Bank Limited (49,8%)<br>**Product-focused business units**<br>• Absa Card<br>• Absa Home Loans<br>**Other**<br>• Repossessed Assets<br>**Shared services**<br>• Personal Bank Sales**** | **Segment-focused business unit**<br>• Business Banking Services<br>**Product-focused business unit**<br>• Absa Vehicle and Asset Finance (AVAF) |

**Absa increased its African footprint by acquiring a 50% stake in Banco Comercial Angolano in April 2005.*

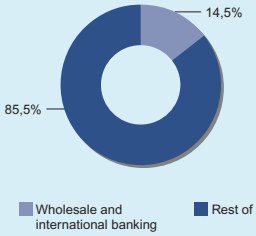
***On 29 May 2005, Absa's 25,9% shareholding in the Commercial Bank of Zimbabwe Limited was transferred to CBZ Holdings Limited. After conversion, Absa's interest equates to 24,9%.*

****Absa sold its 50% holding in Stonehage Financial Services Holdings Limited during the year under review. A review of Stonehage's operations for the year under review has not been included in this annual report.*

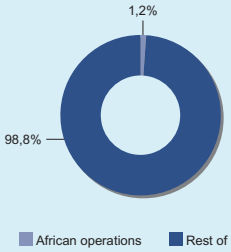
*****Personal Bank Sales became operational on 1 April 2005.*

| Wholesale and international banking | African operations | Financial services | Other Group activities |
|---|---|---|---|
| Banking services and solutioning to the South African corporate market as well as niched solutioning in selected international markets. Institutional asset management is also housed in this segment. | Retail and commercial banking and financial products and services in four African countries*. | The provision of assurance, insurance, advisory and wealth management services to all market segments in South Africa. | The Group's capital and funding centre, property interests, shared services, specialist functions and strategic investments. |

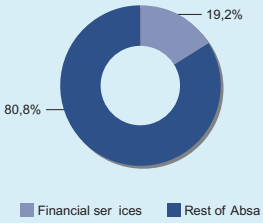
**2005**




**2005**




**2005**




| Wholesale and international banking | | African operations | | Financial services | | Other Group activities | |
|---|---|---|---|---|---|---|---|
| **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| **843** | 684 | **72** | 75 | **1 124** | 890 | **(364)** | 35 |
| **14,8** | 12,9 | **19,9** | 20,8 | **38,4** | 37,2 | **n/a** | n/a |
| **0,49** | 1,14 | **1,82** | (0,74) | **n/a** | n/a | **n/a** | n/a |
| **56,8** | 49,8 | **74,9** | 80,3 | **33,1** | 35,4 | **n/a** | n/a |

**Domestic operations**
- Absa Corporate and Merchant Bank
- Abvest Holdings (Proprietary) Limited (90%)

**International operations**
- Absa Bank London
- Absa Bank (Asia) Limited (Hong Kong)
- Bankhaus Wölbern & Co (Hamburg)
- Absa Bank Singapore

- Banco Austral, Sarl (Mozambique) (80%)
- National Bank of Commerce Limited (NBC) (Tanzania) (55%)
- Commercial Bank of Zimbabwe Limited (Zimbabwe) (25,9%)**
- Capricorn Investment Holdings Limited (Namibia) (35,1%)

**Life assurance**
- Absa Life Limited

**Short-term insurance**
- Absa Insurance Company Limited
- Absa Syndicate Investments Holdings Limited
- Absa Manx Insurance Company Limited

**Advisory services**
- Absa Brokers (Proprietary) Limited
- Absa Consultants and Actuaries (Proprietary) Limited
- Absa Health Care Consultants (Proprietary) Limited

**Wealth management**
- Absa Fund Managers Limited
- Absa Trust Limited
- Absa Mortgage Fund Managers (Proprietary) Limited
- Absa Stockbrokers (Proprietary) Limited and Absa Portfolio Managers (Proprietary) Limited
- Absa Investment Management Services (Proprietary) Limited
- Stonehage Financial Services Holdings Limited (50%)***

**Social grants**
- AllPay Consolidated Investment Holdings (Proprietary) Limited

**Property related**
- Absa Development Company Holdings (Proprietary) Limited
- Real Estate Asset Management

**Other**
- Shared services
- Specialist functions
- Capital and funding centre
- Strategic investments

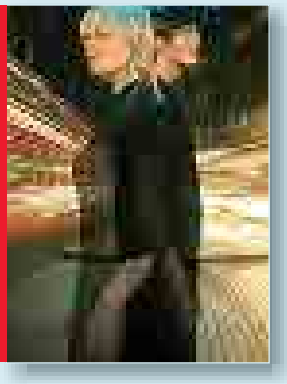
# Retail banking

Absa is a leading player in the South African retail banking market. A number of dedicated business units provide the full array of customised banking solutions to personal customers and small enterprises throughout South Africa.



## Highlights for the year under review

- **Strong advances growth, particularly from mortgages and credit cards.**
- **A marked improvement in credit quality owing to the low interest rate environment and the maintenance of prudent credit approval criteria.**
- **Strong growth in fees and commissions resulting from higher transaction volumes.**
- **Growth in customer numbers.**
- **More focused cross-selling to the existing customer base.**
- **Innovative product solutioning, coupled with the introduction of value-added benefits.**
- **Operating expenses growth was lower than top-line growth, despite substantial investments in new infrastructure and the customer service support base.**



## Salient features

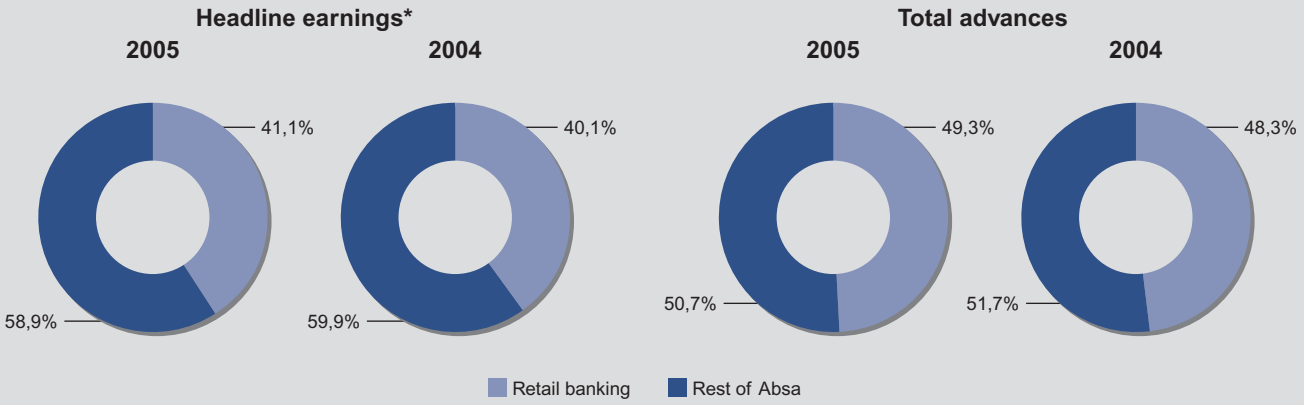
| | 2005 | 2004 | Change % | 2003* |
|---|---|---|---|---|
| **Income statement (Rm)** | | | | |
| Net interest income | **5 771** | 5 429 | 6,3 | |
| Impairment of advances | **(355)** | (600) | (40,8) | |
| Non-interest income | **5 470** | 4 658 | 17,4 | |
| Operating expenditure | **(7 060)** | (6 571) | 7,4 | |
| Taxation and other | **(1 420)** | (1 145) | 24,0 | |
| Headline earnings | **2 406** | 1 771 | 35,9 | 1 159 |
| **Balance sheet (Rm)** | | | | |
| Total assets** | **182 833** | 154 024 | 18,7 | |
| Total advances | **132 232** | 107 306 | 23,2 | |
| Total deposits and current accounts | **62 745** | 55 763 | 12,5 | |
| **Financial performance (%)** | | | | |
| Return on average equity | **40,0** | 31,9 | | |
| Return on average assets excluding acceptances | **1,43** | 1,16 | | |
| **Operating performance (%)** | | | | |
| Net interest margin on average assets | **3,43** | 3,57 | | |
| Charge for impairment of advances to average advances | **0,30** | 0,60 | | |
| Non-interest income as a percentage of operating income | **48,7** | 46,2 | | |
| Cost-to-income ratio | **62,8** | 65,1 | | |
| Cost-to-assets ratio | **4,2** | 4,3 | | |

**Owing to the change in reporting with the movement from personal banking to retail banking and the subsequent inclusion of Small Business with retail banking, the comparative statistics for 2003 are not available, as overhead costs were managed at a Business Banking Services level and not at a Small, Medium and Large Business level in 2003.*

***Total assets include intergroup balances.*



## Contribution analysis



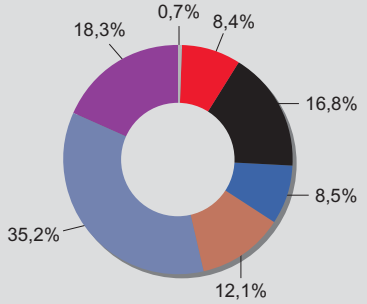

**Calculated after the allocation of capital, and funding centre and corporate centre costs.*

## Business unit headline earnings

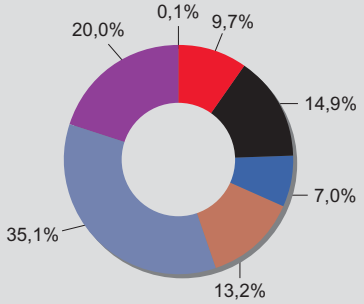
| | 2005 Rm | 2004 Rm | Change % | 2003 Rm |
|---|---|---|---|---|
| **Segment-focused business units** | | | | |
| • **High net worth market** ➔ Absa Private Bank | **18** | 1 | >100,0 | — |
| • **Affluent market** ➔ Personal Financial Services* | **203** | 171 | 18,7 | 183 |
| • **Middle market** ➔ Retail Banking Services | **404** | 263 | 53,6 | 231 |
| • **Mass market** ➔ Flexi Banking Services | **203** | 125 | 62,4 | 96 |
| • **Small business market** ➔ Small Business** | **290** | 234 | 23,9 | 164 |
| **Product-focused business units** | | | | |
| • **Credit cards** ➔ Absa Card | **440** | 355 | 23,9 | 279 |
| • **Home loans** ➔ Absa Home Loans | **897** | 764 | 17,4 | 447 |
| **Other** | | | | |
| • **Repossessed properties** ➔ Repossessed Assets | **(49)** | (142) | 65,5 | (241) |
| **Total** | **2 406** | 1 771 | 35,9 | 1 159 |

**MLS surrendered its banking licence and was incorporated into Personal Financial Services.*
***Meeg Bank Limited is reported with Small Business.*

**Contribution to headline earnings 2005**

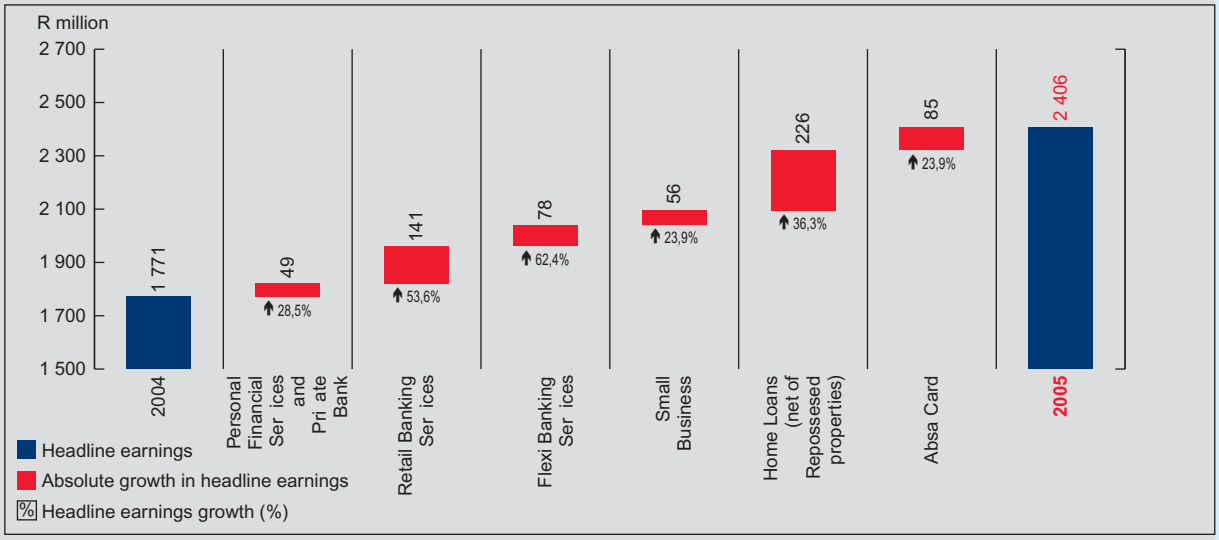



**Contribution to headline earnings 2004**

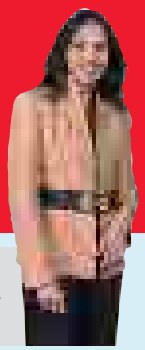



Absa Pri ate Bank · Personal Financial Ser ices · Retail Banking Ser ices · Flexi Banking Ser ices · Small Business · Absa Home Loans (net of Repossessed properties) · Absa Card

**Headline earnings growth (2005 versus 2004–**



# Absa Private Bank



**Zarina Bassa was appointed as managing executive of Absa Private Bank and Personal Financial Services in February 2005.** >

**Senior management** **W Robinson,** *executive: Personal Financial Services and Absa Private Bank Operations;* **E Smit,** *general manager: Family Office and Philanthropy Centre;* **R Claasen,** *general manager: National Sales;* **D Beneke,** *general manager: Family Office: Johannesburg.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Headline earnings (Rm) | **18** | 1 | >100,0 | — |
| Contribution to Group headline earnings (%) | **0,3** | — | | — |
| Total assets* (Rm) | **3 254** | 2 453 | 32,7 | 1 982 |
| Total advances (Rm) | **2 998** | 2 265 | 32,4 | 1 704 |
| Total deposits and current accounts (Rm) | **2 050** | 1 705 | 20,2 | 1 316 |
| Return on average equity (%) | **11,5** | 0,6 | | — |
| Cost-to-income ratio (%) | **68,1** | 75,9 | | 74,6 |
| | | | | |
| Permanent employee complement | **98** | 95 | 3,2 | 80 |
| Number of customers | | | | |
| ● Primary | **1 275** | 1 182 | 7,9 | 995 |
| ● Secondary | **3 120** | 2 705 | 15,3 | 2 305 |
| Number of private bank suites | **5** | 5 | — | 5 |
| Number of family offices | **2** | 2 | — | 2 |
| Number of international offices | **4** | 4 | — | 4 |

**Total assets include intergroup balances.*

***Absa Private Bank** delivers holistic global wealth management solutions to high net worth individuals with a net asset value of R10 million and above and to ultra-high net worth families with a net asset value of R100 million and above. Private bankers serve customers out of private bank suites in Johannesburg, Cape Town, Durban, Pretoria and Bloemfontein and from family offices in Cape Town and Johannesburg Best-of-breed on- and offshore wealth management solutions in investment, risk and asset management are sourced for customers.*

## The 2005 financial year

### Key developments

- The implementation of Proplanner, a management tool/platform for the private banker.
- Enhancement of the investment advisory model.
- New products and services provided to the market during the year: Accounting and secretarial services and an innovative vehicle financing product.

## Absa Private Bank's product and service offering

- **Transactional** ➔ **Transactional banking products**
- **Wealth creation** ➔ **Segregated portfolios, money market fund accounts; wrap funds, currency accounts, asset swaps, offshore investments, stockbroking**
- **Wealth preservation** ➔ **Investment strategy proposals, annuities and endowments, estate planning, retirement planning, wills and trusts**

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| ● Enhanced corporate and customer compliance and risk management. | ● Significant enhancements were made to the compliance and risk management framework and processes. |
| ● A transition from being traditional bankers towards becoming wealth managers.<br>● Creating customer lock-in through the implementation of mandated financial plans.<br>● The implementation of planning processes supported by suitable technology and enhanced talent management. | ● Proplanner was implemented during February 2005 as a standard management tool. |

### Profit drivers for the year under review

Absa Private Bank's profit drivers included growth in fee income, customer numbers, customer profitability, advances and deposits as well as assets under management.

### Commentary

The low interest rate environment resulted in good advances growth and reduced credit impairments. Strong growth in the property market fuelled growth in property financing.

The development and retention of world-class private bankers and private banking skills received priority attention during the year. The philanthropy centre in Cape Town made a slow start, but the concept of managing a customer's philanthropy initiatives is expected to be successful in future.

A more aggressive approach to assets under management was adopted. Despite an increase of R900 million year-on-year, assets under management remained at an undesirable level.



## Future strategies

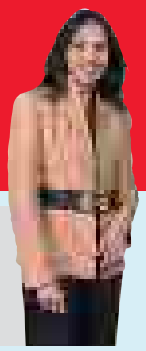
Absa Private Bank's purpose is to proactively satisfy the needs of high net worth individuals and families. It creates value by:

- proactively taking responsibility for the wealth management of high net worth individuals and families;
- instilling the competencies and capabilities required to satisfy the unique needs of this market segment; and
- entrenching lasting relationships with customers, resulting in referrals of other business to the rest of the Group.

In the longer term, Absa Private Bank aims to grow its franchise by boosting assets under management, attracting black high net worth customers and developing and maintaining world-class employees.

The challenges for the year ahead include the transition from a margin-based income model to a fee-based model, employee retention, the ability to respond to demographic changes and enhanced compliance.

# Personal Financial Services



**Zarina Bassa was appointed as managing executive of Absa Private Bank and Personal Financial Services in February 2005. >**

**Senior management** **W Robinson,** *executive: Personal Financial Services and Absa Private Bank Operations;* **J Tredoux,** *regional general manager: Jozi Region;* **T van Heerden,** *regional general manager: Coastal Region;* **J Minnaar,** *regional general manager: Northern Region;* **P Mlambo,** *regional general manager: KwaZulu-Natal;* **J Loock,** *head: Risk Management and Compliance Services;* **P de Jager,** *general manager: Service Management Support;* **H Sheik Ebrahim,** *general manager: Wealth Management and Advisory Services.*

## Salient features

| | **2005** | 2004 | Change % | 2003* |
|---|---|---|---|---|
| Headline earnings (Rm) | **203** | 171 | 18,7 | 183 |
| Contribution to Group headline earnings (%) | **3,7** | 3,8 | | 5,3 |
| Total assets** (Rm) | **17 273** | 16 301 | 6,0 | 16 865 |
| Total advances (Rm) | **15 068** | 11 454 | 31,6 | 9 469 |
| Total deposits and current accounts (Rm) | **12 231** | 11 527 | 6,1 | 12 080 |
| Return on average equity (%) | **24,5** | 22,4 | | 30,3 |
| Cost-to-income ratio (%) | **64,8** | 62,3 | | 62,2 |
| | | | | |
| Employee complement (inclusive of financial planners) | **554** | 682 | (18,8) | 621 |
| Number of customers | **180 342** | ***176 891 | 2,0 | ***170 539 |
| Number of platinum suites | **46** | 50 | (8,0) | 51 |

**PFS inclusive of MLS.*
***Total assets include intergroup balances.*
****MLS customers not included.*

***Personal Financial Services (PFS)*** *provides the full range of financial services to the affluent market, including banking and financial planning-related solutions. These aim to meet the financial needs of the affluent market through genuine relationships, while achieving optimal profitability and market share. PFS integrates traditional banking activities with comprehensive financial planning and advice, employing a team of relationship managers and financial planners. With the introduction of Platinum Practice for medical practices, PFS has increased its business scope for practice accounts.*

## PFS's product and service offering

**Absa's total product range, as well as the following specific PFS products:**

- **Platinum One**
- **Platinum Home**
- **Platinum Drive**
- **Standard and specialised financial plans**
- **On and offshore investments**
- **Platinum Cheque**
- **Platinum Card**
- **Platinum Insure**

## The 2005 financial year

### Key developments

- The integration of MLS Bank into PFS.
- New products and services provided to the market during the year: Platinum Plus, a high-earning savings/investment account, Platinum Preservation, a savings account for the senior market, and offshore transactional and investment products offered through the Royal Bank of Scotland.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| Cross-selling and increasing the share of a customer's wallet. | PFS's cross-selling ratio improved from 2,94 products per customer to 2,95 in the year to 31 March 2005. |
| Growing the customer base, specifically in the black market. | Notwithstanding migrating 17 000 customers to Retail Banking Services (RBS) in November 2004, PFS grew its customer base by 2% in the financial year. |
| Creating alternative sources of revenue by shifting the emphasis from selling to the provision of advice. | Growth above expectations in financial planning boosted non-interest income. |

### Profit drivers for the year under review

PFS's profit drivers included strong growth in advances and a declining credit impairment ratio.

### Commentary

Low interest rates had a favourable impact on credit impairments. In addition, the Platinum One and Platinum Home products benefited substantially from the strong growth in the property market.

MLS Bank was integrated into PFS during the first quarter of 2005. By further segmenting PFS's customer base into sub-segments and linking appropriately skilled relationship managers and financial planners to these subsegments, PFS enhanced its offering to customers. Proplanner was implemented as the standard management tool in PFS during February 2005.

New customer growth, especially of black customers, was below expectations. The migration of some 17 000 customers who did not qualify for the PFS offering to RBS was partly responsible for this.

## Future strategies

PFS strives to offer genuine customer relationships to the affluent market by improving service levels, establishing additional support to sales staff and ensuring a specific focus on growing the black customer base.

In the longer term, PFS aims to position itself optimally in the affluent market, attracting and retaining talent and becoming a leading player in the black affluent market. Growing non-interest income and attending to compliance-related issues will receive specific attention.

# Retail Banking Services

**Rodger Dunn was appointed as managing executive of Retail Banking Services in February 2005.** >

**Senior management** **J Maodzwa,** *general manager: Segment Management;* **N Kunene,** *general manager: Business Development;* **O Nene,** *general manager: Regional Segment and Sales Support;* **K Lawrence,** *general manager: Operations and Business Change;* **V Pratt,** *general manager: Strategy and Business Planning;* **R Tonkin,** *general manager: Innovations and Partnerships.*

## Salient features*

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Headline earnings (Rm) | **404** | 263 | 53,6 | 231 |
| Contribution to Group headline earnings (%) | **7,4** | 5,9 | | 6,7 |
| Total assets** (Rm) | **31 407** | 27 813 | 12,9 | 26 157 |
| Total advances (Rm) | **5 058** | 4 395 | 15,1 | 4 157 |
| Total deposits and current accounts (Rm) | **30 352** | 26 817 | 13,2 | 24 935 |
| Return on average equity (%) | **79,1** | 62,1 | | 46,6 |
| Cost-to-income ratio (%) | **78,8** | 80,2 | | 83,4 |
| | | | | |
| Permanent employee complement | **2 125** | 1 692 | 25,6 | 1 609 |
| Number of customers (million) | **3,2** | 2,9 | 10,3 | 2,9 |

**Please refer to Delivery Channel Services on page 234 of this annual report for statistics on the Group's delivery footprint.*
***Total assets include intergroup balances.*

***Retail Banking Services (RBS)*** *provides financial solutions to a large portion of the South African middle market, consisting of individuals earning between R60 000 and R500 000 per annum. It also serves the youth, student and senior markets. Products and services are delivered through an integrated multi-delivery approach including physical outlets, a call centre, mobile teams and digital channels.*

## RBS's product and service offering

- **Transactional and credit** ➔ **Silver and gold cheque accounts; 24/7 (transactional service with electronic links to accounts)**
- **Savings** ➔ **ActiveSave, MegaU, MoneyBuilder, TargetSave**
- **Credit** ➔ **Personal loans**
- **Investments** ➔ **Fixed deposits, term deposits, notice deposits and call deposits**

## The middle market

The middle market has been categorised into the following seven subsegments:

- **The wired –** Individuals 18 years or younger, without a silver student cheque account or student loan.
- **The seekers –** Individuals studying towards a tertiary qualification who hold a silver cheque account.
- **The providers –** Individuals earning between R5 000 and R7 000 per month and who are older than 18 years, but under 55 years.
- **The solid citizens –** Individuals earning between R7 000 and R19 999 per month and who are older than 18 years, but under 55 years.
- **The go-getters –** Individuals over 18 years, but younger than 28 years, who hold a tertiary qualification and/or have an income of between R12 000 and R19 999 per month.
- **The life-stylers –** Individuals earning more than R20 000 per month.
- **The deservers –** Individuals older than 55 years.

## The 2005 financial year

### Key developments

- RBS moved from a product-based approach to a segment-focused approach by sub-segmenting the middle market.
- Development of an integrated sales platform with streamlined application processes and product bundling.
- Introduction of remote opening of accounts.
- New products and services provided to the market during the year: 24/7, an electronic alternative to cheque accounts. MegaU, a new value proposition linked to an enhanced product for the youth market.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| The retention of existing customers in the middle market by continuously improving sales processes and the customer experience. | RBS has successfully acquired and retained customers during the year under review. The total middle market customer base grew by 10,3%. |
| A specific focus on the black personal market by developing and implementing segment-specific value propositions aimed at building relationships. | Black personal market customers increased significantly over the period. |

### Profit drivers for the year under review

Profit drivers for the 2005 financial year included net interest income earned from lending and investment activities, banking transaction fees and commissions, such as electronic banking transaction fees, and aggressive customer acquisition and retention initiatives.

### Commentary

Prolonged low interest rates had both positive and negative impacts for RBS. The 50 basis point reduction in lending rates announced in August 2004 resulted in continued net interest margin pressure. This was mitigated by strong growth in advances. Transaction volumes continued to grow strongly despite lower-than-expected cheque-related volumes resulting from customers moving away from cheques to electronic means of transacting.

Initiatives undertaken included a review of the strategy and operating model for the student market, the implementation of regional mobile sales teams, the development of innovative subsegment value propositions, the continuous improvement of front-line sales processes, focused sales campaigns and the introduction of remote account openings.

## Future strategies

Specific emphasis will be placed on positioning RBS as a provider of lifestyle-based offerings for the middle market by serving the identified sub-segments with customised value propositions.

Other focus areas include the ongoing improvement of the risk-based pricing of products, the implementation of innovative banking solutions, adhering to legislative requirements with a specific focus on the Financial Intelligence Centre (FIC) Act and the Financial Advisory and Intermediary Services (FAIS) Act, both of which are expected to continue to place pressure on operational costs.

Black economic empowerment is expected to continue influencing the change in income distribution among South Africans. Targeting the black personal market will remain a core focus area.

The challenges for RBS include the emphasis on enhanced compliance and the retention and acquisition of market share.

# Flexi Banking Services

**Jennifer Tyobeka was appointed as managing executive of Flexi Banking Services in April 2004. >**

**Senior management** **M Alman,** *general manager: Business Change Enablement and Business Planning;* **H Brits,** *general manager: Operations, Compliance and Integrated Risk Management;* **D Liebenberg,** *general manager: Alliances, Delivery and Distribution;* **B Manana,** *general manager: Africa and Emerging Markets;* **S van Vliet,** *general manager: South Africa Customer Segments.*

## Salient features*

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Headline earnings (Rm) | **203** | 125 | 62,4 | 96 |
| Contribution to Group headline earnings (%) | **3,7** | 2,8 | | 2,8 |
| Total assets** (Rm) | **4 865** | 4 777 | 1,8 | 5 796 |
| Total advances (Rm) | **497** | 1 020 | (51,3) | 1 805 |
| Total deposits and current accounts (Rm) | **3 991** | 3 526 | 13,2 | 3 175 |
| Return on average equity (%) | **202,9** | 240,4 | | 113,0 |
| Cost-to-income ratio (%) | **77,7** | 81,8 | | 68,7 |
| | | | | |
| Permanent employee complement | **448** | 464 | (3,4) | 664 |
| Number of customers (million)*** | **3,1** | 2,6 | 19,2 | 2,3 |
| Number of Mzansi accounts | **202 955** | | | |

**Includes UB Micro Loans.*
***Total assets include intergroup balances.*
****Excludes UB Micro Loans customer base.*

***Flexi Banking Services (FBS)*** *provides affordable and appropriate financial and lifestyle products and services to the lower income segment of the market. Products include a range of transmission and savings accounts, group savings, fixed and notice deposits, microloans, insurance products, cards and mortgage loans. Pricing is competitive and affordable. Products and services are offered at accessible and secure outlets.*

### FBS's product and service offering

- **Transactional** ➔ **FlexiSave, Absa Mzansi, Absa Sekulula**
- **Savings** ➔ **ActiveSave, TargetSave Absa Club, Notice deposits, Fixed deposits**
- **Insurance** ➔ **Absa Flexi Funeral Plan, Absa Personal Accident and Hospital Plan; Home Employees' Plan**
- **Credit** ➔ **MyHome mortgage loans, Absa Visa Electron Card, Absa microloan (FlexiLoan)**

## The mass market

The mass market is not homogeneous. It contains a range of customer segments with varying needs and differentiated financial services behaviour. In early 2004, a project was established to review existing customer value propositions in the mass market and define differentiated customer offerings that would reposition Absa into dominant positions in these key customer segments. Using internal and market information, FBS identified five subsegments based on customer behaviour and needs as well as income parameters. These new customer subsegments are being finally designed. Implementation is planned for 2006.

## The 2005 financial year

### Key developments

- The launch of full-service portable branches in collaboration with Delivery Channel Services, enabling FBS to improve its access and reach.
- New products and services provided to the market during the year: Absa Mzansi, a first-order transmission and savings product targeting the unbanked; Absa's Home Employees' Plan, a bundled transactional account with retirement benefits and insurance products for home employees; the Visa Electron credit card was re-launched in January 2005; and a pilot was undertaken for FlexiSure household contents insurance, a first in the market.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| • The development of differentiated product offerings to meet the identified subsegment needs. | • A number of innovative product offerings were launched.<br>• Segmented the mass market into five distinct subsegments with a comprehensive value proposition for each sub-segment to be launched in 2006. |
| • Further refinement of the microlending business model. | • Good progress was made in the revamping of the mass market credit scorecard to make it more appropriate for customers seeking credit in this market. |
| • The development of a more appropriate credit scorecard and credit risk management model for the mass market. | • Approval rates for microloans have increased owing to the refinement of the credit model. |

### Profit drivers for the year under review

FBS's profit drivers for the 2005 financial year included more cost-effective delivery channels (such as remote origination), improved cross-selling to the existing customer base and strong growth in savings and transaction products.

### Commentary

Trends in the macro-economic environment over the past period have benefited the mass market. This has translated into improved deposit growth and strong credit demand. However, microloan sales have been below target owing to cautious expansion. The level of bank charges in general, and specifically their impact on the poorer economic segment, came under public scrutiny after the release of the Competition in South African Banking report. Public pressure on the level of price increases and penalty fees is expected to remain for the foreseeable future.

The mass market environment was dominated by the introduction of the Mzansi account, the first product resulting from the Financial Sector Charter objectives, just more than a year after the charter was signed. Mzansi was launched at five centres around the country on 25 October 2005 and forms a major part of the banking sector's commitment to increase access to financial services for as many South Africans as possible. The banking sector has also committed to providing full banking services to 80% of the population in the LSM 1 – 5 bracket within 15 kilometres of their place of residence and ATM facilities within 10 kilometres by 2008. Absa has market leadership among the big four banks in this respect and aims to maintain that position as the market continues to expand.

FBS, together with Absa subsidiary AllPay Consolidated Investment Holdings (Proprietary) Limited, has spearheaded the introduction of the Absa Sekulula account. It provides functionality to both the Department of Social Development and social grant recipients. Since its launch in 2003, Sekulula has garnered over 400 000 new customers.

A unit has been established in FBS to facilitate and drive customer education. The programme started slowly, but gained momentum in the second half of the year. Forums were conducted in each province of South Africa. Branch customer educational videos for QTV will be shown in Flexi-dominant branches.

## Future strategies

In positioning Absa as the preferred provider of innovative and relevant financial services solutions to the mass market, the emphasis in the year ahead will be on the continued optimisation of the sales delivery and distribution networks. Emphasis will also be placed on accelerating market share and revenue growth by forming alliances with retail partners (Tier II banking) and village banks (Tier III banking).

The re-engineering of the mass market credit model in collaboration with Group Credit will continue to receive attention; rebalancing Absa's mass market offering from a savings and transaction bias towards a microlending bias. Increased investment will be made in customer education to enable customers to make informed personal financial decisions and participate in the banking system in an empowered way.

The challenges facing FBS in the year ahead include increased compliance requirements, the possible change in the structure of the South African banking industry with the mooted introduction of Tier II banking, and escalating customer activism.

# Small Business

**Gavin Clark was appointed as general manager: Small Business in August 2000. >**

**Senior management** **B Montwedi,** *general manager: Business Development;* **F Mkhize,** *general manager: Sales and Service Management;* **N Naidoo,** *general manager: Segment Management;* **M Wels,** *manager: Operations and Business Change Enablement.*

## Salient features

| | 2005 | 2004 | Change % | 2003* |
|---|---|---|---|---|
| Headline earnings (Rm) | **290** | 234 | 23,9 | 164 |
| Contribution to Group headline earnings (%) | **5,3** | 5,3 | | 4,8 |
| Total assets** (Rm) | **12 792** | 10 748 | 19,0 | |
| Total advances (Rm) | **3 599** | 3 167 | 13,6 | 2 592 |
| Total deposits and current accounts (Rm) | **12 074** | 9 993 | 20,8 | 8 689 |
| Return on average equity (%) | **90,1** | 68,5 | | |
| Cost-to-income ratio (%) | **69,9** | 72,4 | | |
| | | | | |
| Permanent employee complement | **758** | 738 | 2,7 | 725 |
| Number of customers | **350 811** | 308 580 | 13,7 | 304 731 |
| | | | | |
| Market share (main bank usage) | **27** | 29 | | 25 |

**In 2003, Small Business was part of Business Banking Services and was not reported separately. Where possible, statistics pertaining to 2003 have been supplied.*

***Total assets include intergroup balances.*

***Small Business** provides products and services geared to helping the South African small business grow. It offers the entrepreneur a range of products and services through multiple channels that present enabling financial services delivery options according to the life stage of the business and the personality of its owners. Small Business currently offers its products and services to businesses with a turnover of up to R10 million per annum, and is actively addressing the needs of its diverse customer base by introducing creative and innovative offerings through its dedicated portfolio managers.*

### Small Business' product and service offering

- **Transactional** ➔ **Business cheque account, BizStart and BizTransact (for the emerging market), business internet banking, telephone/cellphone banking, debit/credit card**
- **Credit** ➔ **Overdrafts, revolving loans, term loans, Khula credit guarantee financing, mortgage loans**
- **Asset finance** ➔ **Vehicle and asset financing**
- **Investments** ➔ **Call accounts, fixed deposits, notice deposits, savings accounts**
- **Business information** ➔ **Small Business ToolBox, Khula credit guarantee mentoring**

## The small business market

Small Business has segmented its market, based on the business lifecycle model. To achieve this, various factors were taken into account, including cross-selling opportunities, customer profitability, age of business, living standard measures and preferred delivery and access channel. A segment philosophy has been adopted. At its core is the vision to grow small businesses across the African continent.

## The 2005 financial year

### Key developments

- The migration of Small Business into the retail banking segment from business banking has enhanced synergies in the Group.
- Small Business continued to dominate the emerging market for finance under Khula Enterprise Finance Credit Guarantees, with a market share of 63% (rand value).
- New products and services were provided to the market during the year. Two transactional products offering favourable pricing structures, special cash deposit rates and unique functionalities were launched to the emerging market. Mobile Pay Express is a solution that changes a cellphone or landline into a business tool. It allows small businesses to process credit card payments, eliminating the need for traditional point-of-sale terminals.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| Sustain the drive to enhance best-of-both-worlds concept and offering to customers. | Significant growth and take-up of business internet banking and growth in the portfolio manager workforce, which enabled enhanced face-to-face interaction with customers. |
| Define and develop a value proposition for the emerging market customer base. | Differentiated product and service offerings. Creation and launch of BizStart and BizTransact as core products for this market segment. |

### Profit drivers for the year under review

Small Business's profit drivers for the 2005 financial year included deposit volume growth, non-interest income generated by business internet banking and business debit cards.

### Commentary

The Small Business division is part of the retail banking environment. This facilitates synergies in this segment.

During the year under review, emphasis was placed on performance management and the segmentation of the customer base, with work continuing on the creation of customer subsegment value propositions.

Small Business was restructured into four new areas during the second half of the 2005 financial year: Sales and Service Management, Business Development, Segment Management and Operations. The migration of the Small Business sales force to Personal Bank Sales took place as a result of the change in Absa's operating model.

The changing regulatory and legislative environment during the year under review had a significant impact on Small Business, specifically the Financial Intelligence Centre (FIC) Act and the Financial Sector Charter (FSC). The enactment of FIC required additional resources to verify Small Business customers. The implementation of the FSC resulted in targets being set for the financing of black businesses. Small Business's commitment to the emerging market customer is evidenced through the development and launching of specific product and service offerings.

## Future strategies

In striving towards its strategic positioning of being the leader in the small business market, Small Business will emphasise enhancing business performance, growing the established small business market, creating an emerging market stronghold and extending its footprint in Africa.

The creation of the Segment Management function will change the way Absa conducts business in the small business arena. Small Business will take to market the initiatives it completed in the 2005 financial year: the creation and extension of Small Business's offering to the emerging market, the creation of the Small Business centres and the extension of the footprint for both the established and the emerging markets. In support of this, the dedicated sales force will innovatively meet the needs and requirements of the small business market.

# Meeg Bank Limited

## Salient features*

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Permanent employee complement | **161** | 158 | 1,9 | 164 |
| Number of accounts | **81 500** | 82 000 | (0,6) | 85 000 |
| Absa's shareholding in Meeg Bank Limited (%) | **49,8** | 49,8 | | 15,2 |

**Meeg Bank's financials have been consolidated into Small Business.*

*__Meeg Bank__ provides a comprehensive range of banking and financial services to the personal market, small to medium corporates and the public sector in the Eastern Cape. Products are distributed through its branch network, ATMs, electronic banking and Absa branches (where Meeg Bank is not represented).*

## Meeg Bank's product and service offering

- **Transactional → Cheque accounts, savings accounts, debit cards**
- **Credit → Credit cards, home loans, personal loans, commercial loans, vehicle and asset finance**
- **Investments → Call accounts, fixed deposits, notice deposits**

## The 2005 financial year

### Key developments

- Relocation of the head office from Mthatha to East London.
- Increased awareness of Meeg Bank in the Eastern Cape.

### Achievement against objectives

**Objectives set for the 2005 financial year**

- Endeavour to gain the banking business of all local authorities and other government bodies (such as educational institutions, provincial boards and provincial government) in the Eastern Cape.

**Performance against objectives**

- Progress has been made in raising awareness of the bank in the Eastern Cape.

### Profit drivers for the year under review

Meeg Bank's profit drivers for the year under review included asset growth, strong transaction volume growth and tight cost control.

### Commentary

The lower interest rate environment impacted negatively on Meeg's performance owing to increased margin pressure. Despite this, the bank grew its net loans and deposits during the year under review. Savings account balances performed particularly well.

Meeg Bank relocated its head office from Mthatha to East London during the year. The bank has broad-based empowerment credentials and strong black leadership at all levels.

## Future strategies

Meeg Bank aims to be the preferred banker in the Eastern Cape, both to the government and its institutions. Included in the strategies to achieve this are enhancing Meeg Bank's footprint and the automation of certain processes.

The intent of the government to open up the banking environment with the introduction of Tier II banking will provide opportunities for Meeg Bank, although compliance with the new regulatory environment poses a major challenge going forward.

# Absa Card

**Pieter van Wyk was appointed as Absa Card's deputy managing executive in 1997.** >

**Senior management** **P J P Breedt,** *general manager: Business Development;* **W Buys,** *general manager: Business Services;* **C J Reyneke,** *general manager: Merchant Services;* **O Khutsoane,** *general manager: Credit Risk.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Headline earnings (Rm) | **440** | 355 | 23,9 | 279 |
| Contribution to Group headline earnings (%) | **8,0** | 8,0 | | 8,1 |
| Total assets* (Rm) | **5 844** | 4 670 | 25,1 | 4 031 |
| Total advances (Rm) | **5 161** | 4 120 | 25,3 | 3 458 |
| Total deposits and current accounts (Rm) | **2 047** | 2 195 | (6,7) | 2 069 |
| Return on average equity (%) | **112,5** | 157,1 | | 86,5 |
| Cost-to-income ratio (%) | **44,4** | 47,5 | | 49,3 |
| | | | | |
| Permanent employee complement | **806** | 768 | 4,9 | 791 |
| Number of cards in issue (million) | **1,7** | 1,6 | 6,2 | 1,5 |
| Number of accounts (million) | **1,2** | 1,1 | 9,1 | 1,1 |
| Number of transactions (million) | **81,0** | 73,3 | 10,5 | 66,7 |
| Market share (source: DI900) (%) | **23,7** | 24,7 | | 25,0 |
| | | | | |
| Market statistics (source: DI900) | | | | |
| ● Market growth (%) | **28,4** | 18,0 | | 10,6 |

**Total assets include intergroup balances.*

**Absa Card** *provides global card acceptance, electronic payment and financial solutions in selected market segments. Services are distributed through Absa's branch network, corporate and business bankers, over the internet and through direct sales. Product users include individuals and businesses from small and medium enterprises to corporates.*

### Absa Card's product and service offering

- **Provides the full range of Visa and MasterCard card products, merchant services and world-class customer services to a broad spectrum of the market**

## The 2005 financial year

### Key developments

- The development of Europay MasterCard Visa (EMV) chip technology for both card issuing and acquiring.
- The introduction of Mobile Pay Express – an innovative solution that changes a cellphone, landline or web-enabled computer into a business tool. It allows small, medium and micro-enterprises (SMMEs) to process credit card payments quickly, eliminating the need for traditional point-of-sale terminals.
- The development and implementation of a customer retention strategy.
- New products and services provided to the market include a Superior Gold credit card aimed at the middle to affluent market. The Visa Electron card was relaunched in the mass market.
- The implementation of the first phase of an electronic application process for cards, enhancing the front-line sales processes and customer experience.

## Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| Customer acquisition | Enhanced scoring models, cross-selling activities to the existing customer base and alignment to the value propositions of the segments resulted in 32% growth in new card sales. |
| Customer retention | The customer retention unit established to support the retention strategy is currently achieving world-class results. |
| Customer satisfaction | Customer service was rated world-class by the Ask Africa survey, with results improving from 91% to 95% – the highest among the South African banks. |
| Operational excellence | The automation of key processes and the upgrading of software resulted in enhanced operational efficiencies. |



## Profit drivers for the year under review

Absa Card's profit drivers for the issuing business included increased card numbers, growth in outstanding balances and transaction volumes, and optimal operational cost management. The profit drivers in the acquiring business included fraud management, turnover volumes, profitability management and operational cost management.

## Commentary

The 2005 financial year was characterised by intense competition and diverse industry forces impacting on the card industry. These included:

- Increased levels of competitor activity and the entry of non-bank issuers into the South African market.
- Greater focus by retailers on credit lending and the deployment of payment initiatives.
- Merchant discount fees remained under intense pressure owing to the fierce competition between acquiring banks.

Absa Card continued to deliver sustainable earnings growth in a low inflationary and interest rate environment. Despite this, the market share for Absa Card declined. This decline can be attributed to balancing solid headline earnings growth with a prudent approach to risk management, as well as the market growth strategies deployed by competitors.

Strategies to improve market presence and enhance growth were implemented. These strategies include scoring strategies, product enhancements and customer retention strategies.

# Future strategies

Absa Card's strategic intent for the year ahead is spearheaded by four focus areas:

- **Market share** – A customer management process will be implemented to optimise the use of credit cards. These strategies will include initiatives aimed at new and existing cardholders. The development of new sales channels, cross-selling opportunities and new products and product enhancements will contribute to market share growth. The acquiring business will focus on the acquisition of profitable merchants as well as growth in the SMME market.
- **Employees** – Absa Card aims to be the preferred employer in terms of employee satisfaction and attraction and the retention of key employees.
- **Customers** – The extension of cardholder services and the delivery of card services through the Absa branch network to enhance the customer experience.
- **EMV** – The rollout of EMV chip cards to the credit card base to ensure a secure trading environment for cardholders and merchants.

The challenge will be to achieve acceptable growth in card numbers as well as growth in market share at an acceptable risk. Severe pressure on merchant discount fees is expected to continue as a result of continued fierce competition between acquiring banks.

# Absa Home Loans

**Jaco Grobler was appointed as managing executive of Absa Home Loans in September 2000. In July 2005, he became managing executive of Delivery Channel Services. Gavin Opperman succeeded him as managing executive. >**

**Senior management** **S M Codd,** *general manager: Cape Region;* **A R Lawrence,** *general manager: KwaZulu-Natal Region;* **F P Naudé,** *general manager: Central Region;* **P Mohanlal,** *general manager: Gauteng Region;* **J W le Roux,** *general manager: Northern Region;* **E P van Rooyen,** *general manager: Operations;* **R M J Wall,** *general manager: Business Development;* **L Mlambo,** *general manager: Affordable Housing;* **S W Just,** *general manager: Product and Business Change.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Headline earnings (Rm) | **897** | 764 | 17,4 | 447 |
| Contribution to Group headline earnings (%) | **16,4** | 17,2 | | 13,0 |
| Total assets* (Rm) | **107 342** | 87 066 | 23,3 | 79 879 |
| Total advances (Rm) | **99 851** | 80 731 | 23,7 | 72 092 |
| Return on average equity (%) | **24,1** | 25,3 | | 16,1 |
| Cost-to-income ratio (%) | **34,6** | 35,1 | | 40,0 |
| | | | | |
| Permanent employee complement | **919** | 772 | 19,0 | 850 |
| Number of accounts | **665 724** | 613 388 | 8,5 | 630 000 |
| Market share (%) | | | | |
| ● Residential mortgage advances (source: DI900) | **33,4** | 33,1 | | 33,9 |
| ● New bonds approved (source: Deeds Office) | **32,3** | 29,5 | | |
| Business origination at registration (%) | | | | |
| ● Originators | **54** | 46 | | 45 |
| ● Lead generators and estate agents | **11** | 21 | | 25 |
| ● Absa branches | **30** | 28 | | 25 |
| ● Absa Direct | **3** | 3 | | 2 |
| ● Other | **2** | 2 | | 3 |
| Business origination at final grant (%) | | | | |
| ● Electronic | **51** | 26 | | 6 |
| ● Manual | **48** | 73 | | 94 |
| ● Internet | **1** | 1 | | — |
| Average loan size (rand) | **334 677** | 280 777 | 19,2 | 224 760 |
| | | | | |
| Market statistics | | | | |
| ● Residential market growth (%) | **24,6** | 17,0 | | 12,0 |
| ● Property sales (Rbn) | **662 500** | 449 875 | 47,3 | 374 646 |
| ● Average house price increase (%) | **28,9** | 20,1 | | 16,6 |

**Total assets include intergroup balances.*

***Absa Home Loans*** *offers innovative residential property related ownership solutions to Absa's target market segments. The product is offered through the Group's internal channels (branch, telephone and internet) as well as through external intermediaries (estate agents and mortgage originators).*

## Absa Home Loans' product and service offering

- **Absa Home Loan** ➔ **Ordinary home loan**
- **Building loan** ➔ **Construction loan**
- **First-time home loan** ➔ **Unique payment structure**
- **110% home loan** ➔ **Covers the other bond-related costs**
- **MyHome** ➔ **For the mass market**
- **Platinum Home** ➔ **For the affluent market**
- **Pension-backed loans** ➔ **Home loans based on the security of an individual's pension**

**Home loan features**

- **FastForward** ➔ **Repayment of the loan over a shorter term**
- **FlexiReserve** ➔ **Access to funds paid into the loan**
- **MultiPlan** ➔ **Structuring the loan into separate accounts**
- **Further advances** ➔ **Additional capital**

## The 2005 financial year

### Key developments

- Reducing the pressure on resources and infrastructure capacities by enhancing electronic processing.
- Increased focus on the black personal market and the residential development finance market.
- New products and services provided to the market during the year: a 110% home loan, which includes the financing of all mortgage bond related costs.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| Improving operational efficiency by revising business processes to ensure improved customer service and cost-efficiency. | Resource productivity and process efficiency have been enhanced, primarily by enhancing electronic processing. |
| Optimisation of business sources and delivery channels. | Sources of business have been actively managed. Relationships between Absa Home Loans and the major mortgage originators are good. |
| Specific attention to new markets such as the black middle and mass markets. | Absa Home Loans has a specific focus on the black personal market and has developed a product to cater for the needs of these customers. |

### Profit drivers for the year under review

Absa Home Loans' profit drivers for the 2005 financial year included volume growth, a declining credit impairment ratio and effective containment of costs.

### Commentary

The volume of mortgage advances increased significantly during the year under review, primarily because of lower interest rates. The lower interest rates enabled customers to reduce the capital portion of their loans through additional monthly payments, which had a negative impact on income from the advances book.

Final grants and bond registrations increased significantly during the year and 558 843 applications were processed by the Group's six processing centres. This represents an 81% increase on the value of applications in the financial year.

Absa Home Loans also developed an automated balanced scorecard and optimised productivity and process efficiency, mainly by enhancing electronic processing. The business origination strategy focused on pursuing an active relationship with estate agents, further exploiting the alliance with Property24 to provide an alternative origination channel to estate agents, further refining internal channels, including the electronic channel, and enhancing the management of the originator channel.

A specific emphasis was placed on the black personal market and on the residential development finance market. MyHome – a comprehensive mortgage solution for the lower end of the home loans market (joint income less than R6 000 per month) – proved successful from its launch in October 2003. The Platinum Home product performed exceptionally well, with growth well in excess of expectations.

## Future strategies

Absa Home Loans aims to maintain its leadership in the South African residential property market by focusing on the enhancement of efficiencies and the improvement of service levels. This will be approached through a focus on employee retention and competence levels, the further automation and standardisation of internal processes, and the shortening of the application process.

Absa Home Loans is aggressively seeking to increase the volume of business secured through internal channels. Up-selling (further advances), cross-selling of other products to existing customers and introducing home loans to customers without the product are among the priorities.

The need for innovative product and service offerings requires the building of a flexible and agile platform that will enable Absa Home Loans to increase its turnaround times to the market and enhance its product differentiation capabilities, thus securing further market share and improved brand positioning.

Absa Home Loans will also focus on strengthening and maintaining relationships in the origination industry and with estate agents.

The challenges facing Absa Home Loans in the year ahead include growing market share, effectively managing relationships with mortgage originators, managing the interest margin and retaining and developing human capital.

# Repossessed Assets

**Senior management** **K F Clinton,** *general manager: Asset Management, Repossessed Assets and Valuations.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Headline earnings (Rm) | **(49)** | (142) | 65,5 | (241) |
| Total assets* (Rm) | **56** | 196 | (71,4) | 546 |
| Total advances (Rm) | **—** | 154 | (>100,0) | 472 |
| | | | | |
| Number of properties in possession | **3 362** | 4 905 | (31,5) | 5 637 |
| Number of Servcon properties | **3 136** | 3 547 | (11,6) | 3 929 |
| Average holding cost per property per month (rand) | **1 098** | 1 533 | (28,4) | 2 056 |

**Total assets include intergroup balances.*

***Repossessed Assets** is responsible for the disposal of properties that come into the Group's possession as a result of loan defaults.*

## The 2005 financial year

### Key developments

- Reducing the number of properties in possession to the lowest level in ten years.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| On-selling properties at an optimal price and minimising holding costs. | The repossessed property portfolio has been reduced and maintained at an acceptable level. Properties have been on-sold at optimal prices and holding costs have been minimised. |
| Reducing the hardcore component of the portfolio by a further 20%. | The hardcore component of the portfolio has been reduced by a further 20%. |

### Commentary

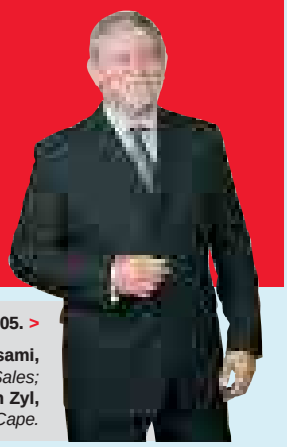
At 6 498, the number of properties in possession is at its lowest level in ten years. During the year under review, 3 053 properties were sold and 2 069 transferred. Only 191 properties were bought in. Of this total, 3 136 are managed by Servcon (a partnership between the Department of Housing and the South African banks, established in 1995 to help people who encountered difficulties to meet their mortgage bond payments) and 3 362 by Repossessed Assets. The average holding cost was reduced to R1 098 per property per month.

An agreement has been reached with the national government to unwind the Servcon portfolio. The government will reimburse the banks the equivalent of the Reconstruction and Development Programme homeowners' subsidy in full and final settlement of the debt. Properties will then be transferred to the owners.

## Future strategies

Repossessed Assets' long-term focus will be to reduce and maintain its portfolio at below 1 500 units. A short-term priority is the execution of the agreement reached with the national government on the Servcon portfolio to reduce the total portfolio to below 2 500 units from a high of 18 000 in 2001.

# Personal Bank Sales



**Johan Reyneke was appointed Group executive: Personal Bank Sales in April 2005. >**

**Senior management** **G Piek,** *general manager: Business Development;* **F Lubbe,** *general manager: Sales Support;* **J Govendasami,** *general manager: Group Schemes;* **J Kokela,** *general manager: Mass Market Sales;* **K Vittee,** *general manager: Contact Centre Sales;* **J Vermaas,** *general manager: North East;* **L Grobler,** *general manager: Central;* **F Manyatshe,** *general manager: Eastern Cape;* **W van Zyl,** *general manager: KwaZulu-Natal;* **N Erasmus,** *general manager: Gauteng;* **H van Greunen,** *general manager: Western Cape.*

***Personal Bank Sales** sells financial services products by delivering the segment's value proposition through gross activated sales and enhanced product use, thereby retaining customers.*

## The 2005 financial year

### Achievement against objectives

Up until 31 March 2005, the majority of the Group's sales force formed part of RBS. In order to increase focus on the sale of Absa products to the personal bank customer base, a dedicated business unit was formed. This unit became operational in April 2005.

The sales force's proposition is to maximise sales at every customer interaction through enhanced cross-selling, lead referrals and profitable and efficient service delivery. These objectives were met. RBS's cross-selling ratio improved from 3,22 products held per customer in March 2004 to 3,48 products held per customer in March 2005.

### Commentary

Absa is a leading player in the South African personal (individual) banking market. The Group had 6,6 million customers in this market segment at 31 March 2005. A core measure of success is the Group's ability to retain, acquire and up-sell to customers through sales initiatives.

The establishment of Personal Bank Sales optimally positions the Group to effectively mine its customer base, manage leads and enhance the customer experience.

Contact centre performance has improved owing to the proactive sales and customer service approach. A roving sales team equipped with remote opening kits was introduced, enhancing the Group's sales and service footprint.

## Future strategies

In facilitating the financial independence of Absa's customers, emphasis will be placed on developing a measurable lead generation process, enhancing sales processes, improving capacity planning to ensure optimal availability of resources and creating a sales leadership culture.

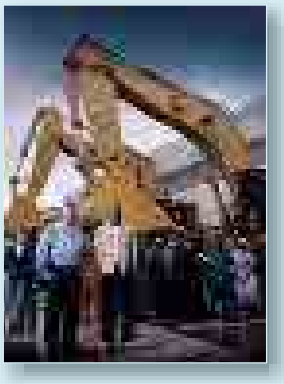
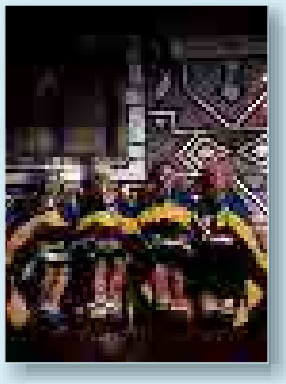
In the short term, there will be a specific focus on enhancing reach with regard to Group schemes, enhanced delivery through independent brokers, managing legislative, regulatory, compliance and operational risk, streamlining the customer experience and increasing product use.

# Commercial banking

Commercial banking provides banking services and solutioning to medium and large business enterprises, and vehicle and asset financing to all market segments.

## Highlights for the year under review

- **Strong advances and deposit growth.**
- **Market share retention and growth.**
- **Further improvement in the quality of the advances book.**
- **Impressive growth in electronic banking transactions.**
- **Strong vehicle and asset finance growth.**

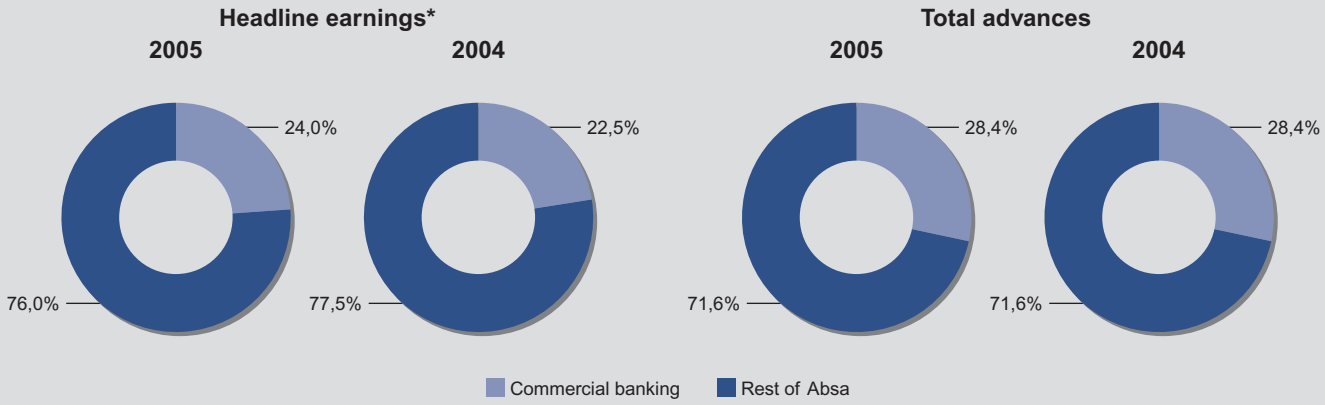
## Salient features

| | 2005 | 2004 | Change % | 2003* |
|---|---|---|---|---|
| **Income statement (Rm)** | | | | |
| Net interest income | **3 550** | 3 105 | 14,3 | |
| Impairment of advances | **(639)** | (720) | 11,3 | |
| Non-interest income | **1 861** | 1 546 | 20,4 | |
| Operating expenditure | **(2 674)** | (2 457) | (8,8) | |
| Taxation and other | **(695)** | (482) | (44,2) | |
| Headline earnings | **1 403** | 992 | 41,4 | 714 |
| **Balance sheet (Rm)** | | | | |
| Total assets** | **102 012** | 86 958 | 17,3 | |
| Total advances | **76 115** | 63 067 | 20,7 | |
| Total deposits and current accounts | **50 565** | 46 046 | 9,8 | |
| **Financial performance (%)** | | | | |
| Return on average equity | **27,8** | 21,9 | | |
| Return on average assets excluding acceptances | **1,49** | 1,25 | | |
| **Operating performance (%)** | | | | |
| Net interest margin on average assets | **3,77** | 3,91 | | |
| Charge for impairment of advances to average advances | **0,92** | 1,23 | | |
| Non-interest income as a percentage of operating income | **34,4** | 33,2 | | |
| Cost-to-income ratio | **49,4** | 52,8 | | |
| Cost-to-assets ratio | **2,8** | 3,1 | | |

**Owing to the change in reporting with the movement from personal banking to retail banking and the subsequent inclusion of Small Business with retail banking, the comparative statistics for 2003 are not available. In 2003, overhead costs were managed at a Business Banking Services level and not at a Small, Medium and Large business level.*

***Total assets include intergroup balances.*

## Contribution analysis

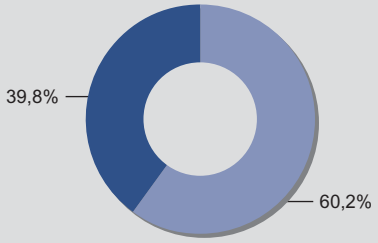



**Calculated after the allocation of capital, and funding centre and corporate centre costs.*

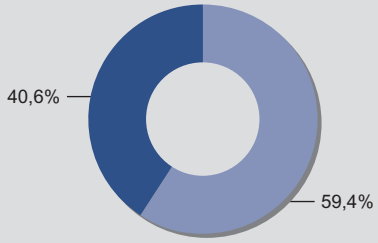
## Business unit headline earnings

| | 2005 Rm | 2004 Rm | Change % | 2003 Rm |
|---|---|---|---|---|
| **Segment-focused business unit** | | | | |
| • **Medium and large business market** ➔ Business Banking Services | **844** | 589 | 43,3 | 425 |
| **Product-focused business unit** | | | | |
| • **Vehicle and asset finance** ➔ Absa Vehicle and Asset Finance | **559** | 403 | 38,7 | 289 |
| **Total** | **1 403** | 992 | 41,4 | 714 |

**Contribution to headline earnings 2005**

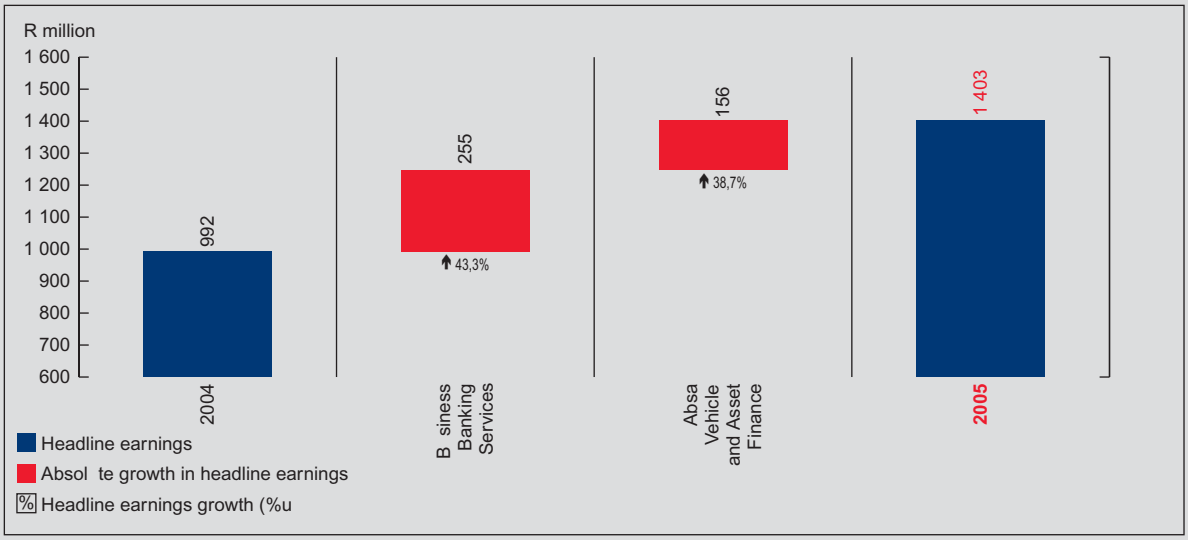



**Contribution to headline earnings 2004**




B siness Banking Services  Absa Vehicle and Asset Finance

**Headline earnings growth (2005 versus 2004–**



# Business Banking Services

**Friedel Meisenholl was appointed as managing executive of Business Banking Services in December 2003. In July 2005, he assumed responsibility for the Group's Sarbanes-Oxley compliance project. Robert Emslie replaced him in July 2005. >**

**Senior management** **V Klein,** *deputy managing executive: Business Banking Services;* **E Steyn,** *general manager: Risk;* **J Gubeon,** *general manager: People Management;* **O Grobler,** *general manager: Large Business;* **A Makenete,** *general manager: AgriBusiness;* **R Jeffery,** *general manager: Commercial Property Finance;* **M J Liebenberg,** *general manager: Finance.*

## Salient features

| | 2005 | 2004 | Change % | 2003* |
|---|---|---|---|---|
| Headline earnings (Rm) | **844** | 589 | 43,3 | 425 |
| Contribution to Group headline earnings (%) | **15,4** | 13,2 | | 12,4 |
| Total assets** (Rm) | **54 664** | 48 332 | 13,1 | |
| Total advances (Rm) | **32 799** | 27 599 | 18,8 | |
| ● Large Business | **19 298** | 15 889 | 21,5 | |
| ● Medium Business | **12 617** | 11 051 | 14,2 | |
| ● Absa Debtor Finance | **884** | 659 | 34,1 | |
| Total deposits and current accounts (Rm) | **47 700** | 43 206 | 10,4 | |
| ● Large Business | **34 959** | 32 088 | 8,9 | |
| ● Medium Business | **12 741** | 11 118 | 14,6 | |
| Return on average equity (%) | **38,1** | 34,0 | | |
| Cost-to-income ratio (%) | **50,8** | 52,3 | | |
| | | | | |
| Permanent employee complement | **1 609** | 1 598 | 0,7 | 1 572 |
| Number of groups/relationships | | | | |
| ● Large Business | **27 072** | 26 202 | 3,3 | 26 433 |
| ● Medium Business | **3 911** | 3 908 | 0,1 | 3 697 |

**In 2003, Business Banking Services consisted of Small, Medium and Large Business. Medium and Large Business were not reported separately. Where possible, statistics pertaining to 2003 have been supplied.*

***Total assets include intergroup balances.*

***Business Banking Services (BBS)** offers a wide spectrum of commercial banking products and services ranging from off-the-shelf offerings for transactional business to complex financial solutions to meet sophisticated customer requirements. Relationship management is used to serve BBS's customers through business centres for large businesses and business cells for medium businesses. BBS is active in commercial property finance, debtor financing, agribusiness, the public sector, franchising and consumables.*

## BBS's product and service offering

- **Transactional banking products**
- **Relationship banking**
- **Short- and long-term loans**
- **Electronic banking**
- **Specialist advisory services and feasibility studies**
- **Crop insurance and funding**
- **Silo certificates and hedging through Safex**

## The medium and large business market

BBS uses specific classification criteria for medium and large business: Medium Business includes all concerns with a turnover of between R10 million and R50 million that require facilities of between R1 million and R7,5 million; Large Business includes all concerns with a turnover in excess of R50 million with exposures of higher than R7,5 million (up to the point where ACMB addresses a company's financial needs).

## The 2005 financial year

### Key developments

- Solid advances and deposit growth.
- Market share gains in listed commercial property finance, agribusiness and the large and medium business segments.
- Continued leadership in the public sector market.
- Identifying and refining efficiencies in Business Banking Services' operating model, specifically to improve customer service.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| • A renewed focus on product development and solutioning. | • The continued focus on developing innovative solutions resulted in Absa (Commercial Property Finance) receiving an award from *The Banker* for having made one of the "Deals of the Year" by completing the first commercial mortgage-backed securitisation transaction. |
| • Enhanced cross-selling opportunities. | • BBS increased market share by capitalising on cross-selling opportunities.<br>• The new Absa Vehicle and Asset Finance operating model was successfully aligned with that of BBS, to further facilitate cross-selling opportunities. |
| • A focus on tourism, black and women-owned businesses and the maintenance of BBS's leading position in the agribusiness and public sector markets. | • Leadership in the agribusiness and public sectors has been maintained.<br>• Incorporated the Incubator and Investment Funds as part of BBS's operating model.<br>• Formation of alliances with women's associations. |

### Profit drivers for the year under review

BBS's profit drivers for the 2005 financial year included strong advances and deposit growth, expanding transaction volumes and customer retention.

### Commentary

The year under review produced substantial growth in advances because of relatively low interest rates. A successful customer acquisition drive and the buoyant property market further boosted strong advances and earnings growth from commercial property finance. Electronic banking transactions increased significantly. The quality of the advances book improved further, resulting in a declining credit impairment ratio.

Significant time was spent focusing on identifying and refining efficiencies in BBS's operating model, specifically to improve customer service. Insights gained from these investigations led to the formation of regional executive committees (Rexcos). Rexcos ensure customer-centric behaviour, provide supporting processes at a regional level and assume responsibility for regional performance.

In addition, BBS improved its positioning in the business market by increasing its market share and enhancing market awareness. Market research reflects encouraging progress in growing BBS's popularity and recognition in the business market.

## Future strategies

There will be a renewed focus on growing primary banker relationships through cross-selling to BBS's existing customer base. BBS also aims to increase its market share in the business banking market by offering innovative products and solutions. Improving customer service levels by constantly refining the BBS operating model will remain a priority, as will improving customer value propositions and enhancing process efficiencies. The establishment of strategic alliances to enhance the Incubator Fund, black business and public sector offerings will remain high on the agenda.

The challenges facing BBS in the year ahead include managing any negative fallout from the drought and low maize prices challenging the agribusiness sector as well as the impact of the strong rand on exporters.

# Absa Vehicle and Asset Finance

**Sizwe Tati was appointed as managing executive of Absa Vehicle and Asset Finance in June 2004. >**

**Senior management** **R Martine,** *general manager: Finance;* **R Mhishi,** *general manager: Business Processing Centres;* **J Jacobs,** *head: IT;* **H Fouche,** *general manager: Business Change Enablement;* **M de Klerk,** *head: Product Solutions;* **O Ventura Andersch,** *head: Corporate Sales;* **B Groenewald,** *general manager: Commercial Sales;* **W Steffens,** *general manager: Personal Sales;* **C Strydom,** *general manager: Suppliers and Manufacturers;* **J Broadway,** *general manager: Vehicle Management Solutions;* **R Abrey,** *general manager: Union Finance;* **M Mabuza,** *consultant: People Management.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Headline earnings (Rm) | **559** | 403 | 38,7 | 289 |
| Contribution to Group headline earnings (%) | **10,2** | 9,1 | | 8,4 |
| Total assets* (Rm) | **47 348** | 38 626 | 22,6 | 30 545 |
| Total advances (Rm) | **43 316** | 35 468 | 22,1 | 27 852 |
| Total deposits and current accounts (Rm) | **2 865** | 2 840 | 0,9 | 35 |
| Return on average equity (%) | **19,7** | 17,7 | | 16,1 |
| Cost-to-income ratio (%) | **47,2** | 53,8 | | 56,8 |
| | | | | |
| Permanent employee complement** | **1 550** | 1 447 | 7,1 | 1 959 |
| Number of customers | **515 808** | 470 000 | 9,7 | 439 000 |
| Market share | | | | |
| ● DI900s (%) | | | | |
| – Excluding AVAF's securitisation transaction | **24,5** | 24,6 | | 25,3 |
| – Including AVAF's securitisation transaction | **26,2** | 26,2 | | 25,3 |
| ● New vehicles (Naamsa) | **16,0** | 16,8 | | 15,6 |
| ● Pre-owned vehicles (Nada) | **45,7** | 49,9 | | 48,4 |
| Average loan size (rand) | **75 134** | 66 331 | 13,3 | 56 848 |
| Composition of AVAF's book (%) | | | | |
| ● Personal customers | **68,1** | 71,9 | | 72,6 |
| ● Commercial customers | **31,6** | 27,6 | | 26 9 |
| ● Corporate customers | **0,3** | 0,5 | | 0,5 |
| | | | | |
| Market statistics (%) | | | | |
| ● Growth in new vehicle sales (Naamsa) | **23,0** | 9,5 | | (2,9) |
| ● Growth in pre-owned vehicle sales (Nada) | **2,0** | 7,5 | | (2,2) |

**Total assets include intergroup balances.*
***Includes Union Finance.*

***Absa Vehicle and Asset Finance (AVAF)*** *offers customised vehicle and asset finance products (ranging from the financing of manufacturing and mining equipment, to leases, to office automation, to the financing of private vehicles) and services to customers in the corporate, commercial and personal markets. AVAF also offers movable asset management solutions (such as fleet managed maintenance) to the abovementioned markets. With the aim of being the asset finance solution provider of first choice in its chosen markets, AVAF offers a multi-channel approach. In sourcing and processing business, the focus is on electronic channels. Channels include Absa branches and business centres, approved motor dealers, contact centres and the internet.*

## AVAF's product and service offering

- **Standard asset finance** ➔ **Instalment sales, leases, rentals**
- **Dealer stock financing** ➔ **Floor plan, demonstrator plan**
- **Fleet finance** ➔ **Full maintenance leases, off-balance sheet finance**
- **Fleet management** ➔ **Managed maintenance, fleet card**
- **Service administration** ➔ **Administration of value-added products**
- **Aircraft finance** ➔ **Aviation bonds**
- **Specialised needs** ➔ **Structured products**
- **Value-added products** ➔ **Insurance, warranties**
- **Discounting solutions**

## The 2005 financial year

### Key developments

- Strong advances growth in a buoyant vehicle market, coupled with the formation of strategic alliances.
- Increased market penetration of joint venture companies and subsidiaries.
- Further diversification outside the motor vehicle industry.
- Continued efficiency enhancements as a result of improving processes, centralising back-office activities and leveraging Absa's infrastructure.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| • Protection of AVAF's traditional stronghold in the personal market. | • AVAF retained its market share in an increasingly competitive market. |
| • A specific focus on alternative income streams, such as aviation and office automation. | • Commenced the integration of Union Finance, a specialist in financing office automation and communication equipment, into Absa.<br>• Acquisition of Leaseplan Fleet Services. |
| • Asset growth in the business and corporate market segments. | • A significant increase in business activity in the commercial market. Difficult trading conditions were experienced in the corporate market. |
| • Entering into strategic alliances with leading motor dealer and manufacturing groups. | • Successful conclusion of a number of alliances in the retail and commercial sectors. |

### Profit drivers for the year under review

AVAF's profit drivers for the 2005 financial year included asset growth, interest rate margin management, the provision of value-added products, cost management and improved efficiency.

### Commentary

The lower interest rate environment, coupled with low vehicle price inflation, stimulated the motor industry. Volumes in the new car market were 450 000 passenger units, exceeding the highest level recorded since 1981. The high volumes were partly driven by an absence of price increases over the past two years and aggressive incentivisation by manufacturers. This assisted AVAF in achieving record new business volumes. In addition, new business referred by dealers increased because of the growing number of strategic alliances and joint finance companies formed between AVAF and major dealer groups and manufacturers.

AVAF's market share in the used vehicle market came under pressure. Specific actions have been implemented to ensure Absa's continued leadership in this sector.

Asset financing in the commercial market experienced a significant increase in business activity. However, difficult trading conditions were experienced in the corporate market because of the high levels of cash in corporates.

Although the demand for funded fleet management products continued to decline, there was significant growth in manufacturer maintenance plans. The market for fleet management remained highly competitive, with heavy pressure on pricing. The demand for customised fleet management solutions remained high, particularly from the government and municipalities, which are increasingly seeking complete outsourced fleet management solutions with all supporting and complementary services from suppliers with black economic empowerment (BEE) ownership credentials.

AVAF acquired Avena Leaseplan Fleet Management SA, a provider of corporate solutions, in May 2004. LeasePlan was successfully integrated into the existing fleet services division to form Absa Vehicle Management Solutions. The integration of Union Finance into Absa also progressed well.

## Future strategies

The future emphasis will be on growing AVAF's market position in the personal market. This will be augmented by innovative products and solutions aimed at attracting customers in new markets such as first-time buyers, the black market and the emerging market, coupled with growing penetration of Absa's customer base. Alternative income options, such as fleet management, aviation, and information, communication and technology opportunities will continue to receive attention, as will asset growth in the business and corporate market segments, and strategic alliances with non-traditional asset suppliers.

The challenges facing AVAF in the year ahead include a maturing new vehicle market and increased disintermediation by new financial players.

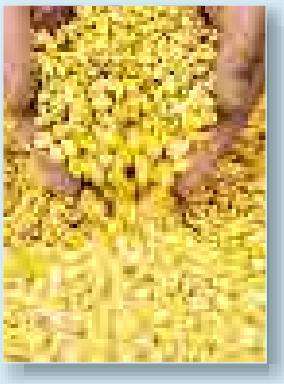
# Wholesale and international banking

Absa's wholesale and international banking operations provide banking services and solutioning to the South African corporate market as well as to selected international niche markets. Absa's institutional asset management business is also housed in this segment.



## Highlights for the year under review

- **Significant rightsizing of the balance sheet.**
- **Good performances from merchant banking, particularly in debt solutions and capital and debt markets.**
- **The implementation of innovative transactions and new products in the trading and merchant banking areas during the year, including NewGold (the first gold exchange traded fund in South Africa) and the first commercial mortgage-backed securitisation in South Africa.**

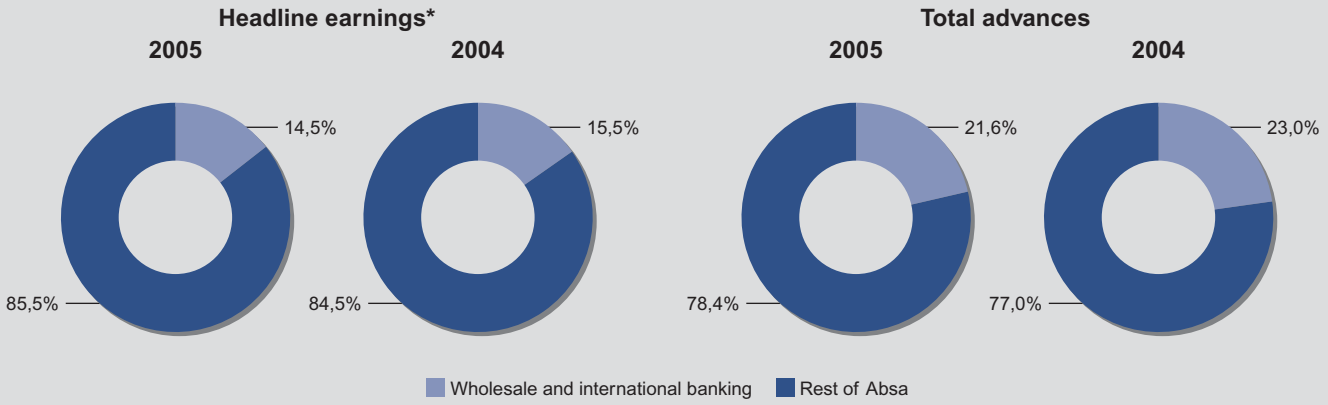


## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| **Income statement (Rm)** | | | | |
| Net interest income | **1 109** | 851 | 30,3 | 883 |
| Impairment of advances | **(266)** | (567) | 53,1 | (242) |
| Non-interest income | **1 584** | 2 076 | (23,7) | 1 813 |
| Operating expenditure | **(1 530)** | (1 457) | (5,0) | (1 437) |
| Taxation and other | **(54)** | (219) | 75,3 | (210) |
| Headline earnings | **843** | 684 | 23,2 | 807 |
| **Balance sheet (Rm)** | | | | |
| Total assets* | **197 551** | 178 714 | 10,5 | 161 108 |
| Total advances | **58 045** | 51 152 | 13,5 | 48 533 |
| Total deposits and current accounts | **161 872** | 129 087 | 25,4 | 127 063 |
| **Financial performance (%)** | | | | |
| Return on average equity | **14,8** | 12,9 | | 19,3 |
| Return on average assets excluding acceptances | **0,45** | 0,41 | | 0,53 |
| **Operating performance (%)** | | | | |
| Net interest margin on average assets | **0,59** | 0,51 | | 0,58 |
| Charge for impairment of advances to average advances | **0,49** | 1,14 | | 0,51 |
| Non-interest income as a percentage of operating income | **58,8** | 70,9 | | 67,2 |
| Cost-to-income ratio | **56,8** | 49,8 | | 53,3 |
| Cost-to-assets ratio | **0,8** | 0,9 | | 0,9 |

**Total assets include intergroup balances.*

## Contribution analysis




**Calculated after the allocation of capital, and funding centre and corporate centre costs.*

## Business units

**The Group's wholesale and international banking operations (excluding Bankhaus Wölbern & Co) are managed on an integrated basis and are no longer disclosed separately. Absa's wholesale and international banking consists of a number of business units:**

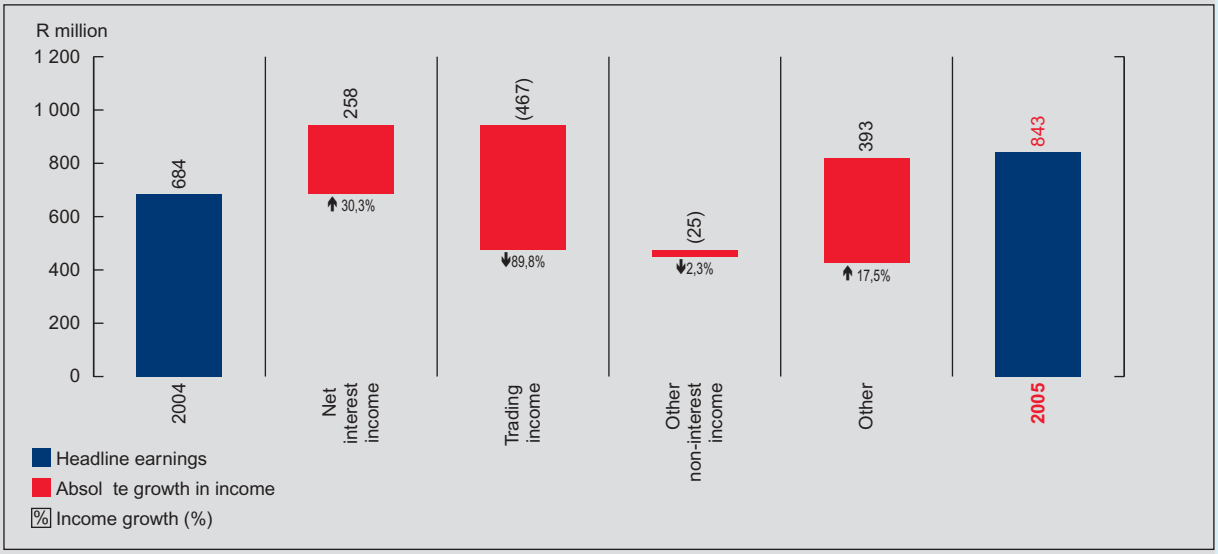
**Domestic operations ➔ which includes corporate and merchant banking (Absa Corporate and Merchant Bank) and institutional asset management (Abvest Holdings (Proprietary) Limited)**

**International operations:**

- **Absa Bank London**
- **Absa Bank Singapore**
- **Absa Bank (Asia) Limited (Hong Kong)**
- **Bankhaus Wölbern & Co (Hamburg, Germany)**



**Earnings gro th (2005 versus 2004w**



# Absa Corporate and Merchant Bank

**Robert Emslie took responsibility for Absa Corporate and Merchant Bank in November 2003. Owing to the acquisition by Barclays of a majority stake in Absa, John Vitalo assumed responsibility for Absa Corporate and Merchant Bank in July 2005. Robert Emslie took responsibility for Business Banking Services from July 2005. >**

**Senior management** **B Akersten,** *account executive: People Management;* **P J B Balt,** *group treasurer;* **G M B Coetzer,** *general manager: Corporate Banking;* **A D du Plessis,** *general manager: Specialised Finance;* **I Henstock**, *deputy managing executive: Merchant Banking;* **F Laurens**, *general manager: Business Development;* **J Nel**, *general manager: Finance;* **H R B Opperman**, *general manager: Operations.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Permanent employee complement including international operations | **1 786** | 1 899 | (6,0) | 1 851 |
| Number of customers* | **2 655** | 2 545 | 4,3 | 2 406 |

**Excluding international operations.*

***Absa Corporate and Merchant Bank (ACMB)*** *provides corporate and merchant banking solutions to the corporate market segment. The division also provides certain specialist products and services to the Group or to other segments served by the Group. These include international documentary and foreign exchange, merchant and investment banking and corporate finance. The division also undertakes the wholesale funding and pricing of deposit products in the Group.*

*ACMB's geographic focus is primarily on South Africa, but it has offices in the United Kingdom, Asia and Germany, where the Group owns a banking operation, Bankhaus Wölbern & Co. There is also a specific focus on trade-related activities in Africa.*

## ACMB's product and service offering

- **Merchant banking → Balance sheet and sophisticated financial solutions**
- **Corporate finance → A trusted adviser**
- **Investment banking → Providing the private equity portion of funding structures for customers as a lead originator**
- **Specialised finance → Integrated merchant banking solutions and lead origination and structuring of complex financing transactions**
- **Corporate banking → Working capital solutions focusing on core banking facilities and primary products and services**
- **Treasury → Financial market solutions**
- **Business development → Integrated customer-centric solutions based on industry specialisation and customer needs**

*Customers are served through an industry- and customer-focused relationship approach. This is supported by specialist product solutions and ongoing transactional and operational banking relationships. Financial solutions are offered through a combination of own expertise, partnerships, joint ventures and alliances.*

*ACMB has segmented its market into a number of subsegments: financial; resources; transport, construction and allied; telecommunication, media and technology; consumer goods and services; and black economic empowerment. These favour listed companies in sectors in which Absa has a leadership position or a potential leadership position.*

## The 2005 financial year

### Key developments

- A strong performance from merchant banking, particularly from the capital and debt markets and debt solutions divisions, as well as an improved performance from transactions in the project finance area.
- Trading activities declined as a result of a stable, but directionless trading environment. The dependence on income from customer flows showed an encouraging increase in line with a strategy of increasing earnings from this source.
- A satisfactory performance from the Group's international wholesale banking offices because of strong commodity prices and demand, especially from China.
- The balance sheets of the international operations contracted during the year, in line with the Group's reduced risk appetite in these markets.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| The implementation of a banking model that leverages both corporate and merchant banking capabilities. | A customer-centric operating model, together with customer service teams representing all product units, was established. Industry specialists were appointed and a unit focusing on BEE business was created. |
| A deeper alignment of credit processes with business strategy. | The balance sheet was significantly rightsized and the credit appetite was subsequently aligned. |
| Continued product development. | Implementation of innovative transactions and new products in the trading and merchant banking areas. |
| Refocusing the international operations. | Absa's international strategy has been reformulated to focus on trade and commodity finance activities, primarily in and out of Africa. |

### Profit drivers

The key profit drivers vary depending on the business units and are as follows:

- **Corporate banking** – the number of primary banking relationships and the resultant transactional volumes.
- **Merchant banking** – the number of transactions originated/participated in.
- **Treasury** – future success will depend on the success of the above businesses and the anticipated increase in customer flows.

### Commentary

After a slow start, the contribution from wholesale banking improved during the second six months of the financial year, despite the demand for credit in the corporate sector remaining sluggish. Absa Corporate and Merchant Bank reduced its risk appetite for certain products and exposures.

#### *Corporate banking*

Corporate banking, focusing on the provision of working capital solutions to customers, recorded a solid performance. The year was once again characterised by intense price competition for transaction fee volumes from competitors.

Demand for credit in the sector was subdued because most corporate customers remained cash flush. Overdrafts and loans to corporates recorded year-on-year growth of 8% to March 2005, significantly lower than the overall private sector credit growth for the period, which was driven mostly by strong household related credit growth. There was also a change in retail customer behaviour away from cash to debit card transactions, eroding the income from cash handling for corporate customers.

### *Merchant banking*

Merchant banking experienced a strong recovery during the past year, with a marked increase in the number of transactions originated and implemented. The pipeline for the year ahead also looks promising. Strong advances growth resulting from the investments undertaken by ABACAS (the Group's securitisation vehicle), as well as preference share funding, is further confirmation of the improved performance of this division.

Notable successes were achieved in the structured finance and capital and debt markets, including some innovative and groundbreaking transactions. These included the first pension-backed lending securitisation transaction in South Africa and the first commercial mortgage-backed securitisation in South Africa. The latter transaction was awarded a deal of the year award by *The Banker* magazine. ABACAS launched its segregated series in the market with the Premier Series, amounting to R3,6 billion, and the Corporate Series, amounting to R2,5 billion.

### *Trading*

The Group's earnings from trading operations declined in a stable and largely directionless market. A strategy to decrease the Group's dependence on customer flows from proprietary trading was implemented. This shift in focus started showing some success in the form of income from foreign exchange transactions on behalf of customers. An equities desk was established during the year under review and NewGold, the first gold exchange traded fund in South Africa, was launched.

### *International operations*

The Group's wholesale international operations include branches in London, Singapore and Hong Kong. They performed satisfactorily as a result of strong commodity prices and demand, especially from China. The year was also characterised by the implementation of a refocused strategy, resulting in a contraction in their balance sheets. The future focus will be on trade and commodity finance activity, primarily in and out of Africa.

Bankhaus Wölbern & Co, which provides commercial banking and closed-end property investment products to predominantly high net worth customers in Germany, is no longer reported as part of the Group's wholesale and international operations. Bankhaus Wölbern & Co performed in line with expectations, with profit amounting to R57 million for the 2005 financial year (2004: R57 million).

## Future strategies

ACMB's intent is to provide customer-centric solutions and add additional value beyond that supplied by basic product capabilities through a banking model that leverages its corporate and merchant banking expertise. The strategic focus areas for the next financial year are:

- Growing primary banking relationships by leveraging off the refocused operating model and integrated solutioning capability.
- The implementation of a treasury sales model.
- Ensuring a coherent and co-ordinated BEE drive.
- Enhancing merchant banking activities by focusing on the repositioning of Corporate Finance, process and product innovation and an increased focus on project finance and infrastructure finance as well as acquisition finance development.
- Focusing on operational risk management.
- Attracting and retaining key employees.

It is anticipated that Barclays will leverage its world-class capabilities and expertise to enhance ACMB's franchise. This will include upgrading and broadening the suite of risk management and financing products, providing enhanced access to major corporate customers, providing enhanced access to international origination and distribution, significantly improving trading capabilities and introducing a leading-edge transactional banking system.

# Abvest Associates (Proprietary) Limited
## *(a subsidiary of Abvest Holdings (Proprietary) Limited)*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Absa's shareholding (%) | | | | |
| ● Abvest Holdings (Proprietary) Limited | **90** | 60 | | 60 |
| ● Abvest Associates (Proprietary) Limited – Abvest Holdings (Proprietary) Limited owns 70% of Abvest Associates (Proprietary) Limited | **63** | 42 | | 42 |
| BEE shareholding in Abvest Associates (Proprietary) Limited | **30** | 30 | | 30 |
| Assets under management (R billion) | **48,1** | 42,1 | 14,3 | 29,3 |
| Permanent employee complement | **31** | 36 | (13,9) | 35 |

***Abvest Associates (Abvest),*** *a subsidiary of Abvest Holdings, is a specialist institutional investment firm operating in the manner of a professional practice. It offers innovative and dynamic investment solutions to corporates, retirement funds, parastatals and the government. Abvest's investment processes are designed and have proven to be scaleable and repeatable to provide long-term superior investment returns. It is a business imperative that the reputation of the company should be unblemished. Therefore the company applies rigorous credit, compliance, risk management and investment procedures.*

*Abvest strives to achieve accountable investing. This concept seeks to ensure that the customer is at the centre of the business, that Abvest strives for the highest values and standards at all times and that money is managed with a deep personal commitment.*

## Abvest's product and service offering

- **Professional asset manager ➔ Offering investment solutions across various asset classes (equities, bonds, money market, balanced and alternative investments)**

## The 2005 financial year

### Key developments

- The diversification of the asset mix into equity and alternative products, in addition to Abvest's existing fixed-income capability.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| ● Providing customers with superior investment performance and service. | ● Abvest has been placed firmly in the upper quartile since inception, for equities and bonds in terms of investment performance. |
| ● Operationalising the front office system development, enhancing the fixed income investment process, launching hedge fund products and promoting specialist investment mandate capabilities. | ● A front-end system and an enhanced reporting capability were implemented. |

### Profit drivers for the year under review

Profitability is driven by the total value and composition of assets under management. Abvest is focused on growing assets under management in higher margin products and asset classes.

### Commentary

The strong financial market performance across all asset classes created a favourable environment for Abvest. Asset growth and improved profitability have been achieved during the year under review. The asset mix has been diversified into equity and alternative products, in addition to the existing fixed-income capability.

The team has remained relatively stable. Previously disadvantaged groups account for more than 70% of employees (both investment and operational employees). The Mvelaphanda shareholding positions the business at the forefront of asset managers in terms of the Financial Sector Charter, with the appropriate profile to tender for new business. During the year, a front-end system and an enhanced reporting capability were implemented.

The enhancement of Abvest's investment track record, particularly in equities and bonds, was emphasised during the year under review.

## Future strategies

A major growth area for Abvest is the continued move in the retirement fund industry to specialist investment mandates. The strong growth in defined contribution schemes has meant that asset consultants and multi-managers look to appoint the best-of-breed asset managers. Abvest's emerging investment track record in equities, bonds and other asset classes, taken together with its current small market share, creates significant potential for growth over the next few years.

Continued emphasis will be placed on the optimal use of Absa's channels to attract high-quality leads from existing customers, promote the company to intermediaries and multi-managers, attract external investment mandates and provide customers with superior investment performance and service.

Over the longer term, Abvest aims to be regarded as exceptional by its customers in terms of long-term investment results and service. In achieving this, Abvest aims to provide superior investment results and grow product offerings and assets under management in areas where it is currently under-represented.

The main challenge facing Abvest in the coming year is to translate its strong investment results into new business flows.

# African operations

## Absa has interests in four* banks in African countries other than South Africa. They provide banking and financial products and services to a broad customer base.

### Salient features

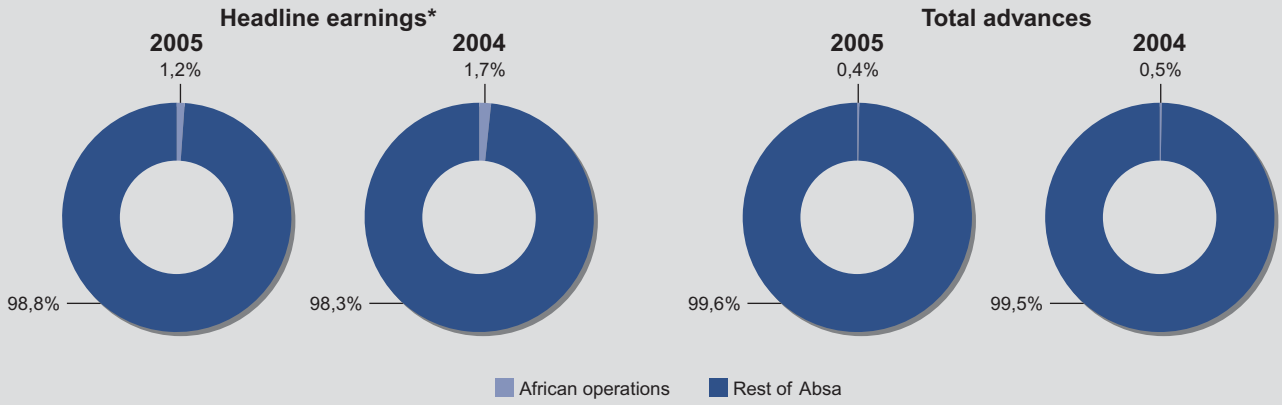
| | 2005** | 2004 | Change % | 2003 |
|---|---|---|---|---|
| **Income statement (Rm)** | | | | |
| Net interest income | **229** | 217 | 5,5 | 305 |
| Impairment of advances | **(20)** | 7 | (>100,0) | (25) |
| Non-interest income | **185** | 168 | 10,1 | 295 |
| Operating expenditure | **(310)** | (309) | (0,3) | (429) |
| Taxation and other | **(12)** | (8) | (50,0) | (55) |
| Headline earnings | **72** | 75 | (4,0) | 91 |
| **Balance sheet (Rm)** | | | | |
| Total assets*** | **4 390** | 4 225 | 3,9 | 5 137 |
| Total advances | **1 160** | 1 034 | 12,2 | 899 |
| Total deposits and current accounts | **3 168** | 3 071 | 3,2 | 3 806 |
| **Financial performance (%)** | | | | |
| Return on average equity | **19,9** | 20,8 | | 19,6 |
| Return on average assets excluding acceptances | **1,67** | 1,60 | | 1,80 |
| **Operating performance (%)** | | | | |
| Net interest margin on average assets | **5,32** | 4,64 | | 6,03 |
| Charge for impairment of advances to average advances | **1,82** | (0,74) | | 2,81 |
| Non-interest income as a percentage of operating income | **44,7** | 43,6 | | 49,2 |
| Cost-to-income ratio | **74,9** | 80,3 | | 71,5 |
| Cost-to-assets ratio | **7,2** | 6,6 | | 8,5 |

**Absa increased its African footprint by acquiring a 50% stake in Banco Comercial Angolano in April 2005.*

***Absa's African operations were managed as part of the Group's wholesale operations up to 31 March 2004. Africa was then established as a separate business unit with its own management and support structure. This resulted in additional costs being debited to the unit. If the results were compiled on the same basis as the 2004 financial year, the Group's African operations would have reported headline earnings growth of 3,6% for the 2005 financial year.*

****Total assets include intergroup balances.*

### Contribution analysis




**Calculated after the allocation of capital, and funding centre, and corporate centre costs.*

## Highlights for the year under review

- **Steady growth in retail deposits and commercial assets.**
- **Improved operational efficiencies.**

## African network

**The Group's African interests are managed on an integrated basis by a dedicated business unit with its own management and support structure. Absa's African banking interests are as follows:**

**Tanzania ➔ National Bank of Commerce Limited (NBC) (55% holding)**

**Mozambique ➔ Banco Austral, Sarl (80% holding)**

**Namibia ➔ Capricorn Investment Holdings Limited (of which Bank Windhoek is a subsidiary) (35,05% holding)**

**Zimbabwe ➔ Commercial Bank of Zimbabwe Limited (CBZ) (25,9%* holding)**

**On 29 May 2005, Absa's 25,9% shareholding in the Commercial Bank of Zimbabwe Limited was transferred to CBZ Holdings Limited. After consolidation, Absa's investment equates to 24,9%.*

■ Absa's African footprint outside South Africa

⁂ Absa acquired a 50% interest in Banco Comercial Angolano in April 2005

# African operations

**Dana Botha was appointed as general manager: African operations effective August 2004.** >

**Senior management** **C P de Vries,** *managing director: National Bank of Commerce Limited;* **G Jordaan,** *managing director: Banco Austral, Sarl;* **N J Makuvise,** *managing director: Commercial Bank of Zimbabwe Limited;* **J J Swanepoel,** *managing director: Capricorn Investment Holdings Limited.*

## Salient features

| | *National Bank of Commerce Limited (NBC) | *Banco Austral, Sarl | **Capricorn Investment Holdings Limited | *Commercial Bank of Zimbabwe Limited |
|---|---|---|---|---|
| **2005** | | | | |
| Absa's shareholding (%) | **55** | **80** | **35,1** | ***25,9% |
| Absa's return on capitalised investment (%) | **22,7** | **5,9** | **19,6** | **n/a** |
| **2004** | | | | |
| Absa's shareholding (%) | 55 | 80 | 36,3 | 25,9 |
| Absa's return on capitalised investment (%) | 25,8 | 5,3 | 22,0 | n/a |

**Year-end – 31 December.*
***Year-end – 30 June.*
****On 29 May 2005, Absa's 25,9% shareholding in the Commercial Bank of Zimbabwe Limited was transferred to CBZ Holdings Limited. After conversion, Absa's interest equates to 24,9%.*

***Absa's African operations*** *offer banking and financial products and services to a broad customer base through an extensive branch network, agencies and ATMs. The banks are situated in major cities and rural communities, in keeping with the social and business imperatives of providing banking services to the majority of the population. Absa's African operations leverage off Absa for technology, infrastructure support and the expansion of their respective products and services.*

## The 2005 financial year

Good operational performances from Absa's African operations outside South Africa were not sufficient to offset the impact of the strong rand. Therefore the headline earnings contribution remained in line with that of the previous year. Subsequent to year-end, regulatory approval was received for the acquisition of a controlling stake in Banco Comercial Angolano, the seventh largest bank in Angola with assets of R0,4 billion.

In addition to the income reported for the Group's African operations, other entities in the Group also offer services to Africa (outside South Africa). For the year under review, R37 million in income from African countries apart from South Africa was recorded elsewhere in the Group.

## Future strategies

Absa's African strategy rests on three pillars:

- The expansion of the Group's African footprint through acquisitions. These are conditional on acquiring a controlling stake and assuming operational control.
- Supplementing the product and service offering based on the principle of niche products for selected local market segments.
- Ensuring that Absa complements the African operations by offering Absa's existing products, capabilities and capacities.

The acquisition by Barclays Bank PLC of a majority stake in the Absa Group on 27 July 2005 includes a commitment in principle between Absa and Barclays to the future integration of their sub-Saharan operations on an arm's length basis. It is anticipated that this process, which is subject to regulatory and other approvals, will be embarked upon as soon as is practicably possible.

# National Bank of Commerce Limited (Tanzania)

## Salient features*

| | 2005 | 2004 |
|---|---|---|
| Return on average equity (%) | **27,0** | 27,5 |
| | | |
| Network | **33 branches, 2 agencies, 41 ATMs** | 34 branches 2 agencies, 29 ATMs |
| Permanent employee complement | **781** | 796 |
| Number of accounts | **155 549** | 151 872 |

*December year-end.



***The National Bank of Commerce (NBC)** provides a comprehensive range of banking products and services to corporate entities and individuals in Tanzania. NBC has the country's largest online branch and ATM network.*

## NBC's product and service offering

- **Transactional** → **Cheque accounts, money transfers**
- **Deposits** → **Savings accounts, fixed deposits, term deposits, foreign currency accounts**
- **Lending services** → **Overdrafts, advances, foreign currency loans**
- **Other services** → **ATMs, electronic banking services**

## The 2005 financial year

### Key developments

- NBC was awarded the third position in KPMG's Tanzanian top company survey.
- The bank has installed ATMs in all branches.
- New products and services provided to the market during the year: Malengo savings account and Visa connectivity with ATMs.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| • Introduction of Visa facilities at ATMs. | • Visa-acquiring facilities have been introduced at ATMs. |

### Profit drivers for the year under review

The core drivers of profitability were growth in the asset and deposit base and the number of accounts.

### Commentary

The bank maintained its competitive position in the Tanzanian banking market. NBC experienced a steady growth in assets and an improvement in the quality of advances. NBC's cost-to-income ratio decreased despite investments in infrastructure. NBC is currently the only bank in Tanzania offering internet banking services and has confirmed its position as the number two bank in terms of total assets and profit after tax.

## Future strategies

Emphasis will be placed on providing debit cards to the Tanzanian market, introducing personal loans, mortgage lending and group scheme loans, rightsizing and refurbishing outlets and enhancing the bank's corporate social investment programme.

# Banco Austral, Sarl (Mozambique)

## Salient features*

| | 2005 | 2004 |
|---|---|---|
| Return on average equity (%) | **13,2** | 10,0 |
| Network | **47 branches 6 saving posts, 56 ATMs** | 47 branches, 6 saving posts, 47 ATMs |
| Permanent employee complement | **732** | 778 |
| Number of accounts | **402 105** | 354 819 |

*December year-end.



***Banco Austral** provides the full range of banking products and services through branch representation in all provinces and internet banking. It is the only MasterCard and Visa acquirer in Mozambique.*

## The 2005 financial year

### Key developments

- Strong advances and deposit growth.
- Improvement in service and efficiency levels and internal controls.
- New products and services provided to the market during the year: Internet banking, cash passport, the purchase of travellers cheques from travellers and forward exchange contracts.

## Banco Austral's product and service offering

- **Transactional** → **Current accounts**
- **Deposits** → **Call accounts, savings accounts**
- **Lending services** → **Loans and overdrafts, mortgage advances, industrial and service loans, instalment finance, agricultural loans, personal loans, trade finance, credit cards, cash passport**
- **Other services** → **Fund transfers, service and salary packages, foreign exchange, stock exchange operations, trade and commodity finance**

### Achievement against objectives

**Objectives set for the 2005 financial year**

- The launch of product- and customer-driven solutions.

**Performance against objectives**

- A number of products and solutions were introduced during the year under review.
- An enhanced focus on service levels and the optimisation of the bank's delivery footprint.

### Profit drivers for the year under review

Net interest and non-interest income and the economic markets are core profit drivers in Banco Austral's earnings growth.

### Commentary

Mozambique experienced declining interest and inflation rates during the year under review. This assisted Banco Austral in growing its advances significantly. In order to reposition itself for ongoing growth, Banco Austral has concentrated on establishing the infrastructure required to serve both the mass and business markets. Although initiated in the previous financial year, this will continue to be the focus in the short term. A significant improvement in branch operational efficiency was achieved.

## Future strategies

Banco Austral will focus on growing both advances and the liabilities. Specific opportunities exist in agriculture, the property market and leasing.

The bank's infrastructure is being upgraded to attract and serve the growing number of business customers.

Declining interest rates on money market investments necessitate the substitution of treasury bills with loans and advances and the deployment of the interest earned on government bonds in quality assets.

The deployment of new ATMs and point-of-sale devices is expected to enhance transaction volumes.

Challenges facing Banco Austral include the surplus liquidity in the Mozambique currency, increased demand for foreign currency loans owing to rate differentials and the instability of the foreign exchange market.

# Commercial Bank of Zimbabwe Limited *(trading as The Jewel Bank)* (Zimbabwe)

## Salient features*

| | 2005 | 2004 |
|---|---|---|
| Return on average equity (%) | **1 293** | 319 |
| | | |
| Network | **26 branches, 35 ATMs** | 26 branches, 28 ATMs |
| Permanent employee complement | **668** | 788 |
| Number of accounts | **130 000** | 150 000 |

**December year-end.*



***The Commercial Bank of Zimbabwe (CBZ)**, trading as The Jewel Bank, strives to profitably satisfy the needs of all its stakeholders by providing innovative financial services solutions to personal and corporate customers. This is achieved through innovative service delivery, while adhering to principles of integrity, transparency and fairness.*

## CBZ's product and service offering

- **Transactional → Agribusiness, community banking, corporate banking, current accounts**
- **Deposits → Savings accounts**
- **Lending services → Asset finance, loans, trade finance, microfinance, credit cards**
- **Other services → Corporate finance, direct salary payments, internet banking, telebanking, treasury services**

## The 2005 financial year

### Key developments

- CBZ improved its market position and is currently ranked as the second largest bank in Zimbabwe in terms of total assets and profitability.
- CBZ was adjudicated the best financial counter (third overall) on the Zimbabwe stock exchange.

### Achievement against objectives

**Objectives set for the 2005 financial year**

- Reassuring depositors and investors that CBZ remains a safe haven.

**Performance against objectives**

- CBZ expanded its deposit base significantly.

### Profit drivers for the year under review

CBZ's profit drivers included balance sheet growth and the widening of interest rate margins.

### Commentary

CBZ improved its profitability during the period under review, mainly because of a significant improvement in the net interest margin, a reduction in the cost-to-income ratio and growth in its deposit market share.

Absa's entire investment in CBZ was written down in the 2004 financial year because of the substantial devaluation of the Zimbabwean dollar. Income from CBZ is not recognised owing to the difficulty of repatriating funds to South Africa. The inflation-adjusted share of attributed income after dividends amounted to R108 million (2004: R90 million loss, 2003: R0 million).

Absa's 25,9% shareholding in the Commercial Bank of Zimbabwe Limited was transferred to CBZ Holdings Limited on 29 May 2005. After conversion, Absa's investment equates to 24,9%.

## Future strategies

CBZ aims to increase earnings from non-interest income as well as ensuring that its business model remains stable by broadening the income base through diversification. This includes strategic acquisitions and further enhancement and deepening of relationships with customers, especially in the corporate market.

# Capricorn Investment Holdings Limited *(of which Bank Windhoek is a subsidiary)* (Namibia)

## Salient features*

| | 2005 | 2004 |
|---|---|---|
| Return on average equity (%) | ** | 23,4 |
| Network | **31 Bank Windhoek branches, 8 Bank Windhoek agencies and 3 joint venture outlets with Amex, 63 fixed ATMs and 2 mobile ATMs** | 22 retail and 4 specialist branches, 55 ATMs |
| Permanent employee complement | **965** | 958 |
| Number of accounts | **162 925** | 165 167 |

**June year-end.*
***Not available owing to June year-end.*

***Capricorn Investment Holdings (CIH)*** *is a diversified financial services group in Namibia. Bank Windhoek is its flagship brand.*

*Bank Windhoek Limited conducts business as a registered bank and provides comprehensive banking services to its customers. The bank also provides international banking services through liaison with financial centres and institutions worldwide.*

## CIH's product and service offering

- **Transactional** ➔ **Cheque accounts, transaction accounts**
- **Deposits** ➔ **Savings accounts, call deposits, notice deposits, fixed deposits, investment funds, money market savings accounts**
- **Lending services** ➔ **Home loans, instalment finance, credit cards, personal loans, commercial loans, microlending**
- **Other services** ➔ **Safe custody and securities, international banking, foreign currency**
- **Financial services** ➔ **Insurance and assurance offerings, insurance broking**

## The 2005 financial year

### Key developments

- Bank Windhoek has shown strong growth, which can partly be attributed to its successful rebranding exercise.
- New products and services provided to the market during the year were fixed-rate mortgages and vehicle financing.

### Achievement against objectives

**Objectives set for the 2005 financial year**

- A refocus on customers and the organisation's strategy.

**Performance against objectives**

- Bank Windhoek completed its rebranding exercise.

### Profit drivers for the year under review

CIH's core profit drivers are a customer-centric strategy, a strong brand and committed employees and management.

### Commentary

Namibia continued to experience economic growth and stability, resulting in a positive overall business environment. The peaceful transfer of power to President Pohamba was a sign of a stable political environment.

The strong Namibian dollar (linked to the rand) has caused some hardship for export-based industries, specifically the fishing industry, which suffered a number of closures.

The low interest rates have encouraged strong consumer spending.

Bank Windhoek has shown strong growth, which can partly be attributed to the successful rebranding started the previous year. The bank's slogan, "Together we do better", energised employees and attracted new business as well as increasing brand loyalty from existing customers.

CIH's investment in brokerage, short-term and life assurance companies, asset management and Oryx Properties produced pleasing returns.

The close co-operation of the various companies in CIH with its broad-based BEE partner (Nam-mic) is proving mutually beneficial. Capricorn is a partner in the partial consolidation of the Namibian life assurance industry that led to the formation of Consolidated Financial Services. The Botswana operations have shown very gratifying growth and the Penrich Group has also successfully concluded a broad-based BEE transaction with the biggest labour union in Botswana.

## Future strategies

CIH's vision is to be the leading financial services group acting as a catalyst for economic growth and development in Namibia, while creating shareholder value. CIH endeavours to grow its existing investment portfolio and to expand the group by optimally using market opportunities in Namibia and the region.

The specific emphasis in the year ahead will be on obtaining a banking licence in Botswana and strengthening CIH's broad-based BEE partner to enhance shareholder value.

Challenges include tempering strong credit growth with the efficient management of impairment levels.

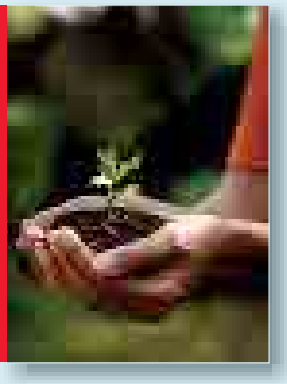
# Financial services

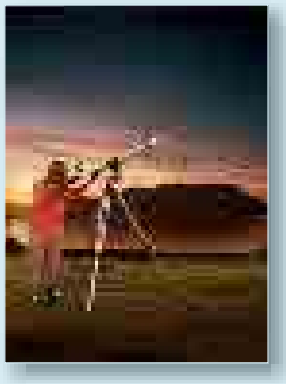
Financial Services contains entities that provide assurance, insurance, advisory and wealth management services to all market segments in South Africa through a well established bancassurance model. The bancassurance model facilitates the seamless provision of uncomplicated Absa bancassurance products as well as best-of-breed products.



## Highlights for the year under review

- **Strong operational performance from Absa Life.**
- **Good investment performance.**
- **Excellent underwriting results.**
- **Increase in Absa Brokers' market share.**
- **Introduction of new products and product bundling.**





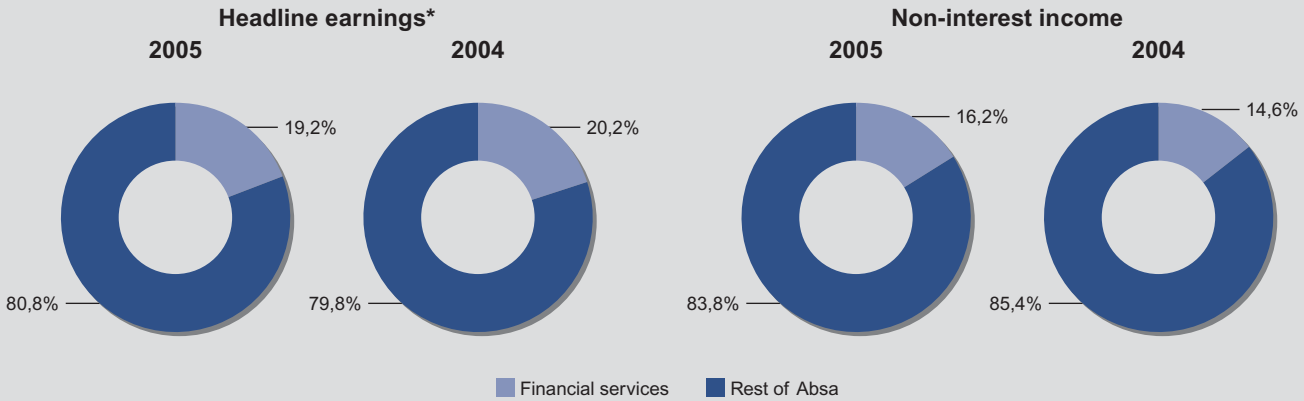
## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| **Income statement (Rm)** | | | | |
| Net interest income | **153** | 178 | (14,0) | 149 |
| Impairment of advances | **(3)** | (9) | 66,7 | (11) |
| Non-interest income | **1 931** | 1 575 | 22,6 | 1 136 |
| Operating expenditure | **(689)** | (620) | (11,1) | (583) |
| Taxation and other | **(268)** | (234) | (14,5) | (87) |
| Headline earnings | **1 124** | 890 | 26,3 | 604 |
| **Balance sheet (Rm)** | | | | |
| Total assets* | **13 279** | 9 846 | 34,9 | 4 891 |
| Total advances | **167** | 147 | 13,6 | 118 |
| **Financial performance (%)** | | | | |
| Return on average equity | **38,4** | 37,2 | | 27,5 |
| Return on average assets excluding acceptances | **9,72** | 12,08 | | 12,55 |
| **Operating performance (%)** | | | | |
| Non-interest income as a percentage of operating income | **92,7** | 89,8 | | 88,4 |
| Cost-to-income ratio | **33,1** | 35,4 | | 45,4 |
| Cost-to-assets ratio | **6,0** | 8,4 | | 12,1 |

**Total assets include intergroup balances.*



## Contribution analysis




**Calculated after the allocation of capital, and funding centre, and corporate centre costs.*

## Financial services consists of a number of business units:

**Life assurance ➔ Absa Life Limited**

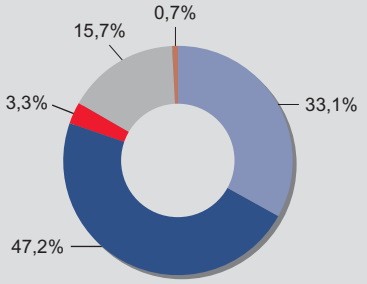
**Short-term insurance ➔ Absa Insurance Company Limited, Absa Syndicate Investments Holdings Limited and Absa Manx Insurance Company Limited***

**Advisory services ➔ Absa Brokers (Proprietary) Limited, Absa Consultants and Actuaries (Proprietary) Limited and Absa Health Care Consultants (Proprietary) Limited**

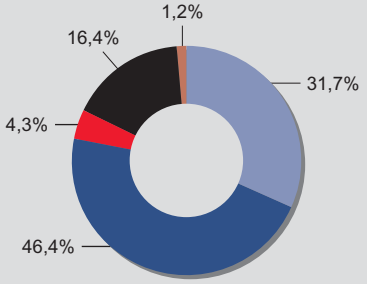
**Wealth management ➔ Absa Trust Limited, Absa Fund Managers Limited, Absa Mortgage Fund Managers (Proprietary) Limited, Absa Investment Management Services (Proprietary) Limited, Absa Stockbrokers (Proprietary) Limited, Absa Portfolio Managers (Proprietary) Limited and Absa's 50% interest in Stonehage Financial Services Holdings Limited****

**Not reported on in detail in the Group's annual report.*
***Sold during the financial year.*

**Contrib tion to headline earnings – 2005**

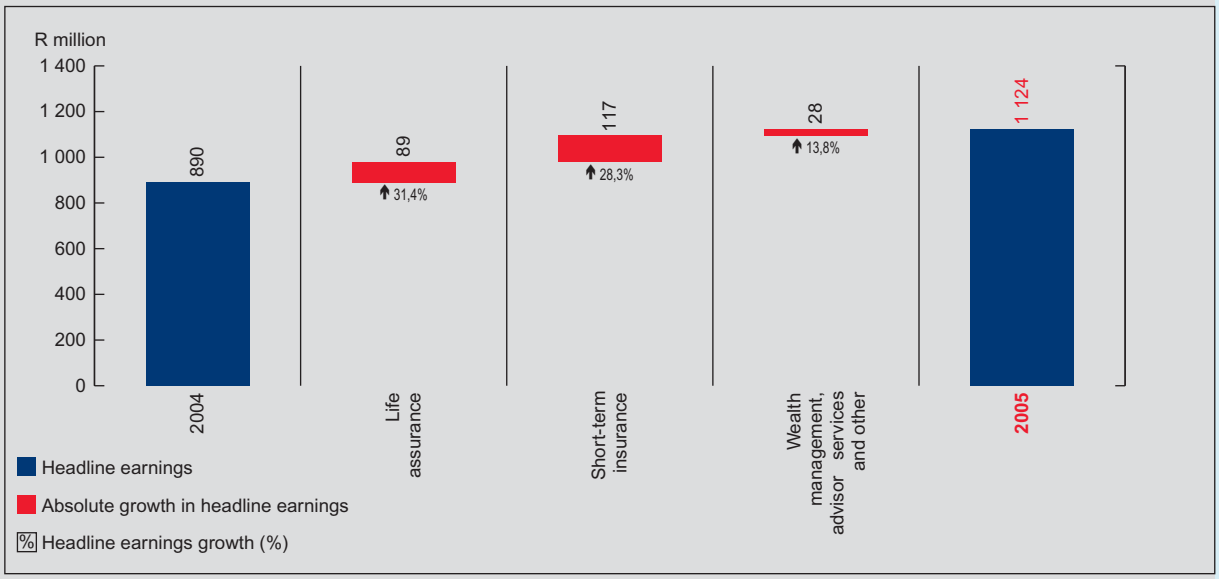



**Contrib tion to headline earnings – 2004**




Life assurance | Short-term insurance | Advisor services | Wealth management | Other

**Headline earnings growth (2005 vers s 2004u**



# Absa Life Limited

**Willie Lategan was appointed as managing director of Absa Life in January 2001.** >

**Senior management** **M Botha,** *general manager: Finance and Corporate Business;* **A van Niekerk,** *general manager: Business Development.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Gross premiums (Rm) | **2 058** | 1 301 | 58,2 | 992 |
| Total embedded value (Rm) | **1 943** | 1 572 | 23,6 | 1 123 |
| Embedded value of new business (Rm) | **117** | 88 | 33,0 | 71 |
| Embedded value earnings (Rm) | **522** | 489 | 6,7 | 29 |
| Return on embedded value (%) | **33,2** | 43,5 | | 2,4 |
| Ratio of net assets to capital adequacy requirements | **5,4** | 3,8 | | 3,2 |
| | | | | |
| Permanent employee complement | **129** | 123 | 4,9 | 121 |
| Number of customers (million) | **1,6** | 1,5 | 6,7 | 1,3 |

**Absa Life** *is a long-term insurer focusing on risk and investment products that complement Absa's offerings to various market segments. It insures a large number of Absa's customers through various channels, including Absa Brokers, the branch infrastructure and direct delivery channels such as mail and telephone.*

## Absa Life's product and service offering

- **Risk protection for credit transactions** ➔ **Credit life insurance on death, disability, critical illnesses and retrenchment**
- **Estate planning** ➔ **Risk and investment products**
- **Funeral costs** ➔ **Funeral insurance**
- **Investment solutions** ➔ **Local and offshore investment products in co-operation with Aims**
- **Alternative risk transfer solutions** ➔ **Customised solutions for corporate customers**

## The 2005 financial year

### Key developments

- Strong operational and investment performance.
- New products and services provided to the market during the year: Home Employees' Plan, a bundled product for domestic staff and the underwriting of credit life business on asset-based finance transactions sold through Absa's channels.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| Improving the sales of all products and the retention of quality funeral business. | Enhanced sales volumes despite lower-than-expected growth in mortgage-related products. |
| Continued focus on cross-selling long-term insurance products to the Absa customer base. | High penetration levels of the Absa customer base. |
| Enhanced product offering. | Four new products introduced. |

### Profit drivers for the year under review

Absa Life's profit drivers for the 2005 financial year included strong new business volumes, a positive claims experience and reducing the unit cost per policy and distribution costs.

### Commentary

Absa Life experienced excellent operational results owing to increased sales volumes resulting from buoyant consumer credit extension, the enhanced turnaround of new business, improved customer retention and a favourable claims experience. This was supported by strong investment results.

Growth emanating from mortgage-related insurance was lower than expected.

Regulatory compliance activities included preparation to comply with the Financial Sector Charter (FSC) requirements and the implementation of the Financial Advisory and Intermediary Services (FAIS) Act. Initiatives were implemented to improve the profitability of funeral insurance. The Home Employees' Plan, a bundled product for domestic staff, was introduced, as was the underwriting of credit life business on asset-based finance transactions sold through Absa's channels and direct marketing products.



## Future strategies

In the year ahead, the emphasis will be on improving the sales of all products, on repositioning the product range, on mortgage-related insurance to enhance its relative positioning in the market and on operational excellence. The focus on cross-selling profitable assurance products to the Absa customer base through direct marketing initiatives will be maintained. Absa Life's longer-term strategy revolves around the expansion of its product range to assist more Absa business units in enhancing their specific offerings.

Challenges include ensuring that Absa Life's product range supports the FSC's objectives, managing the implications of the National Credit Bill and the performance of investment markets.

# Absa Insurance Company Limited

**Coenraad de Jager was appointed as managing director of Absa Insurance Company in January 2001.** >

**Senior management** **A Kennedy,** *general manager: Operations;* **W Erasmus,** *general manager: Risk Management.*

## Salient features

| | 2005 | 2004 | Change % | 2003* |
|---|---|---|---|---|
| Gross premiums (Rm) | **1 425** | 1 115 | 27,8 | 835 |
| Solvency margin (international) (%) | **105,8** | 98,0 | | 126,0 |
| Loss ratio (%) | **56,9** | 58,7 | | 63,5 |
| Management expenditure as a % of gross premiums (%) | **7,2** | 7,4 | | 8,4 |
| | | | | |
| Permanent employee complement | **312** | 290 | 7,6 | 285 |
| Number of customers | **756 000** | 703 000 | 7,5 | 595 000 |

***Absa Insurance Company*** *is a provider of short-term insurance products to Absa's personal and small and medium business customers. It provides products that are marketed and delivered mainly by means of the Group's delivery channels. Markets served include segments where economies of scale, low delivery costs and acceptable risk-return ratios can be achieved.*

## Absa Insurance Company's product and service offering

- **Homeowner's insurance**
- **Commercial insurance**
- **Motor insurance**
- **Personal lines insurance**
- **Accident and health**
- **Guarantee and other niche insurance products**

## The 2005 financial year

### Key developments

- Excellent underwriting results.
- New products and services provided to the market during the year: Cellphone insurance, multi-peril crop insurance, accident and health and legal insurance for the middle and mass markets, personal lines products for the mass market, and high net worth market, and fuel retailers' guarantees for the business market.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| Enhanced cross-selling to the Absa customer base. | Cross-selling has yielded a number of new customers. |
| Development of intellectual capital. | A new internal training division was formed. |
| Adoption of scientific pricing. | Led to improved pricing for risk. |

### Profit drivers for the year under review

Absa Insurance Company's profit drivers for the 2005 financial year included product development and sales; cost control on claims; operational efficiency, and the investment market.

### Commentary

A number of new products were launched during the financial year. This should improve the prospects of increasing penetration of the Absa customer base in future. The favourable exchange rate, resulting in more reasonably priced motor vehicle repairs, coupled with improved scientific pricing and claims cost control, led to an outstanding underwriting result for motor and personal lines insurance. This was further enhanced by a reduction in underinsurance in the property portfolio. There is still underinsurance, albeit to a lesser degree. Cross-selling to the Group's customer base has yielded a significant number of new customers.

In addition, the sales support function was positioned to serve all delivery channels effectively.

## Future strategies

Being the preferred provider of short-term insurance products, services and solutions to the Group and selected customer segments will require an intensified focus on the development and enhancement of products as well as the integration and delivery of Absa Insurance Company's products into the Absa value proposition through diversified delivery channels.

Challenges ahead include ensuring the optimal positioning of Absa Insurance Company in Absa to increase penetration of Absa's customer base and FSC compliance.

# Absa Syndicate Investments Holdings Limited

**Andrew Hussey was appointed as managing director of Absil in 1998. >**

## Salient features

| Calendar years | **2005** | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Premium income limit (£ million) | **24** | 34 | (29,4) | 34 |

***Absa Syndicate Investments Holdings (Absil)*** *is a corporate member of Lloyd's and operates from London. It underwrites on seven syndicates and has a premium income limit of £24 million for 2005.*

## The 2005 financial year

### Key developments

- The 2002 Lloyd's underwriting year of account was profitable across all major classes of business.
- Absil outperformed the Lloyd's average result by a considerable margin.

### Achievement against objectives

**Objectives set for the 2005 financial year**

- A possible reduction of exposure based on deteriorating market conditions.

**Performance against objectives**

- Absil has reduced its premium income limit from £34 million in 2004 to £24 million for 2005.

### Commentary

It is pleasing to report that Absil made a pre-tax profit for this year. The 2002 Lloyd's underwriting year of account (to which this profit relates) was profitable across all major classes of business as rating levels increased sharply after the World Trade Center loss.

There were relatively few major claims and it is encouraging that all the syndicates supported by Absil were profitable. As in previous years, Absil outperformed the Lloyd's average result by a considerable margin.

There was some deterioration from prior years in respect of United States (US) liability claims relating to insurance for directors and officers at Enron and Worldcom and for class actions against financial institutions as a result of the collapse of the US stock market in the late 1990s.

New notifications have also been received in respect of possible endowment misselling in the United Kingdom. These notifications increased loss provisions and turned an excellent result into a good one.

The 2003 account is beginning to look exceptionally good and the incurred loss ratios are the best on record. Absil is on track to produce an extremely good profit next year.

The 2004 account is still in its infancy, but early indications are that another profit should be achievable. Unlike the previous two years, claims frequency and severity were above average. The insurance industry was hit by four hurricanes on the US east coast, various earthquakes and typhoons in Japan and the tsunami in Southeast Asia. Despite these catastrophe claims, all syndicates are estimating profits, albeit much lower than those for 2003.

## Future strategies

After three years of historically high rating levels, some competitive forces are now apparent. Rates in certain sectors are reducing but rating indices suggest that there are still reasonable margins.

In anticipation of this, Absil has reduced its premium income limit from £34 million in 2004 to £24 million for 2005 and reduced the number of supported syndicates from ten to seven. By continuing to support only the best underwriters, Absil hopes to produce an acceptable profit in 2005.

# Absa Brokers (Proprietary) Limited

**Johan Reyneke was appointed as managing director of Absa Brokers in January 1998. >**

**Senior management** **C Barwise,** *leader: Data Brokers;* **K Govender,** *account executive: Communication;* **P Kellerman,** *account executive: People Management;* **U F le Roux,** *executive director;* **D Olckers,** *executive director;* **G Vermaak,** *leader: National Sales.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Number of policies written per annum | | | | |
| ● Life (long term) | **202 000** | 184 000 | 9,8 | 153 000 |
| ● Short term | **75 000** | 53 000 | 41,5 | 56 000 |
| Lapse ratio (%) | **12,6** | 13,5 | | 13,1 |
| Number of employees | | | | |
| ● Life (long term) | **593** | 636 | (6,8) | 642 |
| ● Short term | **372** | 374 | (0,5) | 313 |
| ● Data | **250** | 230 | 8,7 | 162 |
| ● Telebrokers | **41** | 32 | 28,1 | 70 |
| ● Other | **359** | 408 | (12,0) | 424 |
| Number of customers | **800 000** | 500 000 | 60,0 | 400 000 |

***Absa Brokers*** *is one of the largest financial, investment and risk advisory companies in South Africa and provides the full spectrum of financial advisory services, ranging from risk management to wealth creation and preservation and estate planning. Absa Brokers acts as an intermediary between Absa's customers and various product providers such as the Absa Group, Sanlam, Old Mutual, Santam, Mutual & Federal and Momentum. It also provides a delivery channel (both physical and electronic) for financial products and advice to various market segments in the Group.*

## The 2005 financial year

### Key developments

- Absa Brokers increased its market share.
- Improvement in the lapse ratio.

## Absa Brokers' product and service offering

- **Advisory services – long term ➔ Life assurance, endowment assurance, investments, annuities, unit trusts, business assurance**
- **Advisory services – short term ➔ Short-term personal insurance, short-term commercial and industrial insurance**
- **Advisory services – general ➔ Advice regarding personal financial planning, retirement and estate planning, and investment planning**

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| ● Increased focus on electronic delivery of products and services. | ● Substantial increase in income from the electronic delivery channel. |
| ● Training of brokers to comply with new legislation. | ● Brokers were trained in using Absa Brokers' technology-based solutions and in complying with the new legislation. |

### Profit drivers for the year under review

Absa Brokers' profit drivers for the 2005 financial year included the quality of leads, number of brokers, remuneration of brokers and lapse ratio.

### Commentary

Conditions for the short-term insurance industry improved, with underwriting margins the best in more than a decade and the equity market performing well. This led to a softer market, especially in commercial and industrial insurance, where renewals were made at substantially reduced premiums.

The life industry experienced difficult trading conditions, with very little or no growth. New risk-only products were introduced at very competitive rates, but this resulted in a high churn rate.

Absa Brokers increased its market share from 6,3% to 6,6% for the six months ended 31 December 2004. The average lapse ratio declined by 1% year-on-year.



## Future strategies

Absa Brokers will continue to create and secure financial independence for its customers. Emphasis will be placed on migrating lower-premium, short-term business from the physical channel to electronic delivery. Resources will be directed towards the training of brokers, especially in using the integrated broker practice software and complying with the various legislative and regulatory requirements.

Expanding the commercial and industrial business (short term) in Business Banking Services will continue to receive emphasis, as will the appointment of a significant number of brokers, especially in the data broker division.

# Absa Consultants and Actuaries (Proprietary) Limited

**Johann Grobler was appointed as managing director of Absa Consultants and Actuaries in 1998.** >

**Senior management** **C F de Jager,** *executive director;* **L Mostert,** *general manager;* **W Welsh,** *operations manager.*

## Salient features

| | 2005 | 2004 | Change % | 2003* |
|---|---|---|---|---|
| Permanent employee complement | **255** | 253 | 0,8 | 235 |
| Number of customers | **535 (260 000 members)** | 520 (238 000 members) | 2,9 | 500 (215 000 members) |

***Absa Consultants and Actuaries*** *offers comprehensive administrative, actuarial and consulting services, including asset consulting services in respect of pension funds, provident funds and other employee benefit group schemes. It serves mainly the domestic business market.*

### Absa Consultants and Actuaries' product and service offering

- **Services** ➔ **Retirement fund administration services, retirement fund consultation services, actuarial services, asset consulting services**
- **Products** ➔ **Domestic workers' retirement funds, farm workers' retirement funds, preservation retirement fund, domestic workers' payroll and unemployment fund administration**

## The 2005 financial year

### Key developments

- Customer retention remained high, enabled by skilled employees and advanced technology.
- New products and services provided to the market during the year: The Home Employees' Plan was launched, providing payroll services and retirement provisioning to home employees and their employers.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| • Implementation of the new administration system and the completion of a business process re-engineering exercise. | • The implementation of the new administration system, as well as the migration of customers onto the system, has progressed well during the year.<br>• The business process re-engineering exercise is still under way. |
| • Product development. | • New product offerings have been well received by the market, especially in the area of asset consulting and products aimed at the lower end of the market. |

### Profit drivers for the year under review

Absa Consultants and Actuaries' profit drivers for the 2005 financial year included new business growth and the control of operating expenses.

### Commentary

Customer retention remained high, enabled by skilled employees and advanced technology. A new, technologically advanced retirement fund administration system has been implemented. The system enables members of retirement funds to link up with their respective funds using the internet. The migration of customers onto the new system is progressing well. Successes relating to the expansion of business resulted in a rise in net income.

The volatility of investment markets had a negative effect on asset-based fees during the first half of the financial year. Uncertainty surrounding regulatory issues in the retirement fund industry had a significant impact on consultation and actuarial services (specifically the uncertainty surrounding the practical application of legislation on pension fund surpluses), which had a negative effect on actuarial fees.

Through a joint initiative with retail banking, the Home Employees' Plan was launched. It provides payroll services and retirement provisioning to home employees and their employers.

A dedicated business process re-engineering exercise is still in progress. The aim of the exercise is to introduce new and more efficient methods of retirement fund administration in conjunction with the new administration system.

## Future strategies

Absa Consultants and Actuaries aims to show consistent above-average growth through high service standards and the development of new service offerings. The short-term emphasis will be on the implementation of the business process re-engineering exercise as well as the development of services and products that satisfy the changing needs of customers.

Challenges include retaining and acquiring customers, continuously improving service and product offerings and developing new products and services.

# Absa Health Care Consultants (Proprietary) Limited

**Louis Botha was appointed as managing director of Absa Health Care Consultants in April 1998. >**

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Permanent employee complement | **38** | 37 | 2,7 | 41 |
| Number of customers | **65 000** | 60 000 | 8,3 | 55 000 |

***Absa Health Care Consultants (AHCC)*** *is the custodian of healthcare products and services in the Group. AHCC is represented in all the main centres in South Africa and offers a comprehensive healthcare consulting service to employers, unions, medical schemes, medical scheme administrators, managed-care providers and trustees.*

*For the retail market, AHCC develops and/or sources products to be distributed via various distribution channels and provides the necessary fulfilment and after-sales services.*

### Absa Health Care Consultants' product and service offering

- **Group market ➔ Strategies, policies, products, programmes, services, communication, measurement and refinement**
- **Retail market ➔ Medical schemes, health insurance, pre-funding payment mechanisms, financing and discount provider networks**

## The 2005 financial year

### Key developments

- An integrated new business development approach was developed for Absa's corporate and large business customers.
- New products and services: Mediboost, a product aiming to enhance access to affordable and quality healthcare services and consisting of a debit/credit card, a discount provider network and a choice of health insurance, has been developed.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| Provision of comprehensive healthcare solutions to the corporate market. | AHCC has exceeded expectations with respect to its consulting services to the corporate market. |
| Further development of Mediboost – an innovative service offering to the retail market. | Mediboost has not yet been launched. |

### Profit drivers for the year under review

AHCC's profit drivers for the 2005 financial year are fee income from advisory services, commission income from introducing products and administration income from after-sales services.

### Commentary

AHCC is well positioned with respect to its industry involvement and professional image. The company has a solid and loyal customer base and experienced employees. During the year under review, the company achieved excellent customer retention, made possible by its compelling value proposition and strong customer service culture, supported by a centralised service centre.

Mediboost, an innovative product for the retail customer that relies on internal collaboration and an integrated approach, was not launched during the 2005 financial year. Marketing is planned to commence in the next financial year.

An integrated new business development approach was developed together with Absa's corporate and large business customers. In addition, a renewed strategy to align the distribution strengths of Absa Brokers with the healthcare custodianship of AHCC, especially for the retail market, took place.

## Future strategies

AHCC will continue to provide comprehensive healthcare consulting solutions to Absa's corporate and large business customers. In achieving enhanced new business growth in the corporate and large business market, the company will rely on the new business development team, together with Absa Consultants and Actuaries.

During the next financial year, the company will also focus on the further development of Mediboost and its national launch to the Group's retail customer base, capitalising on the distribution capabilities of Absa Brokers, Personal Bank Sales, AHCC's new business development team and electronic or direct delivery.

# Absa Fiduciary and Investment Services

**Andries Swart was appointed as managing executive of Absa Fiduciary and Investment Services in March 1992. >**

***Absa Fiduciary and Investment Services*** *houses a number of wealth management companies: Absa Trust Limited, Absa Mortgage Fund Managers (Proprietary) Limited, Absa Fund Managers Limited, Absa Stockbrokers (Proprietary) Limited and Absa Portfolio Managers (Proprietary) Limited.*



# Absa Trust Limited

**Senior management** **H A Greenway,** *executive director.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Assets under management (Rbn) | **5,2** | 4,3 | 20,9 | 3,8 |
| Value of deceased estates distributed (Rbn) | **2,7** | 2,3 | 17,4 | 1,9 |
| Number of trusts under administration | **17 608** | 16 325 | 7,9 | 16 088 |
| Permanent employee complement | **433** | 453 | (4,4) | 449 |
| Number of customers | **1 million +** | Approximately 1 million "active" customers | | Approximately 1 million "active" customers |

***Absa Trust*** *is the largest trust company in South Africa. It has a domestic focus and its fiduciary consultants in selected Absa branches serve mainly Absa's personal customer segments.*

## Absa Trust's product and service offering

- **Comprehensive range of fiduciary services, including drafting of wills, estate planning, administration of deceased and insolvent estates, and trustee services for personal, family, charitable and employee benefit trusts.**

## The 2005 financial year

### Key developments

- Assets under management in trusts ended the year at an all-time high.
- Absa Wills Online became available to the general public on Absa's website.
- New products and services introduced during the year: Estate Provider Plan, an estate management plan consisting of a will and appropriate life products (in partnership with Absa Life).

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| Increasing sales volumes. | Sales volumes were very strong in the middle market. Penetration of the affluent market has improved, but is not yet at an optimum level. |
| The insourcing of new business from existing firms of attorneys and auditors. | Insourcing of business from attorneys and auditors has been hampered by the need to clarify legislative issues in some areas of South Africa. Prospects remain positive. |
| Enhanced product diversification. | Innovative products, including Absa Wills Online, the Estate Provider Plan (jointly with Absa Life) and a choice of employee benefit trusts, have strengthened the customer value proposition. |

### Profit drivers for the year under review

The main profit driver for Absa Trust, as for all trust companies, is the generation and maintenance of a large pool of quality wills. "Quality" in this context refers to high asset values. This will, in time, lead to substantial estate administration and testamentary trust management fees.

Estate administration fees account for some 60% of Absa Trust's total revenue. Because fee tariffs are limited by statute, revenue is determined largely by the number of estates distributed and the average asset value per estate.

Trustee fees are driven by the value of assets under management and also by the performance of financial markets.

### Commentary

The 2005 financial year produced successful results, with net profit comfortably ahead of expectations. Helped by the strength of the domestic equity and bond markets, assets under management in trusts reached a new record. The drafting and maintenance of quality wills that, in time, will lead to estate administration and testamentary trusts, remains the main driver of Absa Trust's future success. Progress was made with the strategy to have a will included in selected Absa product packages (for example Platinum Preservation for PFS and the Absa Gold cheque package for RBS).

## Future strategies

Absa Trust's intent in the 2006 financial year is to entrench its position as the preferred provider of fiduciary services to the affluent and middle markets. The drafting of new wills will remain an important focus area.

While maintaining its strong position in the middle market, the company aims to improve its position in the affluent market. The subsegmentation of Absa's customer base, the emphasis on product bundling and the creation of the Personal Bank Sales business unit will improve Absa Trust's ability to meet the fiduciary needs of selected customer segments.

Innovative new products and further enhancements to existing products are expected to place the company in a strong position to achieve another year of increased profits and growth in assets under management.



# Absa Mortgage Fund Managers (Proprietary) Limited

**Senior management** **N D Main,** *executive director.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Assets under management (Rbn) | **1,33** | 1,24 | 7,3 | 1,13 |
| | | | | |
| Permanent employee complement | **32** | 34 | (5,9) | 26 |
| Number of investment customers | **24 055** | 20 700 | 16,2 | ±18 000 |
| Number of loan customers | **703** | 650 | 8,2 | 622 |

***Absa Mortgage Fund Managers*** *is the manager of the Absa Participation Bond Fund, a collective investment scheme in participation bonds. The fund provides loans to small and large companies, close corporations, trusts, property investors and developers for the development, acquisition or refinancing of income-producing commercial and industrial property. Investments in the fund are marketed to the personal market segment through Absa branches. Individuals and, to a lesser extent, personal and charitable trusts, charities and churches, participate in this secure investment with a high, fluctuating and competitive interest rate.*

## Absa Mortgage Fund Managers' product and service offering

- **Finance for the development, acquisition or refinancing of commercial properties ➔ Off-balance-sheet loan finance secured by first mortgage bonds over commercial and industrial properties**
- **A secure investment with a high income yield ➔ Absa Participation Bond Fund**

## The 2005 financial year

### Key developments

- Number and value of new loans at record levels.
- Bad debts at lowest level ever.
- New products and services introduced during the year: Bonus and minimum rates on new investments (at appropriate times).

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| Growth in assets under management by managing the internal sales programme and providing product and marketing support. | A healthy level of new loans was partially offset by large loan repayments as owners accepted attractive offers for their properties in a booming market. |
| Enhancement of the investment product and broadening of the target market. | Enhancement of the investment product led to a successful broadening of the target market. |
| The creation of further alliances and partnerships. | No new alliances were formed, but continued to strengthen existing relationships. |

### Profit drivers for the year under review

The total loan book and the fee margin are the major profit drivers. Minimisation of bad debts is important as the company takes these onto its own book.

### Commentary

The low interest rates and the consequent strength of the property market improved the demand for commercial property finance during the financial year to 31 March 2005. New loans were significantly higher than the previous year. The booming commercial property market also resulted in an increase in loan repayments as owners sold their properties (often to JSE-listed property unit trusts and loan stock companies). The value of new investments reached a new record. With bad debts at an all-time low, Absa Mortgage Fund Managers' earnings increased strongly.

Investments in the Absa Participation Bond Fund, which provides funding for the loan book, are now drawn from a broader target market and constitute an attractive addition to the Group's range of secure, high-yielding investment products.

## Future strategies

Absa Mortgage Fund Managers aims to enhance the Group's off-balance sheet lending through substantial growth in assets under management. Low interest rates and the continuing strength of financial markets and the commercial property market should provide an environment in which significant growth in the commercial property loan book can be achieved.

# Absa Fund Managers Limited

**Senior management** **G M Smit,** *executive director.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Assets under management (Rbn) | **42,0** | 35,0 | 20,0 | 22,7 |
| Permanent employee complement | **28** | 32 | (12,5) | 30 |

***Absa Fund Managers (AFM)*** *offers a variety of unit trust investment products, ranging from low-risk income funds, to higher-risk specialist equity funds investing both domestically and internationally. Absa Fund Managers is the second largest unit trust management company measured by assets under management. As at 31 March 2005, total assets under management were R42 billion. This represents a 13% market share of the South African unit trust industry. Absa Fund Managers' unit trusts are sold through the Absa branch network, as well as PFS offices and Absa Brokers. AFM's main sources of new investment inflows to the Absa Money Market Fund are the middle and affluent customer segments. Inflows to non-money market funds come mainly from linked-product providers.*

### Absa Fund Managers' product and service offering

- **Offers a variety of unit trust investment products, ranging from low-risk income funds such as the Absa Money Market Fund, Absa Dividend Income Fund and the Absa Inflation Beater Fund, to higher-risk specialist equity funds investing both domestically and internationally.**

## The 2005 financial year

### Key developments

- Significant growth in the Absa Inflation Beater Fund.
- Absa was rated fourth in the recent Plexus Survey of unit trusts.
- New products and services introduced during the year: The Absa Prudential Fund of Funds was launched successfully during the past year. Institutional funds were opened for Absa Trust and attracted flows of more than R330 million.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| Compliance with new legislation. | Achieved the required level of compliance with new legislation. |
| Enhanced penetration of the mass market. | Selected unit trusts were re-launched in Absa branches, which increased the debit order book. |

### Profit drivers for the year under review

The main drivers are inflows and assets under management. Service fees are charged as a percentage of both inflows and assets under management.

### Commentary

The Absa Inflation Beater Fund was a major success during the past year. The fund is sold through the branch network and the debit order book increased significantly, with more than 16 000 accounts opened during the 2005 financial year.

The Absa Money Market Fund grew by more than 22%. At 31 March 2005, the fund's assets exceeded R36 billion.

Furthermore, the performance of equity unit trusts was outstanding and, in the recent Plexus Survey of unit trusts, Absa was ranked fourth overall over a one-year period.

The size and inflows of equity unit trusts was disappointing. Although the performance of the funds has been excellent over the past year, the majority of flows went into the Fixed Income and Money Market Funds.

## Future strategies

In the year ahead, the primary focus will be on providing bundled solutions to the various customer segments in the Group. Emphasis will also be placed on growing relationships with linked investment service provider (LISP) companies to increase overall sales. There will also be a drive to increase the sales volume of equity unit trusts.

Emphasis will also be placed on increasing the awareness of Absa Fund Managers to create a positive perception of the company and its unit trusts.



# Absa Stockbrokers (Proprietary) Limited

**Senior management** **G M Smit,** *executive director.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Assets under management (Rbn) (assets in safe custody) | **4,8** | 4,3 | 11,6 | 3,1 |
| Average daily trades | **470** | 245 | 91,8 | 177 |
| | | | | |
| Permanent employee complement | **21** | 30 | (30,0) | 27 |
| Number of customers | **10 755** | 10 388 | 3,5 | 7 400 |

***Absa Stockbrokers,*** *a member of the JSE Limited, enables customers to trade online or by telephone in shares, warrants and exchange-traded funds (ETFs). Absa Stockbrokers is also an approved custody and settlements member, thus facilitating the settlement and safe custody of transactions for its customers. Services are offered to the personal market segment through the Absa branch network, the Absa website and directly. Absa Stockbrokers also transacts business for Absa.*

### Absa Stockbrokers' product and service offering

- **Trading, either online or by telephone, in JSE-listed securies. (The service includes settlement and safe custody of securities.)**

## The 2005 financial year

### Key developments

- Strong growth in number of new customers and number of trades.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| Growing online share trading. | The number of online customers has increased steadily over the year. |
| Improved operating efficiencies, correct pricing and cost controls. | Pricing for online trading is very competitive. Operating efficiencies and cost controls have improved. |

### Profit drivers for the year under review

The main revenue driver is brokerage, which depends on the number and value of share trades.

### Commentary

Absa Stockbrokers maintained its positioning as an execution-based business competing aggressively on price. The number of customers grew steadily, as did the average number of trades per day. Absa Stokbrokers completed the first phase of an awareness programme for Personal Bank Sales consultants and PFS relationship managers and financial planners.

## Future strategies

The key focus will be on increasing the rate of growth in online share trading volumes. A programme to improve awareness and visibility of the online service, both internally and externally, began last year and will continue during the 2006 financial year. The profitability of online trading will also be enhanced by adopting a more cost-effective IT system.



# Absa Portfolio Managers (Proprietary) Limited

**Senior management** **G M Smit,** *executive director.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Assets under management (Rbn) | **2,2** | 1,5 | 46,7 | 1,4 |
| | | | | |
| Permanent employee complement | **13** | 14 | (7,1) | 16 |

**Absa Portfolio Managers (APM)** *manages a variety of investment portfolios, each crafted to meet specific objectives. While its main business is the management of long-term equity portfolios for private customers and trusts, the company also manages money market, bond and balanced portfolios as well as specialised portfolios for companies and institutions. The portfolio management service is comprehensive and embraces all related administrative functions, including custody of assets, settlement of transactions, collection of investment income and dealing with corporate activities such as rights issues. Services are marketed to the personal market segment and selected business market segments, mainly through the Absa distribution channels, Absa Trust and Absa Brokers.*

## Absa Portfolio Managers' product and service offering

- **Management of long-term investment portfolios for private customers and trusts, as well as specialised portfolios for companies and institutions.**

## The 2005 financial year

### Key developments

- Substantial increase in value of assets under management.
- Launched innovative portfolio management offerings for the corporate and institutional markets (specialised portfolios).

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| • Growth in assets under management. | • Assets under management increased substantially during the year, but are still below the desired critical mass. |

### Profit drivers for the year under review

The main revenue driver is the value of portfolios under management, since fees are, in most cases, calculated on the market values of managed portfolios. The inflow of new portfolios, retention of existing business, relative investment performance and trends in financial markets are contributing factors.

### Commentary

Assets under management increased significantly during the 2005 financial year. Innovative investment solutions for companies and smaller institutions have enabled the company to expand its target market. In the market for private customers, APM's investment performance and quality of service are competitive.

## Future strategies

The focus in the next financial year will be on improving awareness in the appropriate Absa distribution channels, thereby achieving substantial growth in assets under management.

# Absa Investment Management Services (Proprietary) Limited

**Mel Harris was appointed as managing director of Absa Investment Management Services in January 1998. >**

**Senior management** **L Johnson,** *executive director and chief operating officer;* **J Gouws,** *executive director and chief investment officer.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Assets under management (Rbn) | **12,5** | 8,0 | 56,3 | 6,0 |
| | | | | |
| Permanent employee complement | **117** | 110 | 6,4 | 109 |
| Number of customers | **46 635** | 38 560 | 20,9 | 14 527 |



***Absa Investment Management Services (Aims)*** *is an open architecture investment information, technology and knowledge company that provides its customers with complete solutions through every aspect of the investment process. It achieves this by providing the full spectrum of investment solutions to all market segments. The solutions range from simple bank products to the most complex products, inter alia using derivative instruments. These are provided to the life assurance, retirement benefit, discretionary retail investment and multi-managed markets.*

## Aims's product and service offering

- **Savings and investments ➔ Investment account, savings investment account, Life Series, Alternative Investment Series, Guaranteed Series, offshore investment account, Universal Investment Plan**
- **Retirement ➔ Retirement annuity fund, preservation fund, living annuity**
- **Other ➔ Outsourced administration services, technical services, investment advisory services**

## The 2005 financial year

### Key developments

- Aims was ranked as the best multi-manager in the retail general equity and prudential unit trust fund categories in 2004, and the Absa International Fund of Funds was first in its category over one, two and three years (as per Micropal). The Wealth Series was launched in November 2004 and has taken in excess of R200 million in investments.
- New business inflows from independent brokers increased significantly from the previous financial year.
- New products and services provided to the market: The Absa Alternative Investment Series (hedge fund) was launched, as was the Wealth Series.

### Achievement against objectives

**Objectives set for the 2005 financial year**

- The consolidation of the role of Aims as an outsourced investment administration platform.

**Performance against objectives**

- Aims's role as an outsourced administration platform for external entities was successfully advanced, with a number of "white labelled" funds being brought onto the platform by independent fund managers.
- Regarding internal entities, the continued development and delivery of an investment and advisory solutions platform will remain a key focus. Such a platform will reduce investment advice risk in line with current legislative requirements, in terms of the FAIS and FIC Acts.

### Profit drivers for the year under review

Aims's profit drivers for the 2005 financial year included an improved sales commitment from Absa channels, increased support from independent financial advisers, growing assets under management to provide a sustainable income from administration fees, and streamlining administrative processes to cater for increased business volumes by encouraging financial advisers to use the Aims electronic platform to submit new business applications.

### Commentary

During the first six months of the year, much activity and effort went into getting Aims prepared for the introduction of the FAIS Act, which took place on 30 September 2004. Aims was one of only two linked product companies that obtained FAIS approval in all three licence categories.

Assets under management showed a quantum increase of 56,3% year-on-year, to stand at R12,5 billion at year-end. New business inflows from the independent broker channels grew significantly over the year and this source accounted for just more than half of new business for the year.

As per Micropal, Aims was ranked as the best multi-manager in the retail general equity and prudential unit trust fund categories in 2004, and the International Fund of Funds was first in its category over one, two and three years. The Absa Balanced Fund was rated as the top-performing fund on a risk-adjusted return basis over a five-year period in its category in a leading industry survey.

## Future strategies

With renewed commitments from the Absa channels to increase business flows to Aims, and with the continued support of the independent broker channels, Aims is anticipating improved new business flows for the coming year. Although administrative capacity has been enhanced to cater for these flows, Aims will continue its drive for better use of its electronic transacting capability, which will benefit the investor, the broker and Aims itself through greater accuracy and efficiency in the administration process.

The continued entrenchment of Aims's firewall status will be key to maximising support from the independent broker channels, as Aims seeks to expand its relationship with quality independent brokers and networks, and facilitate the transfer of investment books to its platform.

The continued development and delivery of an investment and advisory solutions platform for use by Absa entities will remain a key focus. This platform will offer Absa entities the ability to significantly reduce their investment advice risk in line with current legislative requirements, in terms of the FAIS and FIC Acts.

*Note: As Stonehage Financial Services Holdings Limited was sold during the 2005 financial year, it is not covered in Absa's 2005 annual report.*

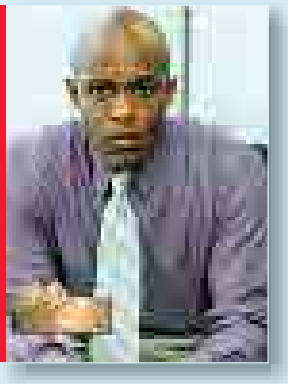
# Other Group activities

A number of divisions provide services that facilitate or enhance the service delivery of the Group's business units. Other Group activities include Absa's capital and funding centre, property interests, shared services, specialist functions and strategic investments.



## Highlights for the year under review

- **Rated as the Best Company to Work For in the banking sector (Deloitte Human Capital Corporation).**
- **Adjudged the listed company with the overall best communication and reporting in South Africa by the Investment Analysts Society of Southern Africa.**
- **Recognised as a leader in corporate reporting. Adjudicators from the University of Cape Town rated the Group's 2004 annual report as the second best among South Africa's top 100 listed companies in the annual Ernst & Young competition.**
- **Announced the TDWI best practice winner in data warehousing in the predictive analytics category by The Data Warehousing Institute in Seattle, USA.**



## Business unit headline earnings

| | 2005 Rm | 2004 Rm | Change % | 2003 Rm |
|---|---|---|---|---|
| **Capital and funding centre*** | **(159)** | (60) | (>100,0) | — |
| **Corporate centre**** | **(205)** | 95 | (>100,0) | 66 |
| **Total** | **(364)** | 35 | (>100,0) | 66 |

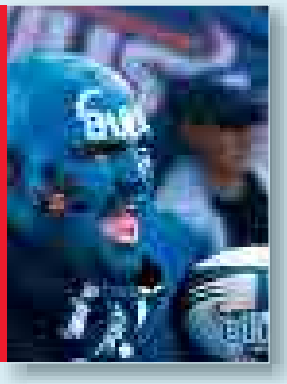
**In addition, the following business units are included:**

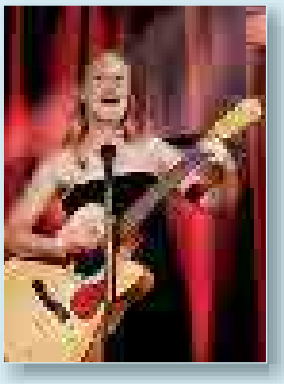
- **Strategic subsidiaries and associates**
  - **Distribution of social grants ➔ AllPay Consolidated Investment Holdings (Proprietary) Limited**
  - **Other subsidiaries and associates ➔ Information on the Group's subsidiaries and associates can be found on page 356 of this annual report.**
- **Property interests**
  - **Real Estate Asset Management (including Absa Development Company Holdings (Proprietary) Limited)**
- **Shared Services**
  - **Delivery Channel Services**
  - **Group Payment Systems**
  - **Group Administration**
  - **Group Credit**
- **A number of specialist functions providing areas of excellence for specific disciplines.**

**Interest rate risk is managed centrally. Business units transfer this risk to the capital and funding centre based on the matched-funds transfer pricing methodology. A negative contribution reflects the extent to which the negative impact of declining interest rates was not hedged. The unhedged interest rate risk positions were within the Group's approved risk appetite. The capital and funding centre is accounted for as part of Absa's banking operations.*

***The corporate centre includes the cost of Group initiatives that are retained at a corporate level and not charged to the business units, as well as secondary tax on companies (STC) on dividends.*







# AllPay Consolidated Investment Holdings (Proprietary) Limited

**Dirk Kotzé was appointed managing director of AllPay in 2001. >**

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Number of contracts | | | | |
| ● Provincial governments | **4** | 4 | — | 4 |
| ● Independent Development Trust (IDT) | **1** | — | >100,0 | |
| Number of beneficiaries (million) | **2,0** | 1,7 | 17,6 | 1,1 |
| | | | | |
| BEE shareholding (%) | | | | |
| ● Western Cape | **34** | 34 | | 34 |
| ● Free State | **40** | 22 | | 10 |
| ● Gauteng | **40** | 40 | | 36 |
| ● Eastern Cape | **44** | 44 | | 44 |
| | | | | |
| Permanent employee complement | **85** | 84 | 1,2 | 73 |

***AllPay Consolidated Investment Holdings (Proprietary) Limited (AllPay)*** *distributes social grants and other payments to beneficiaries on behalf of third parties. AllPay serves more than two million individuals on behalf of four provincial governments through joint venture partnerships with black empowerment companies and other groups.*

*Apart from serving the social grant market, AllPay supplements Absa Group's services by remotely delivering financial products and services to unbanked communities in the mass market. It also delivers payment services on behalf of the Independent Development Trust.*

*The AllPay system has continued to prove itself as an ideal distribution channel for beneficiaries of disaster relief payments.*

## AllPay's product and service offering

- **Cash distribution ➔ Cash distribution to social grant participants and other third-party beneficiaries**
- **Debit cards ➔ Absa Sekulula debit card**
- **Facilitating access to financial services ➔ Remote opening of Mzansi and FlexiSave accounts**

## The 2005 financial year

### Key developments

- Re-awarded a three-year tender for the distribution of social grants to beneficiaries in the Free State.
- Awarded international recognition by Investors in People for reward, recognition and development of employees.
- New products and services provided to the market during the year: Remote opening of Mzansi and FlexiSave accounts.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| ● Improved access to the Absa Sekulula card. | ● Utilisation has grown from 80 000 customers in 2004 to more than 400 000 by the end of March 2005. |
| ● Positioning of AllPay as an alternative delivery channel. | ● AllPay continued to position itself as an alternative delivery channel for financial services and products in response to the growing demand for the non-traditional delivery of financial value propositions. AllPay has enlarged its footprint, with mobile units deployed in five of the nine provinces. |

### Profit drivers for the year under review

AllPay's profit drivers for the 2005 financial year were the number of contracts and transaction volumes, customer affordability and cost of delivery against customer specifications.

### Commentary

AllPay has grown its annual transaction base by 20% since April 2004. Growth was lower than expected, mainly because of the government's concerted effort to eradicate fraud in the administration of social grants, which resulted in the cancellation of thousands of grants.

AllPay was re-awarded a three-year tender for the distribution of social grants to beneficiaries in the Free State. This is the second successive tender awarded to AllPay by the Department of Social Development since AllPay's inception in 1997. Since then, the number of beneficiaries served by AllPay in the Free State has grown from 116 000 to 378 416. In addition, AllPay's tender in the Western Cape has been extended.

The success of the Absa Sekulula debit card provided AllPay with valuable experience and skilled resources in providing previously disadvantaged communities with easy access to banking and other financial services products. The extension of capabilities to provide remote access to the Absa Mzansi account further enhanced AllPay's strategic intent of offering customers an integrated solution where access to benefits such as grant payments or basic financial services is provided at the convenience of the customer. The Absa Sekulula debit card payment option in Gauteng and the Eastern Cape, where growth in excess of 400% was experienced, has relieved the pressure on the available service point infrastructure and improved service to customers.

AllPay sustained its commitment towards growing the prosperity of communities with contributions of R2,8 million to various community projects and a further R3,2 million towards the improvement of service points. Investment in the development of employees, including subcontractors from small and micro-enterprises, received international recognition through the UK-based Investors in People organisation.

AllPay's commitment to service quality was confirmed with its successful re-certification for ISO 9001:2000 in November 2004. This achievement confirmed the quality in AllPay's business processes.

## Future strategies

Increasing AllPay's footprint in the unbanked and rural market is a priority. The enhancement of AllPay's mobile delivery platform to extend Absa's delivery capabilities will now enter the final stages of development. This will confirm AllPay's role as an alternative delivery channel for financial services and products in the absence of traditional facilities. Entering the African market will also be afforded renewed priority.

The challenges ahead include retaining existing tenders and securing new tenders in the social grant market, as well as diversifying income streams to fill the gap that will be created by the expected migration of social grant recipients to banks.

# Real Estate Asset Management

**Sipho Mashinini was appointed managing executive of Real Estate Asset Management in March 2004. >**

**Senior management** **M V Joubert,** *general manager: Property Solutions Management;* **D van Wijk,** *general manager: Technical Services;* **K F Clinton,** *general manager: Asset Management, Repossessed Assets and Valuations;* **M A Barends,** *general manager: Group Security, Safety and Continuity.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Cost-value of freehold property (R million) | **1 295** | 1 228 | 5,5 | 1 210 |
| Carrying value of freehold property (R million) | **858** | 832 | 3,1 | 828 |
| | | | | |
| BEE project spend (%) | **41,4** | | | |
| | | | | |
| Permanent employee complement (including Repossessed Assets) | **428** | 442 | (3,2) | 434 |

***Real Estate Asset Management (REAM)*** *is an integrated real estate management business unit established to be the custodian of the Group's real estate assets. It comprises Property Solutions Management (Absa Props and Facilities Management), Repossessed Assets, Commercial and Residential Valuations, Absa Development Company, and Group Security, Safety and Business Continuity.*



# Property Solutions Management

***Property Solutions Management (PSM)*** *is responsible for the co-ordinated planning and implementation of the Group's accommodation requirements in both owned and leased properties. It also manages and co-ordinates all related administration with regard to leases, accommodation costs, building-related services and major capital projects related to the Group's accommodation needs.*

## The 2005 financial year

A restructuring of Absa Props, Facilities Management and the Business Support and Delivery Channel Services (DCS) Network resulted in the formation of PSM. PSM now incorporates certain functions of network planning and is responsible for the consolidation and formulation of accommodation planning for the Group.

A new Property Asset Management department was formed. However, to facilitate good corporate governance, it is not housed in PSM. Absa's ATM co-ordination department was also moved to PSM from DCS (Self-service Channel) to enhance REAM's ability to provide one-stop property solutions.

The accommodation footprint was reduced by 20 671 square metres, resulting in a net saving of R7,3 million on committed lease costs. Vacant space was reduced by 40 820 square metres.

The emphasis on awarding work to BEE contractors resulted in 41% of the approved budget going to BEE contractors.

## Future strategies

The main focus will be to bed down the new PSM structure and implement the Group's three-year accommodation plan, which will contribute significantly to the reduction of accommodation costs.

The emphasis will remain on ongoing cost-saving initiatives and the increased use of BEE contractors in achieving its Financial Sector Charter (FSC) targets.

# Asset Management

*A property **asset management** department has been created in line with global best practice to separate decisions of ownership from decisions of management. This will ensure optimal financial performance and measurement from the Group's owned and leased property portfolio against the Investment Property Databank benchmark.*

## The 2005 financial year

The division became operational on 1 April 2005.

## Future strategies

The long-term aim will be to optimise the overall performance of the Group's commercial property portfolio to at least the median of the Investment Property Databank. In the short term, a strategic plan for the portfolio will be developed in line with global financial institution property ownership best practice. The challenge is to move the property portfolio from being a profit detractor to being a profit enhancer.



# Commercial and Residential Valuations

***Commercial and Residential Valuations** is responsible for providing a property valuation service for agricultural, commercial and residential lending.*

## The 2005 financial year

A total of 425 000 valuations were conducted, compared with 350 000 in the 2004 financial year. The use of AutoVal, a handheld device for residential valuers, increased to 10 000 occurrences per month. The residential valuation agencies created in 2003 are all operating according to plan.

## Future strategies

The long-term focus remains on reducing the cost of valuations to 25% below the market cost within agreed turnaround times. In the short term, one of the department's focus areas is to increase the volume of work from external sources to further reduce the unit cost of valuations to Absa.

A core challenge going forward is to attract and retain skilled valuers and to further reduce the cost of valuations.

# Absa Development Company Holdings (Proprietary) Limited

***Absa Development Company Holdings (Absa Devco)*** *specialises in township development and the sale of serviced residential, commercial and industrial land.*

## The 2005 financial year

Obtaining development approvals in terms of environmental legislation resulted in a sell-out of the first two phases of the Amberfield development in Centurion. The installation of infrastructure in the third phase of Amberfield has commenced alongside the first two phases of the Zambezi development in Tshwane.

Plots in Devco's Welgevonden development in Stellenbosch were sold as they became available. Development of the last phases has been brought forward to meet the demand.

## Future strategies

The aim is to continue improving suitable properties by installing civil and electrical engineering infrastructure and disposing of serviced stands. This creates cross-selling opportunities for the Group, with the emphasis on home loans and development bonds.

Emphasis will also be placed on the development of sustainable mixed-use, low-cost housing townships, which will contribute towards achieving FSC targets. Challenges include new initiatives to sustain income streams and to source land suitable for township development purposes.



# Group Security, Safety and Continuity

***Group Security, Safety and Continuity*** *provides the following services:*

- *Security risk management in the protection of Absa's assets (customers, employees and infrastructure) to minimise crime-related non-trading losses.*
- *Environment, Health and Safety (EHS) management and formulating, facilitating, consulting on and monitoring the implementation and maintenance of a world-class environmental, health and safety service.*
- *Business continuity management to maximise the availability of the Group's service delivery through the minimisation, prevention and/or containment of the effects of serious business interruption, disruption and/or disaster. This reduces the Group's operational risk capital requirements.*

## The 2005 financial year

The implementation of defensive equipment, such as bullet-proof glass, resulted in reduced cash losses. A particular achievement was that Absa recorded the lowest cash loss per incident in the industry. A training and awareness campaign initiated by EHS also resulted in a reduction in injuries on duty.

## Future strategies

The strategic intent remains to facilitate a further decrease in the risk of violent crime, cash losses and possible image loss. A holistic approach will be followed regarding environmental, health and safety aspects in Absa to achieve ISO accreditation. The new business continuity model will be implemented during the 2006 financial year. The governance aspects of Group Security, EHS and Business Continuity will be enhanced.

# Group Procurement and Logistics

***Group Procurement and Logistics*** *is a separate division reporting under REAM.*

*Group Procurement and Logistics enhances the value proposition of Absa's business units by harnessing and leveraging the external supply environment in the most economical, effective and efficient manner.*

## The 2005 financial year

Absa engaged in a multi-bank procurement forum to create clarity together with other stakeholders as to the detailed work processes and approaches inherent in the FSC.

With this largely completed, the focus has shifted to the next phase of the department's BEE programme – to further SME participation in Absa's supply chain.

From a procurement systems perspective, the SAP "procure to pay" implementation is progressing according to plan. Business requirements for the "procure to pay" implementation are currently being finalised. A detailed system design will be derived from these requirements. Implementation is expected to be completed in the first half of 2006.

During the period under review, progress was also made in channelling more of Absa's expenditure through the strategic sourcing process. This resulted in significant savings and quality improvements.

## Future strategies

The emphasis will be on improving the procurement system environment and making it more robust, in line with evolving regulatory and governance requirements. This will also assist in improving the quality of management and business information, achieving the procurement targets stipulated in the FSC and developing co-operation with other industry players.

# Delivery Channel Services

**Juliette du Preez was appointed as Delivery Channel Services' managing executive in 2001. In July 2005, she left the Group and Jaco Grobler took over responsibility for Delivery Channel Services. >**

**Senior management** **A Rautenbach,** *general manager: Branch Network;* **C Very,** *general manager: Digital Channels;* **T R Joffe,** *general manager: Absa Contact Centre (outgoing);* **M van der Merwe,** *general manager: Absa Contact Centre;* **P Mahadeo,** *general manager: Self-service Channel;* **J J Betten,** *general manager: Business Change Enablement;* **J D G de Villiers,** *general manager: Service Management Support;* **S D von Oppel,** *general manager: Delivery Solutions;* **L C Tweed,** *general manager: Business Risk.*

## Salient features

| | 2005 | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Permanent employee complement | **8 719** | 8 344 | 4,5 | 9 215 |
| Number of staffed outlets | **675** | 668 | 1,0 | 677 |
| ● Number of outlets in previously disadvantaged areas | **63** | 54 | 16,7 | 42 |
| ● Number of outlets in partnership with the community | **5** | 3 | 66,7 | 3 |
| ● Number of transactions undertaken in outlets (million) | **91,8** | 91,3 | 0,5 | 92,0 |
| Number of automated teller machines (ATMs) | **5 078** | 4 502 | 12,8 | 3 311 |
| ● Number of transactions (million) | **370** | 341 | 8,5 | 298 |
| ● Number of ATMs in disadvantaged areas | ***195** | 150 | 30,0 | |
| Number of telephone banking customers | **550 773** | 458 017 | 20,3 | 336 161 |
| ● Number of active telephone banking customers | **85 212** | 86 354 | (1,3) | 76 528 |
| ● Number of transactions (million) | **8,3** | 7,5 | 10,7 | 5,1 |
| Number of internet banking customers | **529 873** | 445 690 | 18,9 | 378 597 |
| ● Number of transactions (million) | **377** | 255 | 47,8 | 195 |
| ● Number of financial transactions (million) | **37** | 30 | 23,3 | 21 |
| ● Number of non-financial transactions (million) | **340** | 225 | 51,1 | 174 |
| Number of cellphone banking customers | **52 430** | 28 524 | 83,8 | 13 140 |
| ● Number of transactions (million) | **8** | 4 | 100,0 | 1 |

**Excludes ISO alliance terminals.*

***Delivery Channel Services (DCS)*** *is the owner of the delivery component of Absa's value proposition to the customer and is the custodian of the customer experience. This includes the branch network, digital channels (internet banking, cellphone banking and Absa Internet Access), the Absa contact centre (telephone banking and interactive voice response) and the self-service channel (ATMs, internet kiosks and non-cash service units).*

## The 2005 financial year

### Key developments

- A fully functional portable branch was launched in Diepkloof, Soweto, in March 2005. This forms part of Absa's alternative delivery strategy to expand its access solutions and product and service offerings to a broader base of South Africans.
- Significant growth of the ATM network.
- Continued market leadership in internet and cellphone banking.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| ● Expansion of the delivery footprint and providing enhanced access to financial services and products by increasing the branch and ATM network and the implementation of Absa's alternative delivery strategy. | ● 14 new outlets were opened and 576 additional ATMs were rolled out.<br>● Launch of the first fully functional portable branch in South Africa.<br>● The launch of three additional official languages on Absa's ATMs. |
| ● Maintain market leadership in the digital space. | ● Launched several internet, cellphone and corporate electronic banking products and services. |

### Commentary

During the year under review, DCS's key focus was on entrenching a service culture among employees. The Financial Sector Charter, as well as Absa's drive to provide access to banking facilities for all South Africans has seen the expansion of Absa's branch and ATM network into rural and previously disadvantaged metropolitan areas.

All channels recorded exceptional growth. The ATM network processed more than 370 million transactions for the year and the branch network conducted 91,8 million transactions in outlets. The cellphone banking customer base increased to 52 430 and undertook more than eight million transactions. Internet banking customers increased to 529 873 and transaction volumes grew by 47,8%. Registered telephone banking customers increased, but there was a decline in the number of active users.

Integrated delivery was entrenched in the delivery channels as the enabling platform for future growth, flexible solutioning and speed to market.

## Future strategies

In the longer term, emphasis will be placed on the customer experience and providing a clear choice to differentiate the Absa Group in terms of delivery while maintaining cost efficiencies. DCS aims to achieve this over the next few years through a focus on differentiated and integrated delivery and enhanced market relevance.

Although the focus of expansion in the branch and ATM network remains on the previously disadvantaged market, this will not be achieved at the expense of Absa's traditional market.

Strategic investment and the continued development of the business unit's core capabilities in innovation, knowledge and alliance management will provide Absa's customers with superior and pervasive access solutions and offerings. Rapid deployment of access solutions and offerings is critical to maintain Absa's leadership position in the retail market. A service culture and skilled, knowledgeable employees are critical success factors in the customer experience. These elements will continue to receive attention through learning and development and leadership programmes.

The core challenges facing DCS in future include the expansion of Absa's delivery footprint via the branch and ATM network and the implementation of the Group's innovative delivery strategy, as well as maintaining Absa's leadership position in the digital delivery environment through the rapid deployment of new technologies and the sourcing and retention of talented employees.



# Group Payment Systems

**Walter Volker was appointed general manager of Group Payment Systems in 1999.** >

**Senior management** **M Swart,** *general manager: Programme Management and Product Support;* **P Zambonini,** *general manager: Strategy, Innovation and New Business;* **L Baumgardt,** *manager: High Value Payments;* **S P du Toit,** *manager: Electronic Fund Transfers;* **J Cornelius,** *manager: Regulatory;* **T Makhuvha,** *manager: Debit Cards;* **T Nell,** *manager: Cash and Code Line Clearing;* **H Stoop,** *manager: Marketing and Communication.*

## Salient features

| | **2005** | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Permanent employee complement | **36** | 28 | 28,6 | 25 |
| Debit cards in issue (million) | | | | |
| ● MasterCard (Maestro) | **2,9** | 2,7 | 7,4 | 3,0 |
| ● Visa (Electron) | **4,0** | 3,4 | 17,6 | 2,7 |
| Debit card market share (%) | | | | |
| ● Cards | **36** | 38 | | 42 |
| ● Turnover | **58** | 59 | | 68 |
| Debit card transaction volume growth at point-of-sale (POS) devices (year-on-year) (%) | **64** | 72 | | 94 |
| Debit card transaction value growth at POS devices (year-on-year) (%) | **58** | 61 | | 95 |
| Electronic funds transfer (EFT) debit value growth (year-on-year) (%) | **21** | 21 | | 23 |
| EFT debit volume growth (year-on-year) (%) | **11** | 12 | | 11 |
| EFT credit value growth (year-on-year) (%) | **20** | 20 | | 22 |
| EFT credit volume growth (year-on-year) (%) | **15** | 14 | | 30 |

***Group Payment Systems (GPS)*** *aims to ensure the protection of the Group's payment franchise and to facilitate the provision and positioning of market-leading payment solutions. Key focus areas include the proactive monitoring and influencing of the national payment landscape at a strategic level, formulating strategy, ensuring the execution of initiatives for existing payment systems, ensuring effective governance as well as the acceptance of custodial responsibility for payment systems that have a Group-wide impact.*

## The 2005 financial year

### Key developments

- Implementation of continuous linked settlements (CLS), a near-real-time settlement between banks in different time zones, in December 2004.
- A business intelligence (BI) scorecard for payment systems was deployed in November 2004.
- The Absa Mega-U youth cards (six new card faces) were re-launched.
- Segmentation of debit card faces, which includes Silver, Gold and FlexiSave.
- Implementation of variable transactional pricing for debit cards by segment and related products.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| EMV infrastructure implementation. | The new chip technology will provide increased functionality and will substantially enhance security for debit and credit card products. |
| Enhanced debit card fraud monitoring. | A debit card risk management project is currently under way. |
| Re-engineering of the EFT system. | Industry agreement was reached to standardise narrations on EFT transactions. |
| Remote opening phase II. | Delivery of online capability, as well as opening of personal loans. |
| Cheque card. | Launch of a cheque card allowing offline transactions at point of sale. |
| RTC (real-time clearance). | Interbank real-time clearance of EFT transactions. |

### Commentary

Absa continued to experience strong growth in all payment streams except for cheques, achieving a strong market share in transaction turnover. This contributed to the achievement of GPS's main financial goal, which was to increase non-interest income through transactions and ensure the cost-efficiency and effectiveness of the various payment systems.

A profitability model was developed for GPS, enabling the business unit to look at the cost, revenue and profit generated by each payment stream. This model will be enhanced in the 2006 financial year. A key additional feature of the model is a forecasting tool, which enables the development of future transaction scenarios. Emphasis was also placed on reducing risk and fraud in the debit card environment through the implementation of a debit card risk management and fraud monitoring project.

## Future strategies

All payment streams, including cash, debit cards, EFT, the NuPay/early debit order system (EDOS), cheques and high-value payments, will receive attention. Each of the payment systems has different focal points for the 2006 financial year. GPS will also focus on the further development of the "to-be payments" architecture to facilitate greater cost efficiencies, greater functional richness, and flexibility and shorter development cycles.

To ensure that Absa stays ahead of its competitors, the following projects will receive further attention:

- The improvement of the existing EFT system and processes to provide real-time inter-bank EFT transactions to all interfaces of the system;
- The Mzansi money transfer product, enabling the transfer of funds from person to person;
- The implementation of an offline debit card; and
- Rewriting the EFT systems to better meet the current and future needs of customers.

The challenges going forward include non-compliance by industry players on industry agreements, multilateral payments agreements not being in line with the Competition Act, legislation pertaining to Tier II and III banks and the implications of the Competition in South Africa Banking report relating to payment systems.

# Group Administration

**Stan Steele was appointed general manager: Group Administration in July 1996.** >

**Senior management** **N Myburgh,** *national manager: Home Loan, Security and AVAF Administration;* **J Cloete,** *regional manager: Johannesburg, including Group Administration Support and Control;* **I Marais,** *regional manager: Coastal Region;* **P Potgieter,** *regional manager: Pretoria Region.*

## Salient features

| | **2005** | 2004 | Change % | 2003 |
|---|---|---|---|---|
| Administration centres | **9** | 14 | (35,7) | 15 |
| Cash centres | **7** | 9 | (22,2) | 11 |
| Regional ATM service centres | **12** | 12 | — | 12 |
| Home loan centre | **1** | 1 | — | 2 |
| Vehicle and asset finance centre | **1** | 1 | — | 3 |
| Security centre | **1** | 1 | — | 2 |
| Permanent employee complement | **3 925** | 4 105 | (4,4) | 3 485 |

***Group Administration*** *is the service, support and administration solutions provider in Absa. Group Administration currently manages 88 centralised functions, of which most are performed at one site.*

*Among the bigger centres are the National Security Centre, the National Home Loan Admin Centre, the National Vehicle and Asset Finance Centre, National Image Storage and Retrieval, National Deceased Estate Administration and the National Administration Centre. They perform a variety of centralised functions, which include ATM and ATM interface balancing, magtape administration, national cash management and national clearance and settlement.*

*Group Administration also manages functions that are centralised in more than one centre, such as bulk cash centres, regional ATM service centres and administration centres.*

*Bulk cash centres and cheque processing are managed through alliances. A dedicated company, SBV, manages three industry cash centres. Industry cheque processing is managed by Integrated Process Solutions (IPS). Both companies are co-owned by Absa and managed by Group Administration through operational interfaces and board representation.*

## The 2005 financial year

Group Administration's focus for the year under review was on enhancing the Group's operational performance by improving asset processing and security administration and embracing opportunities for better shared services for bulk cash centres and cheque processing. In addition, the joint cheque processing initiative between Absa and Standard Bank received attention.

### A number of initiatives were launched:

- Enhancing image storage and retrieval in line with an enterprise content management strategy.
- Formulating and managing a comprehensive, cost-efficient cash strategy that complies with legislation, which reduced Absa's cash holding costs.
- Reviewing and e-enabling the total application, security administration and credit value chain.
- Implementing a governance blueprint for administrative issues in the Group's African operations.
- Piloting automated home loan cancellations and journal processing.

## Future strategies

In the year ahead, Group Administration will continue enhancing the cash strategy, e-enabling securities and administration blueprint for Absa's African operations. Group Administration will also concentrate on optimising resources, reducing risk by focusing on enhanced business continuity management and assisting the Group in complying with new legislation.

Emphasis will also be placed on implementing the Absa/Standard Bank cheque processing initiative, finalising automated home loan cancellation and implementing an automated journal to deal with the growth in business by using more productive and scalable processes.

# Group Credit

**Johan Geldenhuys was appointed Group executive of Group Credit in December 2003.** >

**Senior management** **P Swart,** *general manager: Wholesale Credit Services;* **J L Dreyer,** *general manager: Retail Credit Services;* **J S Garde,** *general manager: Legal Recovery Services;* **T P van der Walt,** *general manager: Credit Shared Services.*

## Salient features*

| | **2005** | 2004 |
|---|---|---|
| Charge for impairment of advances as a percentage of advances (Absa Group) | **0,52** | 0,90 |
| ● Retail banking | **0,30** | 0,60 |
| ● Commercial banking | **0,92** | 1,23 |
| ● Wholesale and international banking | **0,49** | 1,14 |
| ● African operations | **1,82** | (0,74) |
| Non-performing advances to total advances (Absa Group) | **2,2** | 3,8 |
| ● Retail banking | **2,7** | 4,8 |
| ● Commercial banking | **1,1** | 2,2 |
| ● Wholesale and international banking | **2,3** | 3,1 |
| ● African operations | **3,0** | 4,5 |
| | | |
| Permanent employee complement | **2 042** | 2 060 |

**2003 statistics not provided owing to the reclassification of business units in retail and commercial banking.*

***Group Credit*** *is responsible for ensuring that the agreed credit risk profile of the Group is achieved. Credit risk best practice, which is embedded in the Group Credit operating model, comprises:*

- *default risk, consisting of credit standing and ultimate default;*
- *exposure risk at default, which is co-managed by the respective business units within approved credit exposure limits;*
- *concentration risk, which is managed by the respective business units within agreed parameters;*
- *recovery risk, consisting of collateral risk, third-party guarantee and legal risk; and*
- *document risk, which is managed by Group Administration.*

*The* ***Group Credit*** *operating model is standardised, centralised and characterised by:*

- *the retail credit process, employing advanced automated credit decision tools for low-value high-volume point-of-sale customer credit decisions;*
- *the wholesale credit process, supported by risk grading tools and decisions of judgement to support the customer relationship service model;*
- *customer-centric credit risk decisions across products and segments, supported by robust credit risk processes and systems managing the allocation of mandates, default, collateral values and regulatory and statutory provisioning requirements;*
- *a shared credit services platform focusing on specialised services such as policy, process, systems, information and change enablement; and*
- *a centralised legal recovery unit focusing on eliminating non-performing loans.*

## The 2005 financial year

The Group Credit operating model has been aligned with Absa's strategic intent and serves the business units according to their respective value propositions. Basel II regulatory requirements continue to receive attention through a dedicated Group-wide programme, and compliance will be achieved by the planned implementation date.

Legal recoveries resulted in measurable cash returns from delinquent customer accounts. The number of non-performing accounts was reduced by more than 40% in all segments, as was their rand value. Recovery rates on non-performing loans increased to just below 6%.

Credit-related initiatives in the respective segments are dealt with separately.

### Retail market segment

Despite Absa Card still being treated as a mono-line credit offering, Group Credit has assumed joint responsibility for Absa Card's credit risk operations. In addition, automated credit risk decision-making tools have been expanded to small business customers to maintain the drive towards standardised and objective credit risk decisions.

A further phase of the behavioural scoring system is being introduced and tested to optimise the automated monitoring and control activities in the customer rescue process.

### Commercial market segment

Extensive enhancements to system support in the commercial segment have been initiated and will continue to be implemented during the 2006 financial year.

### Corporate market segment

The medium and large commercial operations have been successfully integrated into the wholesale credit process. Owing to regulatory constraints, the international and African operations cannot be fully integrated, but alignment with the local credit risk management operations is in progress.

### Regulatory, statutory and credit policy compliance

Compliance with the applicable legislation and regulations is continuously monitored and reported. No material non-compliance in the credit risk operations was identified during the financial year. Regular and objective credit quality reviews are undertaken to ensure adherence to process and policy prescriptions. Group Credit expects an impact on its operations when the National Credit Bill is promulgated. However, Absa has embarked on sufficient pre-emptive preparations to minimise the impact of the bill on its operations.

## Future strategies

Although the economic climate improved again during the 2005 financial year, Absa maintained its lending policy standards relative to market conditions and the average periods of its respective product offerings. This approach contributed to a further improvement in Absa's impairment of advances and ensured the sustainability of its overall asset quality.

Regulatory provisioning requirements remain important and preparing for the introduction of the Basel II accord will remain a focus area.

Group Credit will also be more closely aligned with the segmentation and restructuring of business units' value propositions.

Specific strategic initiatives that will continue are:

- Implementing and enhancing the financial expert systems capability to strengthen the assessment capability;
- Implementing the next phase of the Basel II programme to ensure that the planned activation date will be met;
- Continuing to automate the monitoring and control of customer accounts in the performing book portfolio; and
- Undertaking viability investigations and impact assessments into possible joint ventures that will contribute to Absa's growth.

# Enterprise-wide Risk Management

**Eddie Swanepoel was appointed Group executive of Enterprise-wide Risk Management in July 1999.** >

**Senior management** *General managers:* **A J Blaauw; L J Botha; M Botha; C M Erasmus; H Loots; A M Pothas; M Pretorius; S A Vanmali; H C van Niekerk; G S van Wyk; H A van Wyk; M E Viljoen** and **L C Wiid.**

***Enterprise-wide Risk Management (ERM)*** *is an independent Group specialist function established for the purpose of ensuring that Absa has an integrated and effective risk management framework, where all risks are consistently assessed and managed to achieve an optimal risk-reward profile.*

*ERM's main functions are:*

***Risk management:***

- *Establishing and maintaining a risk management framework, including risk identification, assessment and monitoring;*
- *Determining the Group's overall risk appetite and risk tolerance for all risk types;*
- *Directing and developing the Group's risk measurement and management methodologies;*
- *Setting policies, standards, procedures, controls and limits to be applied in the risk management process; and*
- *Reporting on risk profiles, limit violations, exceptions, and risk issues.*

***Risk control:***

- *Ensuring that the management processes to identify and monitor significant risks are adequate;*
- *Confirming the effective operation of the established internal control systems;*
- *Setting standards, assurance procedures, controls and limits to be applied in the risk control process; and*
- *Formulating an opinion on the acceptability of the overall control environment for the Group.*

## The 2005 financial year

The focus areas for ERM during the past financial year included the following:

- The risk management framework was enhanced by adopting the enterprise risk management proposals of the Committee of Sponsoring Organisations of the Treadway Commission (COSO).
- Internal Audit successfully refocused the audit approach through enhanced continuous monitoring and end-to-end audit assignments with full consideration of value chain process management.
- Training and creating awareness in the Group of various risk topics such as Basel II, the FIC and FAIS Acts. This continues to be a key focus area.
- The Group's risk management framework was embedded throughout the Group via business risk officers deployed in the business units.
- The governance structure was significantly strengthened by successfully separating the ERM Committee into three risk type committees – the Credit Risk Committee, the Market Risk Committee and the Operational Risk Committee.

Additional information on the Group's risk management activities can be found in the risk management report on page 101 of this annual report.

## Future strategies

New regulations, both domestic and international, continue to pose challenges to financial services institutions, for which ERM is committed to providing proactive management solutions.

Future focus areas include:

- Basel II (compliance and training);
- Ongoing improvements to current risk management and control methodologies to ensure international best practice; and
- The enhancement of capital and performance management capabilities in the Group.

# Group Strategy Development

**James Slabbert was appointed Group executive of Group Strategy Development in February 2005.** >

**Senior management** *Group strategy consultants:* **K Mfuni; M Pretorius; M Ungerer; T Burger; P Lach** and **T Frost**, *head: Group Innovation.*

***Group Strategy Development (GSD)*** *is responsible for positioning Absa as a leading financial services player by developing clear and implementable strategies. GSD uses world-class strategy practices and leading-edge financial services industry knowledge to develop strategy in concert with Absa's board, executive and business management.*

## Absa Group's strategic planning and management process

Absa has a decision-focused and integrated strategic planning and management process. The strategy formulation process is fully integrated with the business planning and budgeting processes. The formulation process is designed to create a strategic architecture enabling Group Strategy Development to synthesise the market context and then craft the strategic positioning, goals and initiatives for the Group and its business units in concert with the relevant parties in the Group. Business unit strategies are aligned with and support the Group's strategy, but this alignment is not restrictive.

All strategic options at Group and business unit level require business cases, which are evaluated by a formal forum for investment allocation and execution progress monitoring. Structured strategic and business management frameworks in the form of balanced dashboards are used to monitor progress on strategy execution.

Key players in the strategy planning and management process are the Group board, executive management and business unit management.

## The 2005 financial year

The primary focus in the past year was on the creation of strategies to ensure sustainable and profitable growth for the next three to five years. The following was achieved:

- Growth strategies were developed in areas relating to the Group's core business;
- Strategic acquisition and alliance approaches were defined and a number of acquisition and alliance targets that would complement the Group's core business strategies were explored;
- Work commenced on refining the business model in the product management arena;
- Innovation and complexity management capabilities were established and can now be leveraged in strategy creation; and
- A repositioning strategy for Absa Corporate and Merchant Bank and Absa's international and African operations was created.

## Future strategies

Future focus will be placed on:

- strategically positioning the Group ahead of the business and financial industry curve;
- performing internal business portfolio analyses to reveal new insights on key business drivers and levers; and
- identifying corporate development opportunities.

Group Strategy Development's core challenge is dealing with increasing complexity and the speed of change in the industry. The key risk is the risk of failure to execute planned strategies. The Group has prudent risk management processes to limit and manage the negative impact of potential strategic execution risks.

# Group People Management

**Lawrence Mlotshwa was appointed Group executive of Group People Management in December 2003. >**

**Senior management** **G Claassen,** *general manager: Human Capital Consulting;* **E J Ehlers,** *Group consultant: People Management;* **D V Farrell,** *general manager: Shared Services;* **P M Naves,** *general manager: Specialist Services;* **G F Steyn,** *general manager: Organisational Transformation.*

***People Management's*** *business is the proactive provision of people and organisational solutions, aligned with Absa's business strategy. Group People Management offers solutions to all the Group's business units through consulting and electronic delivery channels.*

## The 2005 financial year

The high point of Absa's people-related achievements for the past year was the retention of the title of the Best Company to Work For in the banking sector (Deloitte Human Capital Corporation) for the third year running. Absa's participation in this survey not only offers an opportunity to benchmark against other companies, but provides valuable feedback on the Group's employee value proposition, as a random selection of employees provides input on the Group's standing.

In addition to this, Absa succeeded in sustaining a positive trend in the Beehive survey, which measures the entrenchment of new economy leadership practices, as well as sustaining continuous improvement in organisational climate and morale and attaining the Top Company category in the Corporate Development Programme survey.

Absa has increased the proportion of historically disadvantaged employees from 42,3% to 47,8%. Active efforts to understand and value diversity ensured that this change is sustainable over the longer term.

Other activities in support of the human capital and people management strategies were successfully completed.

These include:

- Further entrenching the people management operating model, with an enhanced focus on electronic and contact centre delivery. During the period, SAP employee self-service was successfully implemented for all Absa employees;
- Refining the measurement of People Management's contribution through a people-specific balanced scorecard;
- Translating the core capabilities for the Group into a measurement framework to ensure targeted development and investment in people; and
- Continuing to entrench Leading the Absa Way through more than 450 workshops. This gained considerable impetus from the further development of leadership councils.

## Future strategies

In the shorter term, emphasis will be placed on the following:

- Managing human capital as an investment rather than as an expenditure. A review is being undertaken to further tailor-make benefits and employee offerings to accommodate different individual preferences.
- Re-energising Absa's values to ensure that value-based management is practised.
- A renewed emphasis on optimising shared services in the greater Absa environment.

# Group Marketing and Communication

**Brendan O'Donnell was appointed Group executive of Group Marketing and Communication in January 2005. He resigned in August 2005. >**

**Senior management** **A O du Plessis,** *general manager: Segment and Product Marketing;* **L R Magnelli,** *general manager Segment and Product Marketing;* **J A Hudson,** *general manager: Business Planning;* **A Drotski,** *general manager: Customer Experience;* **K C Clarke,** *Group consultant: Public Relations, Communication and Events;* **K J McIvor,** *general manager: Product and Pricing.*

***Group Marketing and Communication's*** *role is to position Absa as a customer-centric and caring financial institution, committed to building and nurturing long-term relationships with all its stakeholders by constantly providing added value. This is undertaken by understanding the market, the customer and competitive dynamics and by creating competitive customer value propositions by applying all the elements of the marketing mix.*

## Absa's marketing and communication strategy

Group Marketing and Communication strives to position the Absa brand as a dominant brand in South Africa by differentiating it through the development of brand leadership, architecture and identity, appropriate segment positioning, innovative and competitive customer value propositions and service excellence in conjunction with the respective segments. This includes:

- Creating a significant market awareness of Absa's offering through innovative and proactive public relations, advertising, sponsorships and events.
- Enabling consistent, memorable and innovative customer experiences at point of contact by effectively delivering services, solutions and products.
- Proactively providing marketing and communication support to generic and specialist sales forces across the Group.
- Creating leading public relations and communication platforms.
- Proactively analysing, using and deploying customer and competitor information to enable targeted and profitable marketing.

## The 2005 financial year

One of Group Marketing and Communication's key initiatives during this period was to enhance Absa's brand position. The new Absa brand campaign of Real People reflects and embraces South Africa's diversity in a groundbreaking approach. Black, White, Coloured and Indian customers and Absa employees were combined in a single advertisement.

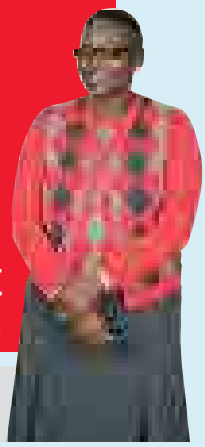
Absa continued to build on its commitment to provide an extensive and innovative range of products and services to customers. It committed itself to developing and launching new products to the underbanked market, but also to refreshing and refining existing offerings.

## Future strategies

Absa has always favoured building and maintaining relationships with its customers, adding value and empowering people. The primary focus in the year ahead will be to reinforce the understanding of the Absa brand cornerstones – Today, tomorrow, together.

In enhancing the customer relationship, Group Marketing and Communication will continue to focus on positioning the Absa brand as a partner that makes value-added solutions available to fulfil personal, business and community aspirations.

# Group Black Economic Empowerment (BEE), Government Relations and Corporate Social Investment (CSI)



**Riah Phiyenga was appointed Group executive of Group BEE, Government Relations and CSI in 2005. >**

**Senior management** **B Bassi,** *Group consultant: BEE;* **M More,** *general manager: CSI and Government Relations.*

***Group BEE, Government Relations and CSI*** *contributes towards Absa's strategic intent and image by establishing mutually beneficial relationships with targeted stakeholders, primarily through corporate social investment (CSI), black economic empowerment (BEE) and government relations initiatives.*

## The 2005 financial year

Changes in the Group necessitated refocusing the Group's Communications and Public Affairs division. To strengthen both internal and external communication, a separate division was established to focus on media relations. Internal Communications was placed in Group Marketing and Communication to improve congruency between messages to employees and customers. The BEE division was then combined with CSI and Government Relations.

The year was characterised by the creation of a common understanding of the division, ensuring better alignment and a reduction of duplication, obtaining senior management commitment to transformation processes with specific reference to BEE and the successful implementation of the division's strategy in a cost-effective manner.

## Future strategies

Absa's CSI approach will continue to be informed by the Group's strategic business objectives and the government's national development priorities. For the ensuing year, Absa is adjusting its CSI allocation criteria to ensure compliance with the FSC scorecard, and will allocate 0,5% of post-tax operating profit to CSI expenditure.

Group BEE will focus on entrenching a culture within the Group that will embrace BEE as a business imperative to achieve the stated intent of achieving and exceeding the minimum requirements of the FSC. The Group BEE function will initiate projects to support the achievement of the FSC's targets. These projects include enhancing the current information systems in the Group to support reporting/decision-making requirements, refining credit and scoring processes and increasing and empowering Absa's supplier base.



# Group Corporate Affairs

**Nick Cairns was appointed Group consultant of Group Corporate Affairs in July 2004. He resigned in August 2005. >**

**Senior management** **E Smith,** *media relations manager;* **A Mostert,** *public relations consultant;* **G Shaba,** *public relations consultant;* **G Knoke,** *public relations consultant.*

***Group Corporate Affairs*** *contributes towards building, nurturing and protecting Absa's media image and public relations reputation by establishing mutually beneficial relationships with the key stakeholders. Group Corporate Affairs is the custodian of public relations and media relations. The division is also responsible for the dissemination of information on corporate matters to the media and the public.*

## The 2005 financial year

The focus of the division has been to establish Absa as a leading financial services institution in the minds of the South African media and public. Particular attention has been paid to proactive external communication and reputation risk management.

The emphasis has been on analyses, benchmarking and corrective steps regarding the public profile of the Group, and best practices, both locally and internationally. Efficiencies were enhanced by the acquisition of additional media and public relations skills to focus and profile the Group's BEE transaction with the Batho Bonke consortium, transformation, and the enhancement of general and consumer media profiles and management by integrating the media risks into the customer delight strategy. The division has also played a key role in the communication process relating to the Barclays transaction.

## Future strategies

The division will continue to focus on supporting the Group's business communication strategies with regard to consumer media issues, building stronger relationships with the predominantly black media in efforts to enhance, through the mass media, customer education for the unbanked and customers with low education levels.

Since the advent of the FSC, Absa has been addressing its commitment to the charter as a business imperative and to profile the Group as the preferred financial services provider for all South Africans. By communicating sincerity and being committed to help build the country's economy to the benefit of all South Africans, the intention is to profile Absa to attract both employees and customers.



# Group Business and Technology Services

**Leon du Rand was appointed Group executive of Group Business and Technology Services in November 2002.** >

**Senior management** **J S Hayden,** *general manager: Group Enterprise Architecture and Group Business Change Enablement;* **F P van der Merwe,** *chief technology officer (CTO);* **J J Joubert,** *general manager: Group Service Management and Support;* **G G Hill,** *acting head: Group Implementation.*

***Group Business and Technology Services (GBTS)*** *enables Absa to respond rapidly to changing business and technology demands through an enhanced, integrated change management and delivery capability. GBTS comprises Group Enterprise Architecture (GEA); Group Business Change Enablement (GBCE); Group Information Technology (GIT); Group Implementation (GI), and Group Service Management and Support (GSMS).*

## The 2005 financial year

GBTS achieved its overall targets and service levels, with some notable achievements, including:

- Absa achieved compliance within the first FIC Act deadline and was the first bank to be FAIS licensed;
- Technology consolidation and virtualisation achieved cost savings for the Group;
- The implementation of strategic projects including the e-enablement of the Group, which was successfully completed during the latter part of 2004 and achieved significant success in terms of the approach adopted and minimal impact on the operations of the affected business units; and
- The finalisation of a project focusing on enhancing the management and control of the distributed domains and improving the managed control of software changes and software upgrades.

## Future strategies

GBTS will be focusing on a number of initiatives in the year ahead to ensure that the division enables Absa to respond rapidly to changing business and technology demands through an enhanced, integrated change management and delivery capability. These initiatives include:

- **Absa Group's regulatory reporting (DI) to the South African Reserve Bank (SARB) programme** – The objective of this programme is to produce automated reports for the Group and to establish an extensive, structured knowledge base of the reporting processes and systems required to generate these reports.
- **SAP implementation** – The objective of this programme is to implement the SAP enterprise core components in Absa.
- **Basel II** – The objectives of this project are to comply with the revised Basel capital accord, to ensure that the Group's risk allocation is more risk-sensitive and to converge economic and regulatory capital.
- **National Credit Bill** – The objective of this project is to prepare a pre-emptive response to the ultimate promulgation of the bill.
- **Smartcard EMV** – Europay, MasterCard and Visa (EMV) require members to migrate from magnetic strip to chip card technology payment platforms. Absa has to upgrade its systems and infrastructure to facilitate chip card issuing and EMV processing.
- **Imaging, archival and retrieval project** – This project will provide functionality for the management of e-documents.
- **Enterprise messaging project** – The objective of this project is to standardise e-mail, calendaring and scheduling functionality Group-wide.



# Information Management

**Dave Donkin was appointed Group executive of Information Management in November 2001.** >

**Senior management** **C F Victor,** *general manager: Information Management Business Enablement;* **C M Velleman,** *Group information architect;* **E H Kromhout,** *head: Information Management Operations and Development;* **P Pillay,** *head: Knowledge Discovery and Dissemination;* **V S Mncube,** *general manager: Information Management Business Development.*

***Information Management** focuses on enabling information and knowledge-based strategy formulation, decision-making and the mobilisation of collective intelligence to improve business performance in the Group.*

## The 2005 financial year

A growing recognition of the need for and value of a consolidated enterprise-wide information base across the Group has substantially increased demand on the Information Management division. Increased use of the data warehouse in support of customer insight-driven sales, performance management and growing compliance requirements has resulted in a significant increase in the value generation in this area. Absa was announced as the TDWI best practice winner in data warehousing in the predictive analytics category by The Data Warehousing Institute in Seattle during the year.

The introduction of a revised business model that enables a focus on creating a broader awareness of the inherent value of information management has assisted in this regard.

The skills in data warehousing, business intelligence, information architecture, knowledge discovery and knowledge management have been further extended in support of the growing business demand and associated value delivery.

## Future strategies

Information Management's focus on business value delivery will continue to increase the Group's return on information (RoI). This will be sought through a variety of initiatives, including:

- further developing and leveraging the enterprise-wide information repositories to support compliance, performance management and customer insight;
- standardising and automating balanced scorecards and other business intelligence across the Group;
- increasing the application of geo-spatial information systems, data mining and analytics across the Group in support of cross-selling, retention, customer acquisition and other broader analytical requirements; and
- increasing the Group's use and application of knowledge management techniques and tools in support of optimising knowledge sharing among employees.



# Group Finance

**Eric Wasserman was appointed Group executive of Group Finance in January 2005.** >

**Senior management** **G Lewis,** *general manager: Group Finance;* **J Nel,** *general manager: Wholesale Banking;* **T Liebenberg,** *general manager: Business Banking Services;* **R Martine,** *general manager: AVAF;* **F W Nicholson,** *general manager: Retail Banking;* **R de Vrye,** *general manager: Financial Services;* **B Moyo,** *general manager: Support Services;* **J Edwards,** *general manager: Group Tax;* **E van der Linde,** *general manager: FIM*; **R Duminy,** *general manager: Finance Integration;* **C Gronum,** *general manager: Regulatory Reporting.*

***Group Finance** provides financial reporting, financial compliance and control, transaction processing and decision support to the Group.*

## The 2005 financial year

During the year under review, there was a focus on re-engineering the Group's financial systems and automating financial reporting to SARB.

Corporate performance management was a key topic and a dedicated project was initiated to ensure that Absa employs world-class methodologies. In addition, specific emphasis was also placed on refining the reporting of Absa's FSC status.

The implementation of a formal external auditor evaluation, which takes place annually against various criteria and standards, specifically those relating to auditor independence, was undertaken during the year under review.

The Group will adopt International Financial Reporting Standards (IFRS) in the new financial year and considerable attention was paid to assessing the impact of these standards on the Group and the Group's accounting policies.

## Future strategies

Group Finance aims to play a leading role in value creation for all Absa stakeholders by being a world-class entity. This will be sought by creating knowledge about the performance of the Group and its business entities, proactively identifying performance improvement initiatives, optimising capital management and deployment, financial governance, integrity, control and financial risk management.

In the new financial year, the emphasis will be on adopting IFRS and aligning Absa's reporting with that of Barclays.

# Group Investor Relations

**Willie Roux was appointed general manager: Investor Relations in 1998. >**

**Senior management** **S C Steyn,** *consultant.*

***Group Investor Relations*** *facilitates a proactive process whereby information is continually and broadly disseminated to the financial community and investing public, thereby ensuring that the Group is accurately valued in the market.*

## The 2005 financial year

For the 2005 financial year, the provision of timely, transparent, accurate and relevant information to the market remained a priority. This was achieved by hosting briefing sessions with executive management, by day-to-day investor contacts, by the Group's annual report, by road shows and conferences and by hosting information on the internet.

Considerable effort went into informing the market about the Group's retail banking operations, the BEE transaction and the acquisition by Barclays of a majority stake in the Group during the year under review.

The market, through the Investment Analysts Society of Southern Africa, adjudged Absa the best communicator among the JSE's more than 400 listed companies during the year.

Absa was also recognised as being a leader in corporate reporting. The Group's 2004 annual report was judged to be the second best annual report among South Africa's top 100 listed companies in the annual competition organised by Ernst & Young and adjudicated by the University of Cape Town's accounting department.

## Future strategies

The focus will remain on ensuring fair disclosure of quality information to the investment community to ensure that Absa is correctly priced in the market. Emphasis will also be placed on aligning Absa's investor relations practices with those of Barclays.



# Group Secretariat and Corporate Governance

**William Somerville was appointed Group secretary in October 1995. >**

**Senior management** **J Pieterse,** *operations manager;* **P Bester,** *company secretary;* **J de Koker,** *company secretary;* **T Hardy,** *company secretary;* **G van Rooyen,** *company secretary;* **N van Rooyen,** *company secretary;* **J Nicholson,** *share scheme manager.*

***Group Secretariat*** *provides a company secretarial service in the areas of meeting administration, statutory administration, corporate governance advisory services, shareholder administration and share scheme administration. The department provides advice to directors and executive management on their responsibilities in terms of various laws.*

## The 2005 financial year

Secretarial matters regarding the Group's broad-based BEE transactions were undertaken, as was the implementation of the Group's employee share ownership programme pursuant to the BEE transaction.

Governance awareness in the Group was enhanced, as was service delivery and management information in respect of the Group's share incentive scheme.

Ongoing analysis of international/emerging governance trends was undertaken. These are considered for implementation at Absa only where this makes business sense, taking account of substance over form and market practices.

Increased emphasis was placed on improved monitoring and on dormant companies in the Group, with the aim of accelerating deregistering such companies.

## Future strategies

The finalisation of all governance and company secretarial matters relating to the acquisition by Barclays of a controlling interest in Absa will be a priority. This includes:

- a reconstitution of the Absa board and board committees following the resignation of Sanlam and Remgro nominees (Mr Motsepe, Dr van Zyl and Mr van Wyk) and the appointment of Barclays' nominees (Mr Bruynseels, Mr Kheraj and Mr Roberts);
- a change of the year-end (to 31 December);
- the change of the auditors;
- the alignment of key Absa policies with those of Barclays (as deemed appropriate);
- the consideration of the Barclays governance approach and alignment by Absa (as deemed appropriate); and
- assessing the impact of the Sarbanes-Oxley Act.

Emphasis will also be placed on developing a corporate governance intranet site for use in Absa, principally using the CGF Research Institute (Proprietary) Limited database. Absa's market disclosure and communications policy will be revised. This policy outlines Absa's processes for identifying information for disclosure. The revision will aim to ensure that timely and accurate information continues to be provided equally to all.



# Office of the General Counsel (the legal function)

**Koos Wepener retired in April 2005. Chris van der Walt was appointed general counsel in August 2005.** >

**Senior management** **E Schalkwyk,** *general manager: Legal Services.*

***The general counsel: Absa Group*** *is Absa's chief legal officer and is responsible for managing legal risk in Absa. The general counsel develops the policies and practices necessary to manage legal risk in conjunction with the 26 legal units in Absa. This risk arises from the necessity for Absa to conduct its business in conformity with the business and contracted legal principles applicable in each of the jurisdictions in which the Group conducts its business. There is a possibility that failure to meet these legal requirements may result in unenforceable contracts, litigation or other adverse consequences.*

## The 2005 financial year

Good progress has been made in implementing policies, reporting, seeking synergy in legal services and making better use of in-house legal skills. During the year under review, the following initiatives were implemented:

- A fully functional legal database was created, ensuring that legal opinions, policies and training are easily available to all legal practitioners.
- Legal reporting was enhanced with monthly reports from all legal units detailing expenditure relating to external legal services.
- Legal training and education continued to receive attention.

## Future strategies

In the year ahead, the emphasis will be on enhancing the effectiveness of legal units in the Group to ensure that legal risk in Absa is managed consistently, on formulating and communicating a Group view on relevant legal issues and on optimising the expertise of in-house legal professionals.

The legal function will also embark on a project in conjunction with the legal workstream for the Absa/Barclays integration process to ensure material alignment with the Barclays Group board legal governance standards.



# Group Economic Research

**Christo Luüs was appointed Absa's chief economist in October 1998. >**

**Senior management** **J du Toit,** *senior economist;* **R Markus,** *senior economist.*

***Group Economic Research (GER)*** *renders a service to both internal and external customers, putting global and domestic developments in historical perspective and predicting probable future outcomes under different sets of assumptions.*

## The 2005 financial year

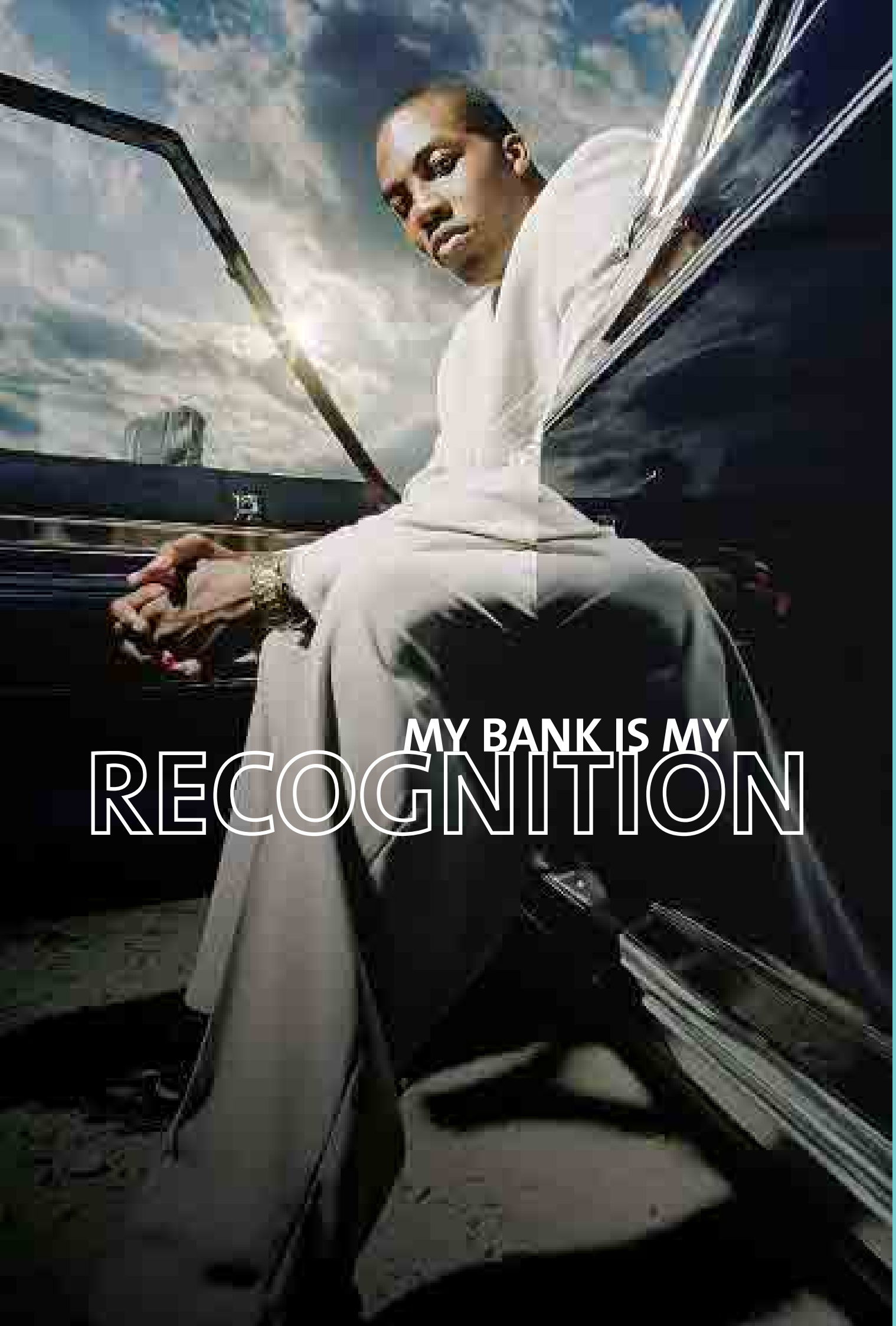
The department aims to inform and to influence. To this end, it constantly conducts presentations, briefings or informal discussions with groups of customers, foreign bankers, business people and trade delegations. Publications provide topical, high frequency and cyclical economic analysis, structural and sectoral analysis, and personal finance and investment information.

During the year under review, GER continued to provide economic and property research. In addition to this, a hedonic pricing system for house prices was researched and applied to Absa's house price data for South Africa.

## Future strategies

The expansion of GER's coverage and analysis of economic sectors and establishing a sectoral risk model for Basel II purposes will receive attention in the new financial year.

Quarterly reporting on credit forecasts for internal use will be addressed, as will publishing a comprehensive overview and long-term forecast of the South African economy.


MY BANK IS MY
RECOGNITION

# Annual financial statements

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Headline earnings increased by 23,3% from R4 447 million to R5 484 million for the year ended 31 March 2005.

# Financial analysis

## The Group's share price appreciated by 61,7% for the year under review owing to a significant rerating of the South African banking sector in general and Absa in particular, combined with the Barclays offer to acquire a majority stake in the Group.



### Financial highlights

for the year ended 31 March 2005

- Headline earnings **up 23,3%**
- Return on average equity **of 25,5%**
- Cost-to-income ratio **of 56,8%**
- Dividends per share **up 62,1%**

### Introduction

Absa Group continued to deliver sustainable earnings growth, achieving headline earnings growth of 23,3%. In addition, diluted headline earnings per share increased by 18,8% to 811,1 cents per share.

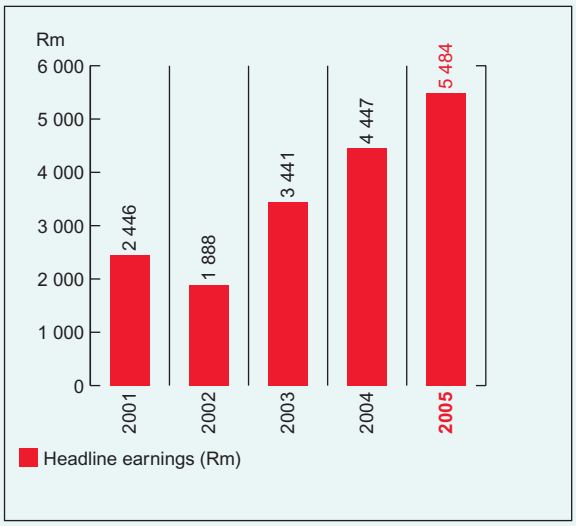
A final dividend of 200 cents per share was declared, bringing the total dividend for the year to 295 cents per share, 62,1% higher than the 182 cents paid in respect of the 2004 financial year. Absa's dividend cover has been reduced to 2,9 times owing to the Group's healthy capital position.

The Group's share price appreciated by 61,7% for the year under review owing to a significant rerating of the South African banking sector in general and Absa in particular, combined with the Barclays offer to acquire a majority stake in the Group. Subsequent to year-end, on 27 July 2005, Barclays acquired 53,96% of the Absa Group.

### Diluted headline earnings per share

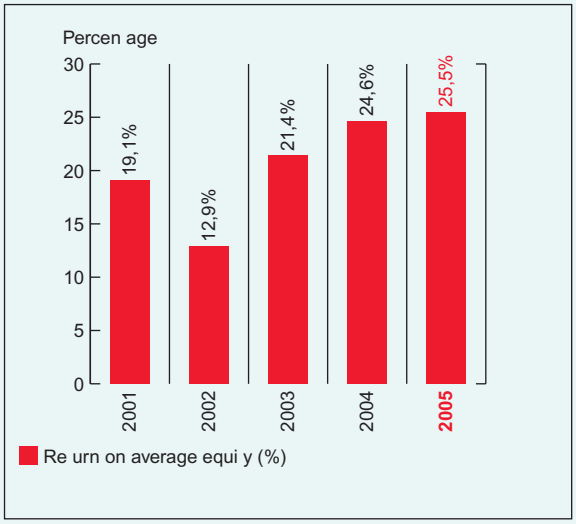
The options issued to the Absa Share Incentive Trust, the Absa Share Ownership Trust and Batho Bonke Capital (Proprietary) Limited, Absa's black economic empowerment partner, have caused a 3,6% dilution in headline earnings per share to 811,1 cents per share. In consequence, the growth in fully diluted headline earnings per share was 18,8% compared with the previous financial year.

## Group performance




### Headline earnings

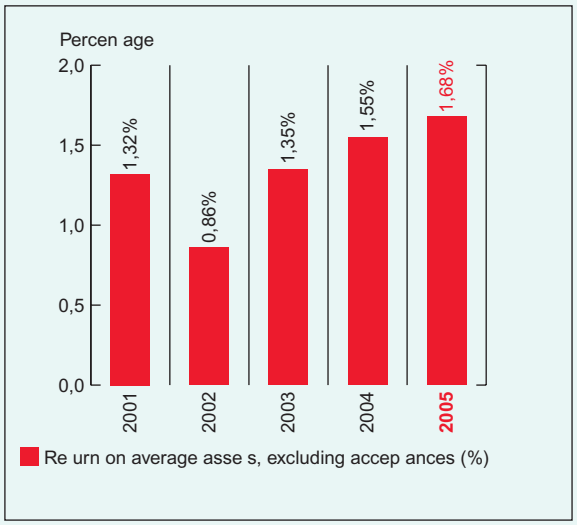
Headline earnings increased by 23,3% from R4 447 million to R5 484 million for the year ended 31 March 2005. This growth was 9,2% greater than the Group's objective of achieving real earnings growth of 10%.




### Return on average equity

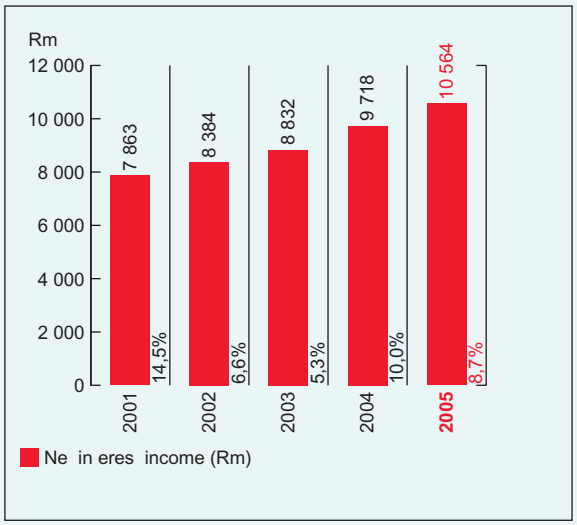
Absa achieved a return on average equity of 25,5% for the year under review, which is comfortably higher than the Group's objective of achieving an RoE of at least 5% above the cost of equity (CoE).

The Group's CoE for the 2005 financial year was set at 15,3%. Therefore the Group exceeded its objective by 5,2%, creating substantial value for shareholders (R2 188 million).




### Return on average assets

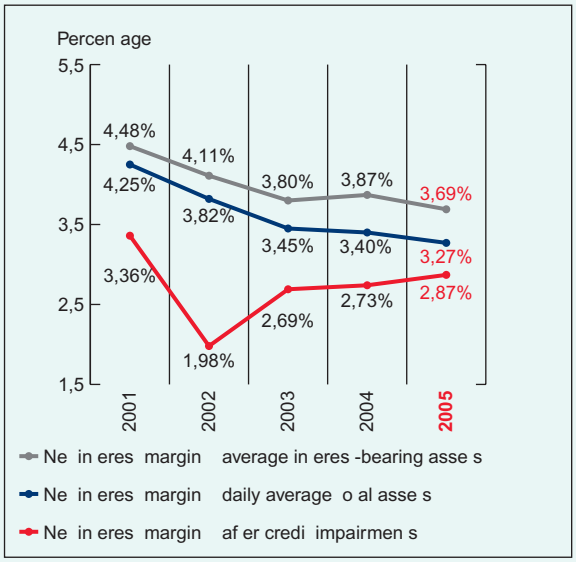
The Group increased its return on average assets (RoA) from 1,55% to 1,68% in the 2005 financial year. This is in line with the Group's objective of maintaining an RoA greater than 1,5%.




### Net interest income

Net interest income increased by 8,7% because of strong advances growth of 20,6%, offset by a decline of 13 basis points in the net interest margin. This decline is primarily attributable to the reduced margin earned on the Group's capital and savings and cheque deposits in the lower interest rate environment, a slight change in the funding mix in favour of wholesale deposits and the impact of increased competition on customer lending rates.

**et interest margin**

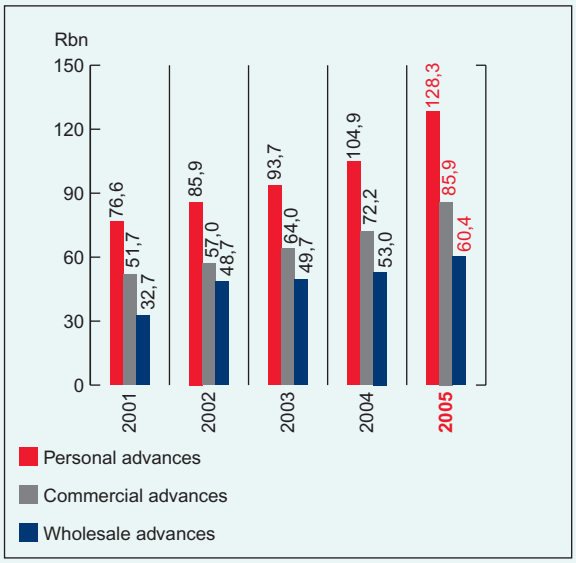



## Net interest income *(continued)*

The Group's balance sheet is inherently structured to benefit from a rising interest rate environment. During the year under review, interest rates were largely stable, with only a 50 basis points decline in August 2004. However, the average prime rate for the 2005 financial year was 264 basis points lower than that for the 2004 financial year. This contributed to margin compression of 13 basis points.

A number of strategies have been employed to mitigate the impact of lower rates. These include focused efforts to increase personal and commercial deposits, which grew by 10,6% (in South Africa) and 20,6% respectively, complemented by dynamic hedging to ensure that the repricing mismatch is managed within well-defined parameters.

**Gross ad ances**




## Advances

Gross advances increased by 19,4% to R274 639 million, with personal, commercial and wholesale advances showing sound growth of 22,3%, 18,9% and 14,1% respectively.

## Continued strong growth in advances

| | March 2005 Rbn | YOY % change |
|---|---|---|
| • Mortgages | **131,9** | 24,9 |
| • Credit card advances | **5,4** | 22,4 |
| • Instalment finance | **43,4** | 21,6 |
| • Overdrafts and other loans | **93,9** | 11,3 |
| • Total gross advances | **274,6** | 19,4 |

The growth in personal advances continues to be driven by increased household credit extension. Residential mortgage advances grew by 24,7% and credit card advances by 22,8%. Strong advances growth was experienced in the affluent and high net worth market, with Absa Private Bank and Personal Financial Services increasing their respective advances bases by 32%.

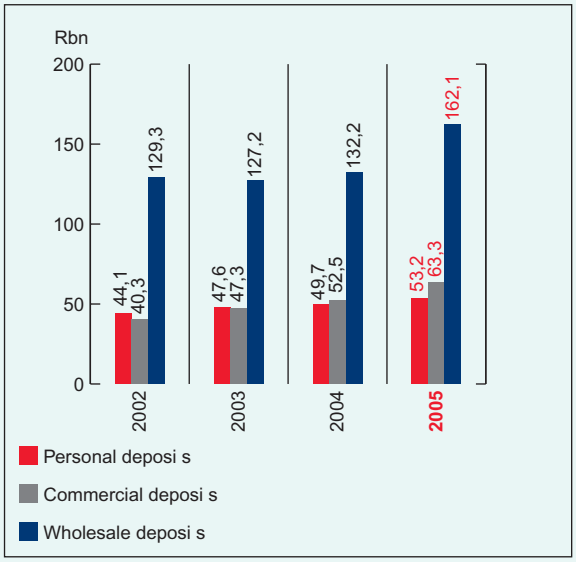
Absa's repossessed properties portfolio has been substantially reduced, with the total number of properties in possession declining by 23,1% from March 2004.

The remaining properties in this portfolio (6 498 properties) have been adequately provided for.

The solid growth in commercial advances was partly as a result of record new business volumes being achieved by Absa Asset and Vehicle Finance (AVAF). This growth was assisted by the lower interest rate environment, combined with low vehicle price inflation. Strategic alliances with key suppliers and manufacturers also contributed to the solid asset growth and were in line with AVAF's strategy of diversifying its asset mix and targeting the corporate and business markets.

Both the large and medium business segments drove Business Banking Services' advances growth. The strong property market underpinned a solid contribution to the 20,4% growth in commercial property finance transactions.

Although the Group's wholesale advances experienced good growth, the demand for traditional interest-bearing products remained under pressure. Investments undertaken by Absa's securitisation vehicle (ABACAS) and the appetite for preference share funding and overnight finance contributed significantly to the growth of 14,1%. These assets attract fees and offer narrower margins than traditional lending products.




## Deposits

Personal and commercial deposits comprise 41,8% of the Group's funding base (personal 19,1% and commercial 22,7%), which is lower than the 43,6% recorded at 31 March 2004. This can be attributed to a slight change in the funding mix towards wholesale deposits.

In addition, the lower interest rate environment and the good performance of equity markets increased the demand for other investment alternatives.

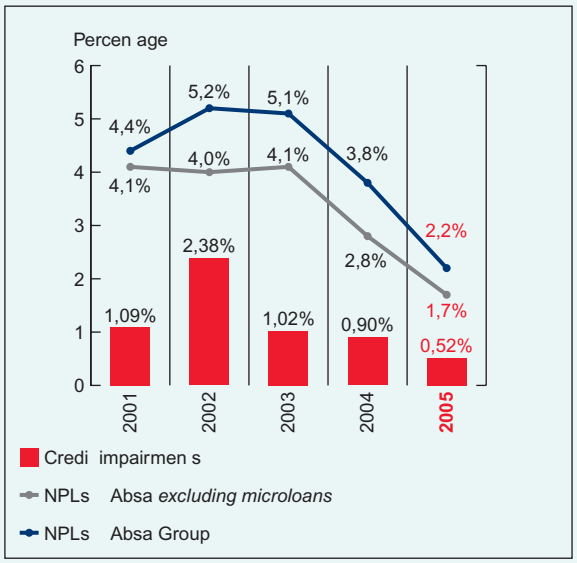
Despite this trend, Absa's personal deposits in South Africa have grown by 10,6% and commercial deposits by 20,6% on the back of cheque accounts as well as savings and fixed deposits.

## Deposit growth

| | **March 2005 Rbn** | YoY % change |
|---|---|---|
| • Cheque | **55,6** | 20,8 |
| • Savings | **19,1** | 14,3 |
| • Fixed and notice | **71,2** | 38,3 |
| • Other retail and commercial deposits | **19,4** | 14,8 |
| • Other deposits | **113,3** | 13,0 |
| • Total deposits | **278,6** | 18,9 |

## Funding mix

| | **March 2005 Rbn** | March 2004 Rbn | March 2003 Rbn |
|---|---|---|---|
| • Personal deposits | **19,1** | 21,2 | 21,4 |
| • Commercial deposits | **22,7** | 22,4 | 21,3 |
| • Wholesale deposits | **58,2** | 56,4 | 57,3 |
| • Total deposits | **100,0** | 100,0 | 100,0 |




**Impairment of advances**

The low interest rate environment continues to have a positive impact on the affordability of consumer credit as well as debt servicing costs. Household debt relative to disposable income was at approximately 57,5% during the last quarter of the financial year, up from 52,6% a year ago, but debt cost to disposable income is at its lowest level in 20 years.

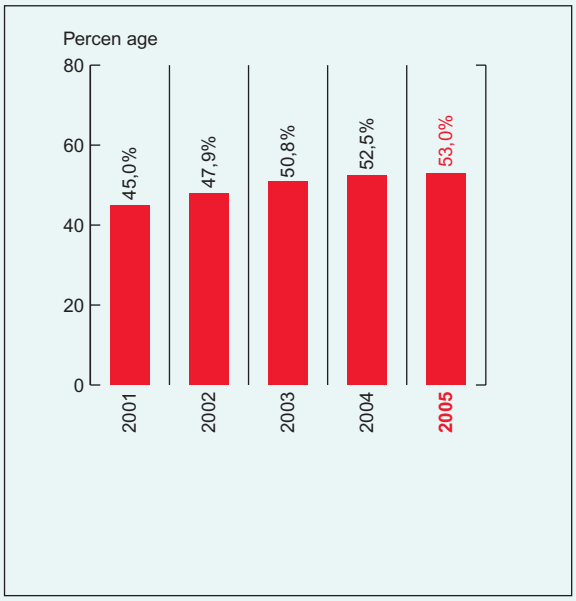
This, together with the maintenance of prudent credit approval criteria and further enhancements to credit management techniques, supported the continued improvement in the quality of the advances book. As a result, the charge for the impairment of advances to average advances decreased to 0,52% (March 2004: 0,90%).

Non-performing advances as a percentage of total advances decreased from 3,8% (March 2004) to 2,2% at 31 March 2005.

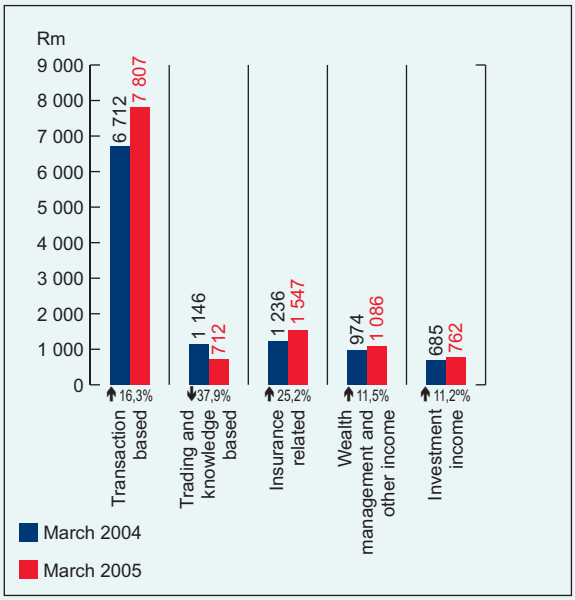
The UniFer book remains adequately provided for. The net outstanding book was R363 million, down from the R768 million recorded at 31 March 2004. No additional impairments were provided for during the year, nor were any impairments previously made reversed during the year.

## Non-interest income

**on-interest income as % of operating income**
(excluding credi impairmen s)




**Components of non-interest income**

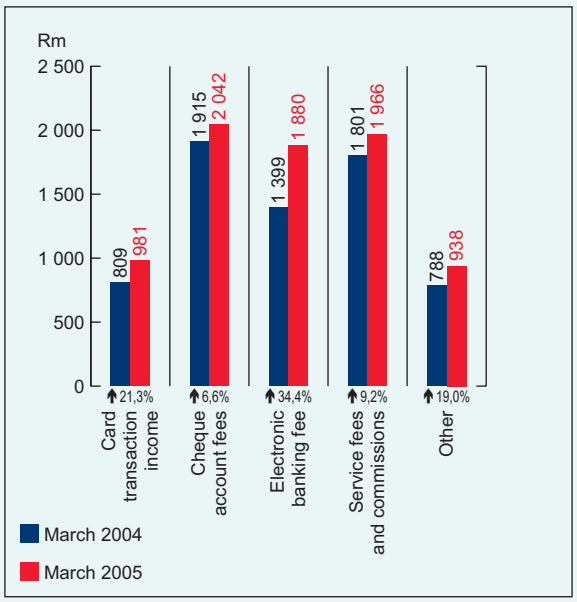



Non-interest income as a percentage of operating income improved marginally from 52,5% to 53,0%.

For the year under review, the growth of 16,3% in annuity-based transaction fees, representing 65,5% of total non-interest income, was particularly pleasing. Areas contributing to this growth included increased transaction volumes, specifically in electronic banking and card processing.

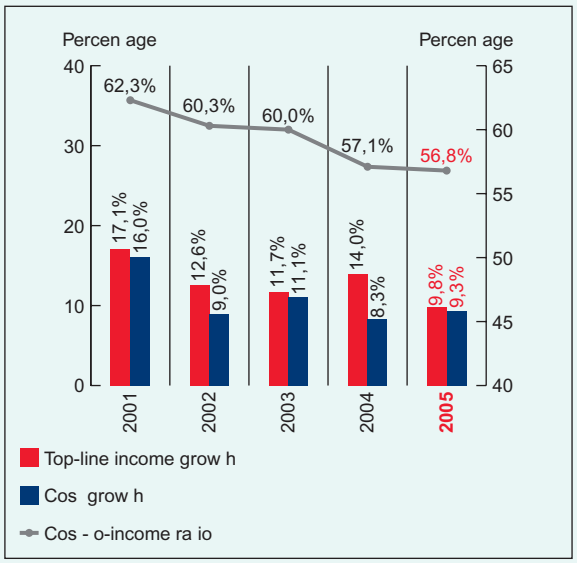
Gross trading income improved somewhat during the second half of the financial year, but was still lower than that earned in the 2004 financial year. A reduced risk appetite for proprietary trading and non-directional markets resulted in lower earnings.

**Transaction based income**




Insurance-related income benefited from the increased volumes generated by the retail banking business units, new products, product bundling and improved underwriting loss ratios.

The listed equities investment portfolio held by Financial Services returned R303 million, compared with an appreciation of R317 million for the previous financial year.




**Operating expenditure**

The cost-to-income ratio, at 56,8%, edged closer to the Group's objective of lowering this ratio to the mid-fifties. This was achieved despite substantial investments in the expansion of the Group's delivery footprint and compliance initiatives of a regulatory nature. Operating expenditure increased by 9,3% compared with top-line income growth of 9,8%.

Staff costs grew by 11,1% and represent 49,7% of the cost base, which is slightly higher than the ratio achieved in the comparable period (48,9%). The core drivers of staff costs include growth in headcount to support business expansion and compliance-related projects, above-inflation wage settlements and higher incentive provisions owing to the Group's strong performance.

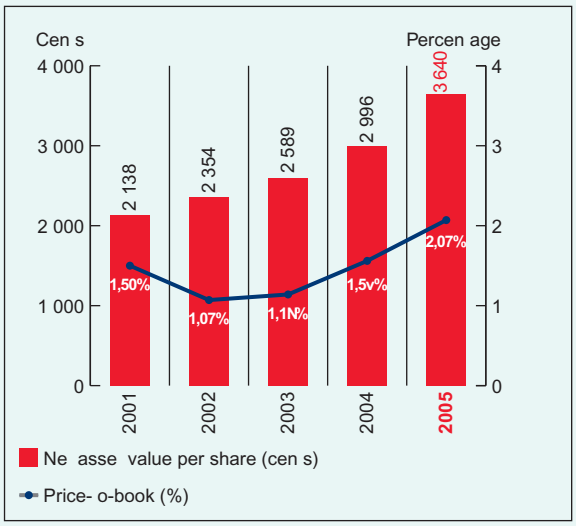
| | **2005 %** | 2004 % |
|---|---|---|
| Effective income tax rate | **27** | 26 |
| Effective rate of income tax paid | **15** | 19 |

### Taxation

The relevant effective tax rates for the years ended 31 March were as indicated in the table.

In addition, the Group paid indirect taxes of R780 million (2004: R672 million) for the 2005 financial year. This represents 10,2% of net income before taxation.

The Group has estimated tax losses of R202 million (2004: R445 million). These estimated tax losses exclude tax losses and reversing timing differences of R520 million (2004: 388 million), for which deferred tax assets have been raised.




### Net asset value and capital adequacy

The net asset value of the Absa Group increased by 21,5% from 2 996 cents per share to 3 640 cents per share owing to the strong operational performance.

On the basis of the prescribed consolidated capital requirements of the South African Reserve Bank (SARB), the Group's capital stood at 12,2% of risk-weighted assets at 31 March 2005 (March 2004: 13,0%).

Absa Bank's primary capital ratio was 8,3% (March 2004: 7,7%) and the secondary capital ratio was 3,4% (March 2004: 4,6%).

Absa's Life's capital adequacy ratio was 5,4 times at 31 March 2005 (2004: 3,8).

***Capital adequacy of Absa Group Limited and its banking subsidiaries***

at 31 March

| | 2005 | | 2004 | 2003 |
|---|---|---|---|---|
| | **Risk-weighted assets Rm** | **Capital adequacy ratio %** | Capital adequacy ratio % | Capital adequacy ratio % |
| **South African operations** | | | | |
| Absa Bank | **199 456** | **11,7** | 12,3 | 11,5 |
| Meeg Bank | **500** | **15,8** | 10,9 | 10,5 |
| MLS Bank* | **—** | **—** | 10,7 | 10,7 |
| **Non-South African operations** | | | | |
| Absa Asia (Hong Kong) | **1 297** | **29,6** | 39,4 | 12,1 |
| Absa Bank London (a branch of Absa Bank) | **7 990** | **11,3** | 10,0 | 10,0 |
| Absa Bank Singapore (a branch of Absa Bank) | **2 409** | **10,0** | 10,0 | 10,0 |
| Banco Austral, Sarl (Mozambique) | **337** | **30,3** | 36,1 | 25,3 |
| Bankhaus Wölbern & Co (Germany) | **3 290** | **10,6** | 11,1 | 10,9 |
| Hesse Newman & Co (Germany) | **420** | **19,4** | — | — |
| National Bank of Commerce (Tanzania) | **1 383** | **16,1** | 15,3 | 19,5 |
| **Total banking operations** | **217 082** | **11,7** | 12,1 | 11,5 |
| Risk-weighted assets (Rm) | | **217 082** | 194 220 | 179 074 |
| Tier I capital (Rm) | | **18 206** | 15 126 | 11 909 |
| Tier I ratio (%) | | **8,4** | 7,8 | 6,7 |
| **Absa Group Limited** | | **12,2** | 13,0 | 12,5 |
| Risk-weighted assets (Rm) | | **248 112** | 210 502 | 200 890 |
| Tier I capital (Rm) | | **23 251** | 19 188 | 18 453 |
| Tier I ratio (%) | | **9,4** | 9,1 | 9,2 |

**MLS Bank's banking licence was cancelled during the financial year and the activities of MLS Bank were incorporated into Absa Bank.*

***Capital adequacy of Absa Bank Limited***

at 31 March

**Risk-weighted assets**

| | 2005 | | 2004 | 2003 |
|---|---|---|---|---|
| | **Unweighted assets Rm** | **Risk-weighted assets Rm** | Risk-weighted assets Rm | Risk-weighted assets Rm |
| **Assets – banking activities** | | | | |
| On-balance-sheet | **273 465** | **181 069** | 153 021 | 141 113 |
| Off-balance-sheet | **489 241** | **11 534** | 16 887 | 6 456 |
| Total | **762 706** | **192 603** | 169 908 | 147 569 |
| **Notional assets – trading activities** | **—** | **6 853** | 6 409 | 8 453 |
| | **762 706** | **199 456** | 176 317 | 156 022 |
| **Qualifying capital** | **Rm** | **%*** | %* | %* |
| **Primary capital** | | | | |
| Share capital | **293** | **0,2** | 0,2 | 0,2 |
| Share premium | **1 606** | **0,8** | 0,9 | 0,4 |
| Reserves | **15 159** | **7,6** | 7,1 | 6,8 |
| Impairments | **(617)** | **(0,3)** | (0,5) | (0,9) |
| | **16 441** | **8,3** | 7,7 | 6,5 |
| **Secondary capital** | | | | |
| Subordinated convertible loans | **627** | **0,3** | 0,4 | 1,0 |
| Subordinated redeemable debt | **5 250** | **2,6** | 3,8 | 3,6 |
| Regulatory credit provision/reserve | **1 197** | **0,6** | 0,5 | 0,6 |
| Revaluation reserve | **184** | **0,1** | 0,1 | — |
| Impairments | **(460)** | **(0,2)** | (0,2) | (0,2) |
| | **6 798** | **3,4** | 4,6 | 5,0 |
| **Total qualifying capital** | **23 239** | **11,7** | 12,3 | 11,5 |

**Percentage of capital to risk-weighted assets.*

### *Capital management*

As a result of the relative size of the banking operations in the Group, the targeted capital levels in the Group are strongly influenced by the regulatory requirements of these operations. The capital levels of the banking operations are regulated by the SARB in line with the principles of the Basel capital accord, which will be replaced by the Basel II capital accord in 2008.

The Basel II requirements allow banks to use advanced internal risk assessment methodologies. This assessment, depending on the degree of the SARB's comfort with the internal ratings, will ultimately determine the level of capital that must be held.

The Group continues to make good progress with the implementation of Basel II and is on track for the planned 2008 implementation date. Based on the current environment, Absa is confident that the anticipated lower capital requirements for credit risk will be sufficient to offset any additional capital required for areas such as operational risk.

Absa's dividend cover has been reduced to 2,9 times owing to the Group's healthy capital position. The Group aims to reduce this cover further in the medium term.

It must also be noted that the proposed acquisition of nine Barclays sub-Saharan African operations (excluding Barclays South Africa) will require additional capital. This issue is likely to be funded by available internal resources and the issue of preference shares.



## Segmental reporting

### Salient features

for the year ended 31 March 2005

| | Capital allocation % | Headline earnings contribution % | RoE % | Impairment ratio % | Cost-to-income ratio % |
|---|---|---|---|---|---|
| • Retail banking | 27,9 | 43,8 | 40,0 | 0,30 | 62,8 |
| • Commercial banking | 23,4 | 25,6 | 27,8 | 0,92 | 49,4 |
| • Wholesale and international banking | 26,4 | 15,4 | 14,8 | 0,49 | 56,8 |
| • African operations | 1,7 | 1,3 | 19,9 | 1,82 | 74,9 |
| • Capital and funding centre | 3,1 | (2,9) | n/a | n/a | n/a |
| • Financial services | 13,6 | 20,5 | 38,4 | n/a | 33,1 |
| • Corporate centre | 3,9 | (3,7) | n/a | n/a | n/a |
| Absa Group | 100,0 | 100,0 | 25,5 | 0,52 | 56,8 |

### Retail banking

Retail banking increased its headline earnings contribution by 35,9% to R2 406 million, with strong performances from all segment and product business units. Mortgage and credit card advances grew by 24,7% and 22,8% respectively. Growth in fees and commissions amounted to 20,6%, primarily owing to increased transaction volumes. The increase in customer numbers from 5,7 million to 6,9 million during the financial year was encouraging.

The strong growth in residential property values over the past few years had a notably positive impact on the net worth of customers, with an accompanying marked improvement in credit quality. The credit impairment charge in the retail market declined by 40,8%. This charge, as a percentage of average advances, was reduced to 30 basis points.

During the year under review, 14 new staffed outlets were opened, and a further 31 were upgraded. An additional 576 automated teller machines were rolled out in traditional business areas and historically disadvantaged communities. The improved service levels and reach as a result of this expansion will enhance the Group's ability to comply with the Financial Sector Charter and will further enable the Group to deliver sustainable earnings growth.

### Commercial banking

The commercial banking segment continued its impressive headline earnings growth, up 41,4% on last year, because of solid advances and deposit growth and improved credit quality.

The lower interest rate environment, combined with low vehicle price inflation, stimulated the motor industry, resulting in AVAF achieving record new business volumes. New business referred by dealers increased as a consequence of the growing number of strategic alliances and joint finance companies formed between AVAF and major dealer groups and manufacturers. The focus on achieving diversification outside the motor vehicle industry paid dividends and contributed to AVAF's impressive earnings growth.

A successful customer acquisition drive and the buoyant property market further boosted strong advances and earnings growth from commercial property finance. This, together with the focus on cost optimisation and enhanced process efficiencies in Business Banking Services, resulted in headline earnings growth of 43,3%.

Business Banking Services retained its leading market position in the public sector and has gained market share in agribusiness and the large and medium business segments.

### Wholesale and international banking

Following the relatively weak earnings performance of the first six months, the review of the Group's wholesale and international banking strategy began to pay dividends during the latter months of the financial year. As a result, headline earnings grew by 23,2% compared with the previous financial year.

Merchant banking, particularly the capital and debt markets and debt solutions, posted strong performances, ably assisted by transactions in the project finance area. Commodity finance in the Group's offshore operations performed satisfactorily because of strong commodity prices and demand, especially from China. The balance sheets of the international operations contracted during the year, in line with the Group's reduced risk appetite in these markets. Their contribution to Group earnings improved compared with the previous year.

The commercial banking segment continued its impressive headline earnings growth, up 41,4% on last year, because of solid advances and deposit growth and improved credit quality.

### Other African operations

Good operational performances from African operations outside South Africa were not sufficient to offset the impact of the strong rand. The headline earnings contribution remained in line with the previous year. Subsequent to the year-end, regulatory approval was received for the acquisition of a controlling stake in Banco Comercial Angolano in Angola.

### Financial services

The Group's bancassurance model again proved its worth, with improved cross-selling and product penetration levels contributing to the strong operational performance. Underwriting results remain healthy and equity markets grew handsomely for the second consecutive year.

Favourable weather conditions, the correction of under-insurance levels, increased non-mortgage-related business and efficient claims management assisted the short-term insurance company to post record underwriting results.

The life assurance operation has maintained its efficiency to maximise the profitability of strong new business inflows. This, together with equity market gains, enabled the posting of earnings growth of 34,6% off the high earnings base of the previous year.

## Accounting policies

AC 140 (IFRS 3) – Business Combinations – is an accounting statement that applies to accounting for business combinations and any resultant goodwill for which the acquisition agreement date is on or after 31 March 2004.

In accordance with the statement, the amortisation of goodwill ceased with effect from 1 April 2004. However, goodwill needs to be tested for impairment at least annually. Accordingly, an impairment test was conducted on the carrying value of goodwill on the Group's balance sheet. The result of this assessment, which included the consideration of past performance and future prospects, resulted in an impairment charge of R107 million for the year under review.

The Group will adopt International Financial Reporting Standards (IFRS) for the new financial year. Although the full impact of IFRS was analysed, alignment with Barclays policies is still required. Details of the elections made in terms of IFRS and their impact will be communicated in due course.

## Absa's financial objectives

Absa has a number of financial objectives that it intends to achieve going forward. These are to:

- maintain an RoE at least 5% above the cost of equity;
- achieve real headline earnings growth of 10%;
- maintain non-interest income at greater than 50%; and
- drive down the cost-to-income ratio to the mid-fifties.

## Seven-year summary of the Group's financial performance

### Seven-year summary of selected ratios and share statistics

for the year ended 31 March

| | 2005 US$m | 5-year CAGR# % | 2005 Rm | 2004 Rm | 2003 Rm | 2002 Rm | 2001 Rm | 2000 Rm | 1999 Rm |
|---|---|---|---|---|---|---|---|---|---|
| **Selected ratios** | | | | | | | | | |
| **Income statement (Rm)** | | | | | | | | | |
| Headline earnings | **882** | **22,2** | **5 484** | 4 447 | 3 441 | 1 888 | 2 446 | 2 012 | 1 935 |
| Headline earnings* | **882** | **22,2** | **5 484** | 4 447 | 3 441 | 2 872 | 2 315 | 2 012 | 1 935 |
| Attributable income | **886** | **27,8** | **5 511** | 4 505 | 3 391 | 1 686 | 2 442 | 1 617 | 1 872 |
| **Balance sheet (Rm)** | | | | | | | | | |
| Total assets | **56 032** | **14,5** | **348 686** | 306 848 | 269 064 | 247 300 | 196 514 | 177 234 | 168 475 |
| Total advances | **43 105** | **13,1** | **268 240** | 222 395 | 199 297 | 183 860 | 156 396 | 144 824 | 137 607 |
| Total deposits | **44 767** | **12,7** | **278 582** | 234 380 | 222 056 | 213 766 | 167 736 | 153 541 | 146 771 |
| **Financial performance (%)** | | | | | | | | | |
| Return on average equity** | | | **25,2** | 24,6 | 21,4 | 12,9 | 19,1 | 17,1 | 18,0 |
| Return on average assets, excluding acceptances** | | | **1,68** | 1,55 | 1,35 | 0,86 | 1,32 | 1,18 | 1,23 |
| **Operating performance (%)** | | | | | | | | | |
| Net interest margin on average assets | | | **3,27** | 3,40 | 3,45 | 3,82 | 4,25 | 4,00 | 4,26 |
| Net interest margin on average interest-bearing assets | | | **3,69** | 3,87 | 3,80 | 4,11 | 4,48 | 4,20 | 4,47 |
| Charge for impairment of advances to average advances | | | **0,52** | 0,90 | 1,02 | 2,38 | 1,09 | 1,21 | 1,11 |
| Non-performing advances as % of total advances | | | **2,2** | 3,8 | 5,1 | 5,2 | 4,4 | 4,9 | 4,3 |
| Non-interest income as % of operating income | | | **53,0** | 52,5 | 50,8 | 47,9 | 45,0 | 43,7 | 40,6 |
| Cost-to-income ratio | | | **56,8** | 57,1 | 60,0 | 60,3 | 62,3 | 62,9 | 62,6 |
| **Capital adequacy (%)** | | | | | | | | | |
| Absa Bank | | | **11,7** | 12,3 | 11,5 | 10,2 | 10,7 | 10,4 | 10,4 |
| Absa Group | | | **12,2** | 13,0 | 12,5 | 11,2 | 12,4 | n/a | n/a |

**The 2001 and 2002 financial year statistics exclude the impact of UniFer.*
***Ratios are calculated using headline earnings.*
***Note:** Five-year CAGR#: Compounded annual growth rate with 2000 as base.*

## Seven-year summary of the Group's financial performance *(continued)*

### Seven-year summary of selected ratios and share statistics *(continued)*

at 31 March

| | 5-year CAGR# % | 2005 Rm | 2004 Rm | 2003 Rm | 2002 Rm | 2001 Rm | 2000 Rm | 1999 Rm |
|---|---|---|---|---|---|---|---|---|
| **Share statistics** | | | | | | | | |
| Number of ordinary shares in issue (thousands): | | | | | | | | |
| • Weighted average | | **652 088** | 645 890 | 651 547 | 648 580 | 648 548 | 640 759 | 635 427 |
| • End of period | | **655 055** | 651 055 | 651 547 | 651 547 | 648 547 | 643 029 | 635 427 |
| Dividend cover (times)* | | **2,9** | 3,8 | 3,6 | 2,5 | 3,3 | 3,3 | 3,2 |
| Dividend yield (%) | | **3,9** | 3,9 | 4,9 | 4,6 | 3,6 | 3,4 | 3,3 |
| Earnings yield (%) | | **11,2** | 14,8 | 17,7 | 10,3 | 11,7 | 8,8 | 10,0 |
| Price-earnings ratio (times) | | **9,0** | 6,8 | 5,6 | 8,7 | 8,5 | 7,7 | 9,6 |
| Share price (cents per share): | | | | | | | | |
| • High | | **8 150** | 4 700 | 3 600 | 4 155 | 3 365 | 3 760 | 5 130 |
| • Low | | **4 320** | 3 000 | 2 650 | 2 410 | 2 020 | 2 020 | 1 500 |
| • Closing | **21,0** | **7 540** | 4 664 | 2 940 | 2 530 | 3 210 | 2 853 | 2 950 |
| Closing price/net asset value per share | | **2,07** | 1,56 | 1,14 | 1,10 | 1,50 | 1,30 | 1,60 |
| Volume of shares traded (million) | | **455,5** | 459,9 | 440,3 | 365,9 | 244,0 | 244,8 | 210,9 |
| Value of shares traded (Rm) | | **27 892,2** | 17 536,1 | 13 914,4 | 12 081,1 | 6 719,4 | 6 984,8 | 6 345,1 |
| Turnover in shares traded (%) | | **69,9** | 71,2 | 67,5 | 56,4 | 37,6 | 38,2 | 33,2 |
| Market capitalisation (Rm) | **26,3** | **49 391,2** | 30 365,2 | 19 155,5 | 16 484,1 | 20 818,4 | 15 368,4 | 18 745,1 |
| **Share statistics per ordinary share (cents)** | | | | | | | | |
| Earnings | **27,4** | **845,1** | 697,5 | 520,5 | 260,0 | 376,5 | 252,3 | 294,6 |
| Headline earnings | **21,8** | **841,0** | 688,5 | 528,1 | 291,1 | 377,2 | 314,0 | 304,5 |
| Headline earnings** | **21,8** | **841,0** | 688,5 | 528,1 | 442,8 | 357,0 | 314,0 | 304,5 |
| Dividends per share relating to income for the year | **25,0** | **295,0** | 182,0 | 145,0 | 116,0 | 116,0 | 96,5 | 96,5 |
| Net asset value | **14,4** | **3 640,1** | 2 995,9 | 2 588,6 | 2 353,6 | 2 138,5 | 1 860,7 | 1 817,7 |

**Dividend cover is calculated using the headline earnings per share and dividends per share.*
***The 2001 and 2002 financial year statistics exclude the impact of UniFer.*
***Note:** Five-year CAGR#: Compounded annual growth rate with 2000 as base.*

## Seven-year summary of the Group's financial performance *(continued)*

### Seven-year summary of the consolidated income statement

for the year ended 31 March

| | 2005 US$m | 5-year CAGR# % | 2005 Rm | 2004 Rm | 2003 Rm | 2002 Rm | 2001 Rm | 2000 Rm | 1999 Rm |
|---|---|---|---|---|---|---|---|---|---|
| Interest income | **4 360** | **3,6** | **27 132** | 28 901 | 30 299 | 24 517 | 22 571 | 22 708 | 28 124 |
| Interest expense | **(2 662)** | **0,9** | **(16 568)** | (19 183) | (21 467) | (16 133) | (14 708) | (15 843) | (21 336) |
| **Net interest income** | **1 698** | **9,0** | **10 564** | 9 718 | 8 832 | 8 384 | 7 863 | 6 865 | 6 788 |
| Impairment of advances | **(206)** | **(10,8)** | **(1 283)** | (1 900) | (1 957) | (4 042) | (1 643) | (2 271) | (1 460) |
| **Net income from lending activities** | **1 492** | **15,1** | **9 281** | 7 818 | 6 875 | 4 342 | 6 220 | 4 594 | 5 328 |
| Non-interest income | **1 914** | **17,4** | **11 914** | 10 753 | 9 127 | 7 694 | 6 421 | 5 331 | 4 632 |
| **Operating income** | **3 406** | **16,4** | **21 195** | 18 571 | 16 002 | 12 036 | 12 641 | 9 925 | 9 960 |
| Operating expenditure | **(2 051)** | **10,7** | **(12 761)** | (11 679) | (10 731) | (9 700) | (8 900) | (7 672) | (7 154) |
| Indirect taxation | **(125)** | **15,2** | **(780)** | (672) | (695) | (649) | (534) | (384) | (417) |
| Impairment charge | **(22)** | **n/a** | **(137)** | (116) | (103) | (144) | — | — | — |
| **Net income before exceptional items** | **1 208** | **32,1** | **7 517** | 6 104 | 4 473 | 1 543 | 3 207 | 1 869 | 2 389 |
| Exceptional items | **—** | **n/a** | **—** | — | — | — | — | — | (63) |
| **Net income from operations** | **1 208** | **32,1** | **7 517** | 6 104 | 4 473 | 1 543 | 3 207 | 1 869 | 2 326 |
| Share of associated and joint venture companies' income | **19** | **18,2** | **116** | 119 | 92 | 100 | 53 | 50 | 20 |
| **Net income before taxation** | **1 227** | **31,8** | **7 633** | 6 223 | 4 565 | 1 643 | 3 260 | 1 919 | 2 346 |
| Taxation | **(329)** | **46,6** | **(2 048)** | (1 627) | (1 104) | (337) | (717) | (302) | (474) |
| **Net income after taxation** | **898** | **28,1** | **5 585** | 4 596 | 3 461 | 1 306 | 2 543 | 1 617 | 1 872 |
| Minority shareholders' interest | **(12)** | **n/a** | **(74)** | (91) | (70) | 380 | (101) | — | — |
| **Net income attributable to shareholders** | **886** | **27,8** | **5 511** | 4 505 | 3 391 | 1 686 | 2 442 | 1 617 | 1 872 |
| Non-headline earnings | **(4)** | **n/a** | **(27)** | (58) | 50 | 202 | 4 | 395 | 63 |
| **Headline earnings** | **882** | **22,2** | **5 484** | 4 447 | 3 441 | 1 888 | 2 446 | 2 012 | 1 935 |

***Notes:***
*Rand/US dollar exchange rate at 31 March 2005 of R6,22 was used.*
*Five-year CAGR#: Compounded annual growth rate with 2000 as base.*
*The 2001 and 2002 financial year statistics include the impact of UniFer.*

## Seven-year summary of the Group's financial performance *(continued)*

### Seven-year summary of the consolidated balance sheet

at 31 March

| | 2005 US$m | 5-year CAGR# % | 2005 Rm | 2004 Rm | 2003 Rm | 2002 Rm | 2001 Rm | 2000 Rm | 1999 Rm |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Cash and short-term assets | **2 440** | **18,3** | **15 184** | 14 068 | 12 617 | 11 688 | 6 402 | 6 557 | 5 663 |
| Money market assets | **804** | **8,3** | **5 002** | 3 688 | 5 084 | 5 233 | 5 618 | 3 358 | 3 263 |
| Capital market assets | **955** | **18,4** | **5 940** | 9 161 | 10 471 | 10 095 | 4 590 | 2 554 | 2 303 |
| Statutory liquid asset portfolio | **2 311** | **7,2** | **14 384** | 12 598 | 12 970 | 13 677 | 10 896 | 10 170 | 10 980 |
| Advances | **43 105** | **13,1** | **268 240** | 222 395 | 199 297 | 183 860 | 156 396 | 144 824 | 137 607 |
| Mortgages | **21 142** | **15,7** | **131 569** | 105 110 | 90 603 | 80 546 | 70 882 | 63 430 | 62 428 |
| Instalment finance | **7 072** | **18,3** | **44 006** | 36 260 | 29 042 | 24 968 | 22 541 | 18 960 | 24 746 |
| Retail overdrafts and credit cards | **3 083** | **1,1** | **19 184** | 16 715 | 16 676 | 16 807 | 17 049 | 18 130 | 18 123 |
| Foreign currency loans | **2 589** | **8,2** | **16 111** | 16 101 | 23 701 | 23 860 | 13 004 | 10 889 | 11 226 |
| Other | **10 247** | **11,4** | **63 769** | 55 912 | 47 372 | 45 406 | 37 594 | 37 145 | 23 992 |
| | **44 133** | **13,1** | **274 639** | 230 098 | 207 394 | 191 587 | 161 070 | 148 554 | 140 515 |
| Impairment of advances | **(1 028)** | **11,4** | **(6 399)** | (7 703) | (8 097) | (7 727) | (4 674) | (3 730) | (2 908) |
| Derivative and trading assets | **2 978** | **n/a** | **18 534** | 28 267 | 13 469 | 8 606 | 1 907 | — | 9 |
| Other assets | **1 312** | **26,9** | **8 162** | 5 874 | 6 012 | 4 412 | 2 534 | 2 484 | 2 269 |
| Deferred taxation | **29** | **n/a** | **181** | 167 | 223 | 445 | 198 | — | — |
| Investments | **1 352** | **24,3** | **8 412** | 5 792 | 3 506 | 3 399 | 2 671 | 2 835 | 2 472 |
| Associated and joint venture companies | **97** | **16,5** | **604** | 624 | 450 | 442 | 332 | 281 | 225 |
| Subsidiary companies | **—** | **n/a** | **—** | — | — | 131 | — | 364 | — |
| Property and equipment | **431** | **0,5** | **2 683** | 2 597 | 2 613 | 2 552 | 2 562 | 2 615 | 2 204 |
| Intangible assets and goodwill | **32** | **21,6** | **197** | 134 | 187 | 66 | 164 | 74 | 94 |
| Client liabilities under acceptances | **187** | **0,8** | **1 163** | 1 483 | 2 165 | 2 694 | 2 244 | 1 118 | 1 386 |
| **Total assets** | **56 032** | **14,5** | **348 686** | 306 848 | 269 064 | 247 300 | 196 514 | 177 234 | 168 475 |

## Seven-year summary of the Group's financial performance *(continued)*

**Seven-year summary of the consolidated balance sheet** *(continued)*
at 31 March

| | 2005 US$m | 5-year CAGR# % | 2005 Rm | 2004 Rm | 2003 Rm | 2002 Rm | 2001 Rm | 2000 Rm | 1999 Rm |
|---|---|---|---|---|---|---|---|---|---|
| **Shareholders' equity and liabilities** | | | | | | | | | |
| **Shareholders' equity** | **3 814** | **14,7** | **23 737** | 19 350 | 16 866 | 15 335 | 13 869 | 11 965 | 11 550 |
| **Minority shareholders' equity** | **37** | **n/a** | **228** | 171 | 241 | 151 | 490 | — | — |
| **Total shareholders' equity and minority shareholders' equity** | **3 851** | **14,9** | **23 965** | 19 521 | 17 107 | 15 486 | 14 359 | 11 965 | 11 550 |
| **Liabilities** | | | | | | | | | |
| Deposits and current accounts | **44 767** | **12,7** | **278 582** | 234 380 | 222 056 | 213 766 | 167 736 | 153 541 | 146 771 |
| Derivative and trading liabilities | **3 477** | **541,0** | **21 638** | 30 856 | 12 050 | 193 | 1 306 | 2 | — |
| Provision for liabilities and charges | **1 484** | **12,1** | **9 232** | 7 528 | 6 826 | 7 160 | 4 343 | 5 206 | 4 331 |
| Deferred taxation | **331** | **3,3** | **2 063** | 1 331 | 1 451 | 1 414 | 2 002 | 1 755 | 1 539 |
| Taxation | **79** | **42,2** | **489** | 567 | 327 | 740 | 399 | 84 | 107 |
| Insurance funds | **958** | **43,7** | **5 964** | 4 115 | 1 396 | 1 453 | 1 163 | 972 | 823 |
| Other borrowed funds | **898** | **16,6** | **5 590** | 7 067 | 5 686 | 4 394 | 2 962 | 2 591 | 1 968 |
| Liabilities to clients under acceptances | **187** | **0,8** | **1 163** | 1 483 | 2 165 | 2 694 | 2 244 | 1 118 | 1 386 |
| **Total liabilities** | **52 181** | **14,5** | **324 721** | 287 327 | 251 957 | 231 814 | 182 155 | 165 269 | 156 925 |
| **Total shareholders' equity and liabilities** | **56 032** | **14,5** | **348 686** | 306 848 | 269 064 | 247 300 | 196 514 | 177 234 | 168 475 |
| **Contingent liabilities** | **2 672** | **7,7** | **16 630** | 16 637 | 14 275 | 16 579 | 14 198 | 11 471 | 13 735 |

***Notes:***
*Rand/US dollar exchange rate at 31 March 2005 of R6,22 was used.*
*Five-year CAGR#: Compounded annual growth rate with 2000 as base.*

## Group average balance sheet

at 31 March

| | 2005 | | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|---|
| | **Average balance Rm** | **Average rate %** | **Interest income/ expense Rm** | Average balance Rm | Average rate % | Average balance Rm | Average rate % |
| **Assets** | | | | | | | |
| **Liquid assets** | | | | | | | |
| Cash and short-term assets | **14 626** | **1,95** | **286** | 13 343 | 2,38 | 11 727 | 3,63 |
| Money market assets | **4 345** | **8,81** | **383** | 4 386 | 9,12 | 4 689 | 14,16 |
| Capital market assets | **7 551** | **4,26** | **322** | 9 816 | 3,80 | 8 481 | 9,59 |
| Statutory liquid asset portfolio | **13 491** | **7,76** | **1 046** | 12 784 | 11,50 | 13 761 | 9,88 |
| | **40 013** | **5,09** | **2 037** | 40 329 | 6,35 | 36 658 | 8,44 |
| **Other assets** | | | | | | | |
| Investment and trading securities* | **7 102** | **—** | **—** | 4 649 | 2,73 | 3 822 | |
| Advances | **245 318** | **10,23** | **25 095** | 210 846 | 12,43 | 193 304 | 13,99 |
| Derivative and trading assets | **23 401** | | | 20 868 | | 11 038 | |
| Other assets | **7 193** | | | 6 138 | | 5 555 | |
| **Interest-earning assets** | **323 027** | **8,40** | **27 132** | 282 830 | 10,22 | 252 377 | 12,01 |
| **Associated companies** | **614** | | | 537 | | 471 | |
| **Subsidiary companies** | **—** | | | — | | 65 | |
| **Property, equipment and intangible assets** | **2 805** | | | 2 766 | | 2 798 | |
| | **326 446** | **8,31** | **27 132** | 286 133 | 10,10 | 255 711 | 11,85 |
| **Shareholders' equity and liabilities** | | | | | | | |
| Share capital | **1 301** | | | 1 297 | | 1 303 | |
| Share premium | **1 460** | | | 1 421 | | 1 532 | |
| Reserves | **18 783** | | | 15 391 | | 13 252 | |
| Minority shareholders' equity | **200** | | | 205 | | 227 | |
| **Total shareholders' equity and minority shareholders' equity** | **21 744** | | | 18 314 | | 16 314 | |
| **Liabilities** | | | | | | | |
| Deposits and current accounts | **256 481** | **6,07** | **15 562** | 228 218 | 7,98 | 215 829 | 9,52 |
| Derivative and trading liabilities | **26 247** | | | 21 453 | | 6 121 | |
| Other liabilities and provisions | **8 908** | | | 7 624 | | 9 799 | |
| | **291 636** | **5,34** | **15 562** | 257 295 | 7,07 | 231 749 | 8,86 |
| **Deferred taxation** | **1 697** | | | 1 391 | | 1 312 | |
| | **293 333** | **5,31** | **15 562** | 258 686 | 7,04 | 233 061 | 8,81 |
| **Insurance funds** | **5 040** | | | 2 756 | | 1 425 | |
| **Debentures and long-term liabilities** | | | | | | | |
| Convertible loan | **96** | **88,54** | **85** | 212 | 69,81 | 382 | 50,26 |
| Other borrowed funds | **6 233** | **14,77** | **921** | 6 165 | 13,50 | 4 529 | 16,27 |
| **Interest-bearing liabilities** | **304 702** | **5,44** | **16 568** | 267 819 | 7,16 | 239 397 | 8,97 |
| | **326 446** | **5,08** | **16 568** | 286 133 | 6,70 | 255 711 | 8,40 |
| **Net interest margin** | | **3,27** | | | 3,40 | | 3,45 |

**Returns on investment and trading securities are reflected in non-interest income.*

# Directors' approval

## Responsibility for annual financial statements

The directors are responsible for the preparation, integrity and objectivity of financial statements that fairly present the state of the affairs of the Company and of the Group at the end of the financial year and the net income and cash flow for the year, and other information contained in this annual report.

To enable the directors to meet these responsibilities:

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

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

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

The annual financial statements have been prepared in accordance with the provisions of the South African Companies Act and the Banks Act and comply with South African Statements of Generally Accepted Accounting Practice relating to companies and banks.

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

It is the responsibility of the independent auditors to report on the financial statements. Their report to the members of the Company and Group is set out on page 275 of this annual report.

## Approval of annual financial statements

The directors' report and the annual financial statements, which appear on pages 276 to 379, were approved by the board of directors on 27 May 2005 and are signed by:

**D C Cronjé**
*Chairman*

**S F Booysen**
*Group chief executive*

# Company secretary's certificate

**To the members of Absa Group Limited**

In accordance with the provisions of the Companies Act of 1973 (the Act), I certify that, in respect of the year ended 31 March 2005, the Company has lodged with the Registrar of Companies all returns prescribed by the Act and that all such returns are true, correct and up to date.

**W R Somerville**

*Company secretary*

Johannesburg

27 May 2005



# Report of the independent auditors

**To the members of Absa Group Limited**

We have audited the annual financial statements and Group annual financial statements of Absa Group Limited set out on pages 276 to 379 for the year ended 31 March 2005. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

**Scope**

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

**Audit opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and of the Group at 31 March 2005 and the results of their operations and cash flow information for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

**KPMG Inc.**

*Chartered Accountants (SA)*

**Ernst & Young**

*Chartered Accountants (SA)*

Johannesburg

27 May 2005

# Directors' report

## Nature of activities

Absa Group Limited is the registered controlling company of a number of banks, assurance, insurance, fiduciary and investment companies and is an investment holding company.

The Company directs the planning, control and coordination of the activities of the Group, which provides an extensive range of banking and financial services.



## Group results

Headline earnings amounted to R5 484 million (2004: R4 447 million, 2003: R3 441 million) and headline earnings per share increased by 22,2% to 841,0 cents (2004: 688,5 cents, 2003: 528,1 cents). Earnings (net income attributable to shareholders) amounted to R5 511 million, (2004: R4 505 million, 2003: R3 391 million). Headline earnings were derived from the following activities:

| | **2005** | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | **Rm** | **%** | Rm | % | Rm | % |
| **Banking operations** | | | | | | |
| Retail banking* | **2 406** | **43,8** | 1 771 | 39,8 | 1 159 | 33,7 |
| Commercial banking* | **1 403** | **25,6** | 992 | 22,3 | 714 | 20,8 |
| Wholesale and international banking | **843** | **15,4** | 684 | 15,4 | 807 | 23,5 |
| African operations | **72** | **1,3** | 75 | 1,7 | 91 | 2,5 |
| Capital and funding centre | **(159)** | **(2,9)** | (60) | (1,3) | — | — |
| **Total banking** | **4 565** | **83,2** | 3 462 | 77,9 | 2 771 | 80,5 |
| **Assurance, insurance, fiduciary and investment operations** | | | | | | |
| Financial services | **1 124** | **20,5** | 890 | 20,0 | 604 | 17,6 |
| **Corporate centre** | **(205)** | **(3,7)** | 95 | 2,1 | 66 | 1,9 |
| **Total headline earnings** | **5 484** | **100,0** | 4 447 | 100,0 | 3 441 | 100,0 |

**Small Business and MLS have been reclassified from commercial banking to retail banking for 2004 and 2003.*

A general review of the business and operations of major subsidiaries is given in the Group's operational review on pages 161 to 250 of this annual report.

## Subsidiary companies

The interests in subsidiary and associated companies, where considered material in the light of the Group's financial position and results, are set out on pages 356 to 361 of this annual report.

## Directors' interests

As at 31 March, the directors' interests in the issued shares of the Company were as follows:

| | Direct | | | | | |
|---|---|---|---|---|---|---|
| | Beneficial | | | Non-beneficial | | |
| | **2005** | 2004 | 2003 | **2005** | 2004 | 2003 |
| **Present directors** | | | | | | |
| L N Angel | **—** | — | — | **—** | — | — |
| D C Arnold | **1 000** | 1 000 | — | **—** | — | — |
| D E Baloyi | **—** | — | — | **—** | — | — |
| S F Booysen* | **—** | — | — | **—** | — | — |
| L Boyd | **11 086** | 11 086 | 8 062 | **—** | — | — |
| D C Brink | **—** | — | — | **—** | — | — |
| B P Connellan | **—** | — | — | **—** | — | — |
| D C Cronjé | **253 942** | 253 942 | 253 942 | **—** | — | — |
| A S du Plessis | **—** | — | — | **—** | — | — |
| G Griffin | **2 000** | 2 000 | 2 000 | **—** | — | — |
| L N Jonker | **—** | — | — | **—** | — | — |
| P du P Kruger | **—** | — | — | **—** | — | — |
| L W Maasdorp | **—** | — | — | **—** | — | — |
| P T Motsepe | **—** | — | — | **—** | — | — |
| J H Schindehütte* | **—** | — | — | **20 000** | — | — |
| T M G Sexwale | **—** | — | — | **—** | — | — |
| F A Sonn | **—** | — | — | **—** | — | — |
| P E I Swartz | **2 049** | 2 049 | 2 049 | **—** | — | — |
| T van Wyk | **—** | — | — | **—** | — | — |
| J van Zyl | **—** | — | — | **—** | — | — |
| L L von Zeuner* | **20 000** | — | — | **—** | — | — |
| **Past directors** | | | | | | |
| E R Bosman (1 August 2004) | **—** | 134 184 | 72 573 | **—** | — | — |
| F J du Toit (1 January 2005) | **—** | 34 111 | 34 111 | **—** | — | — |
| G R Pardoe (9 July 2004) | **—** | — | — | **—** | — | — |
| **Total direct** | **290 077** | 438 372 | 372 737 | **20 000** | — | — |

**Executive director*

| | Indirect | | | | | |
|---|---|---|---|---|---|---|
| | Beneficial | | | Non-beneficial | | |
| | **2005** | 2004 | 2003 | **2005** | 2004 | 2003 |
| **Present directors** | | | | | | |
| L N Angel | **—** | — | — | **—** | — | — |
| D C Arnold | **—** | — | — | **—** | — | — |
| D E Baloyi | **—** | — | — | **—** | — | — |
| S F Booysen* | **735 750** | — | — | **—** | — | — |
| L Boyd | **—** | — | — | **—** | — | — |
| D C Brink | **30 900** | 30 900 | 30 900 | **—** | — | — |
| B P Connellan | **600** | 600 | 600 | **—** | — | — |
| D C Cronjé | **—** | — | — | **—** | — | — |
| A S du Plessis | **—** | — | — | **4 000** | 4 000 | 4 000 |
| G Griffin | **—** | — | — | **—** | — | — |
| L N Jonker | **—** | — | — | **3 479** | 3 051 | 3 051 |
| P du P Kruger | **—** | — | — | **—** | — | — |
| L W Maasdorp | **—** | — | — | **—** | — | — |
| P T Motsepe | **—** | — | — | **—** | — | — |
| J H Schindehütte* | **471 856** | — | — | **—** | — | — |
| T M G Sexwale | **—** | — | — | **—** | — | — |
| F A Sonn | **3 000** | 3 000 | 3 000 | **—** | — | — |
| P E I Swartz | **—** | — | — | **765** | 765 | 765 |
| T van Wyk | **—** | — | — | **—** | — | — |
| J van Zyl | **—** | — | — | **—** | — | — |
| L L von Zeuner* | **458 400** | — | — | **—** | — | — |
| **Past directors** | | | | | | |
| E R Bosman (1 August 2004) | **515 000** | 1 085 000 | 806 611 | **—** | — | — |
| F J du Toit (1 January 2005) | **378 187** | 378 187 | 318 187 | **—** | — | — |
| G R Pardoe (9 July 2004) | **—** | 730 000 | 410 000 | **—** | — | — |
| **Total indirect** | **2 593 693** | 2 227 687 | 1 569 298 | **8 244** | 7 816 | 7 816 |

**Executive director*

| | Direct and indirect | | | | | |
|---|---|---|---|---|---|---|
| | Beneficial | | | Non-beneficial | | |
| | **2005** | 2004 | 2003 | **2005** | 2004 | 2003 |
| **Present directors** | | | | | | |
| L N Angel | **—** | — | — | **—** | — | — |
| D C Arnold | **1 000** | 1 000 | — | **—** | — | — |
| D E Baloyi | **—** | — | — | **—** | — | — |
| S F Booysen* | **735 750** | — | — | **—** | — | — |
| L Boyd | **11 086** | 11 086 | 8 062 | **—** | — | — |
| D C Brink | **30 900** | 30 900 | 30 900 | **—** | — | — |
| B P Connellan | **600** | 600 | 600 | **—** | — | — |
| D C Cronjé | **253 942** | 253 942 | 253 942 | **—** | — | — |
| A S du Plessis | **—** | — | — | **4 000** | 4 000 | 4 000 |
| G Griffin | **2 000** | 2 000 | 2 000 | **—** | — | — |
| L N Jonker | **—** | — | — | **3 479** | 3 051 | 3 051 |
| P du P Kruger | **—** | — | — | **—** | — | — |
| L W Maasdorp | **—** | — | — | **—** | — | — |
| P T Motsepe | **—** | — | — | **—** | — | — |
| J H Schindehütte* | **471 856** | — | — | **20 000** | — | — |
| T M G Sexwale | **—** | — | — | **—** | — | — |
| F A Sonn | **3 000** | 5 049 | 5 049 | **—** | — | — |
| P E I Swartz | **2 049** | — | — | **765** | 765 | 765 |
| T van Wyk | **—** | — | — | **—** | — | — |
| J van Zyl | **—** | — | — | **—** | — | — |
| L L von Zeuner* | **478 400** | — | — | **—** | — | — |
| **Past directors** | | | | | | |
| E R Bosman (1 August 2004) | **515 000** | 1 219 184 | 879 184 | **—** | — | — |
| F J du Toit (1 January 2005) | **378 187** | 412 298 | 352 298 | **—** | — | — |
| G R Pardoe (9 July 2004) | **—** | 730 000 | 410 000 | **—** | — | — |
| **Total direct and indirect** | **2 883 770** | 2 666 059 | 1 942 035 | **28 244** | 7 816 | 7 816 |

*Executive director

Details of share options held by executive directors are contained in the directors' remuneration report.

There has been no change in the interests of directors between 31 March 2005 and 27 May 2005.

## Preference shareholding in Absa

The following Absa directors hold Absa redeemable cumulative option-holding preference shares indirectly through their direct or indirect holdings of ordinary shares in Batho Bonke Capital (Proprietary) Limited:

| Absa directors | Number of shares |
|---|---|
| L N Angel | 2 560 328 |
| D E Baloyi | 100 000 |
| L W Maasdorp | 2 560 328 |
| T M G Sexwale | 2 703 705 |
| F A Sonn | 500 000 |
| P E I Swartz | 500 000 |
| **Total** | **8 924 361** |

## Acquisitions

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

- Absa Group Limited increased its holding in Abvest Holdings (Proprietary) Limited to 90%.
- Absa Insurance Company Limited acquired a 10,7% interest in UB Group Limited from Global Insurance Company Limited.
- Absa Bank Limited acquired the remaining 50% interest in Meeg Asset Finance (Proprietary) Limited from Meeg Bank Holding Company Limited and its management and now owns 100% of Meeg Asset Finance (Proprietary) Limited.
- Absa Insurance Company Limited acquired 100% of the issued share capital of Leadenhall Underwriting Management (Proprietary) Limited from Global Insurance Company Limited.
- Absa Bank Limited acquired 100% of Avena LeasePlan (SA) (Proprietary) Limited.
- Absa Insurance Risk Management (Proprietary) Limited was incorporated as a subsidiary of Absa Insurance Company Limited.
- Absa Bank Limited acquired a 49% interest in NewGold Manager (Proprietary) Limited.
- Absa Bank Limited acquired a 49% interest in Trackhedge Managers (Proprietary) Limited.
- Absa Bank Limited acquired a 50% stake in Sanlam Home Loans Limited.
- Bankhaus Wölbern acquired a 99,9% interest in Sineus Holdings AG.

## Disposals

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

- Absa Manx Holdings Limited sold its 50% stake in Stonehage Financial Services Holdings Limited to an external party.
- Absa Financial Services Limited sold its 100% interest in Absa Offshore (SA) (Proprietary) Limited to a third party.
- Woodbook Finance Limited (previously MLS Bank Limited) sold its entire interest in Medical Leasing Services (Proprietary) Limited to a third party.
- Absa Group Limited decreased its shareholding in Jigsaw Holdings Limited to 25,1%.
- Absa Bank Limited divested its 50% shareholding in Mondex South Africa (Proprietary) Limited.
- UniFer Holdings Limited sold 22,51% of its shareholding in Blakes and Associates Holdings (Proprietary) Limited.
- Absa Bank Limited sold its 6,23% stake in Credit Guarantee Insurance Corporation of Africa Limited.
- Absa Group Limited sold its 25,7% shareholding in Revesco Holdings (Proprietary) Limited.

## Special resolutions

Special resolutions were passed by the following companies:

**Absa Group Limited**

- amendment to its Articles of Association with regard to the creation and rights attached to redeemable cumulative option-holding preference shares.
- authority for a share buy-back.

The following special resolutions were passed by subsidiaries:

**Absa Bank Limited**

- an increase in the authorised share capital from R320 million to R323 million.

**Mediclub (Proprietary) Limited**

- changed its name to Mediboost (Proprietary) Limited.

**MLS Bank Limited**

- changed its name to Woodbook Finance Limited.

**Abserve (Proprietary) Limited**

- changed its name to Absa Specialised Investments (Proprietary) Limited.

**Mercabank Genomineerdes (Proprietary) Limited**

- changed its name to Merca Nominees (Proprietary) Limited.

## Directors and secretary

Details of the directors and secretary of the Company are given on page 493 and that of the Company's principal operating subsidiaries on pages 493 to 497.

Since the date of the previous directors' report, the following changes to the board occurred:

## Changes to the board: 1 April 2004 to 31 March 2005

| Director | Change | Designation | Date |
|---|---|---|---|
| G R Pardoe | Resignation | Deputy Group chief executive/executive director | 9 July 2004 |
| P T Motsepe | Appointment | Non-executive | 9 July 2004 |
| E R Bosman | Retirement | Group chief executive/executive director | 1 August 2004 |
| S F Booysen (Dr) | Appointment | Group chief executive/executive director | 1 August 2004 |
| L N Angel (Ms) | Appointment | Non-executive | 16 August 2004 |
| L W Maasdorp | Appointment | Non-executive | 16 August 2004 |
| L L von Zeuner | Appointment | Executive director | 1 September 2004 |
| D E Baloyi (Dr) | Appointment | Independent non-executive | 31 December 2004 |
| F J du Toit | Retirement | Executive director | 1 January 2005 |
| J H Schindehütte | Appointment | Executive director | 1 January 2005 |

Confirmation of the following appointments will be sought at the forthcoming annual general meeting:

Dr D E Baloyi, Mr P T Motsepe, Mr J H Schindehütte and Mr L L von Zeuner.

In accordance with the Company's Articles of Association, Messrs D C Arnold, L Boyd and L N Jonker, Dr F A Sonn, Messrs P E I Swartz, T van Wyk and Dr D C Cronjé retire by rotation but, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Should the acquisition by Barclays Bank PLC of majority shareholding in Absa be successfully concluded prior to the annual general meeting, Mr T van Wyk will not offer himself for re-election at the annual general meeting.

## Interests of directors and officers

Other than the introduction of empowerment shareholders into Absa Group Limited via Batho Bonke Capital (Proprietary) Limited during the financial year, no contracts were entered into in which directors and officers of the Company had an interest and which significantly affected the business of the Group. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group. The emoluments and services of executive directors are determined by the Group Remuneration Committee. No long-term service contracts exist between executive directors and the Company.

## Share capital

### Authorised

The authorised share capital of the Company of R1 600 000 000 divided into 800 000 000 ordinary par value shares of R2,00 each was increased to R1 760 935 000 divided into:

- 800 000 000 ordinary par value shares of R2,00 each;
- 80 467 500 redeemable cumulative option-holding par value preference shares of R2,00 each, being the shares to be created as described below:

  By the creation of 80 467 500 new redeemable cumulative option-holding preference shares with a par value of R2,00 each, having attached thereto rights, privileges, conditions, limitations and obligations, as set out in the Articles of Association of the Company (redeemable preference shares).

### Issued

On 17 November 2004, 4 000 000 ordinary shares were issued to the Absa Group Limited Share Incentive Trust to provide sufficient stock for vested options.

On 1 July 2004, 79 237 500 redeemable cumulative option-holding preference shares were issued pursuant to Absa's black economic empowerment and employee transactions to introduce empowerment shareholders at holding company level. 73 152 300 were issued to Batho Bonke Capital (Proprietary) Limited and 6 085 200 were issued to the Absa Group Limited Share Ownership Trust.

## Directors' emoluments

Directors' emoluments in respect of the Company's executive directors are disclosed in note 32.4 of the financial statements.

The earnings and benefits of the Group chief executive, executive directors and non-executive directors, together with further information relating to the determination of directors' emoluments, share and option allocations are contained in the directors' remuneration report on pages 79 to 93.

## Dividends

On 28 May 2004, a dividend of 110 cents per ordinary share was declared to shareholders registered on 25 June 2004.

On 22 November 2004, a dividend of 95 cents per ordinary share was declared to shareholders registered on 24 December 2004.

On 9 May 2005, a dividend of 200 cents per ordinary share was declared to shareholders registered on 24 June 2005.

## Post-balance sheet events

On 9 May 2005, Barclays Bank PLC announced its formal offer to Absa shareholders to acquire a majority stake in the Group at R82,50 per share.

Subsequent to the year-end, Absa Group Limited acquired a controlling stake in Banco Comercial Angolano, a commercially focused bank in Angola.

On 21 April 2005, 7 000 000 ordinary shares and on 18 May 2005, a further 4 800 000 ordinary shares were issued to the Absa Group Limited Share Incentive Trust to provide sufficient stock for vested options.

## Conversion to International Financial Reporting Standards (IFRS)

The Group will adopt IFRS for the new financial year. The impact of the transition to IFRS has been analysed and the statements that have the largest impact include IFRS 2 – Share Based Payments and IAS 39 – Financial Instruments: Recognition and Measurement, specifically changes to the determination of portfolio impairments and refinement in respect of derecognition rules.

The Group's accounting policies have been reconsidered in terms of IFRS, however, alignment with the policies of Barclays will be required if Absa shareholders approve the Barclays offer to acquire a majority stake in the Group.

27 May 2005

# Balance sheet

at 31 March

| | Note | Group 2005 Rm | 2004 Rm | 2003 Rm |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and short-term assets | 1 | **15 184** | 14 068 | 12 617 |
| Money market assets | 2 | **5 002** | 3 688 | 5 084 |
| Capital market assets | 3 | **5 940** | 9 161 | 10 471 |
| Statutory liquid asset portfolio | 4 | **14 384** | 12 598 | 12 970 |
| Advances | 5 | **268 240** | 222 395 | 199 297 |
| Derivative and trading assets | 8 | **18 534** | 28 267 | 13 469 |
| Other assets | 9 | **8 162** | 5 874 | 6 012 |
| Deferred taxation | 21.1 | **181** | 167 | 223 |
| Investments | 10 | **8 412** | 5 792 | 3 506 |
| Associated companies | 11 | **604** | 624 | 450 |
| Property and equipment | 12 | **2 683** | 2 597 | 2 613 |
| Intangible assets | 13 | **58** | 50 | 55 |
| Goodwill | 14 | **139** | 84 | 132 |
| Client liabilities under acceptances | | **1 163** | 1 483 | 2 165 |
| **Total assets** | | **348 686** | 306 848 | 269 064 |
| **Shareholders' equity and liabilities** | | | | |
| Share capital | 15.1 | **1 310** | 1 291 | 1 303 |
| Share premium | 15.2 | **1 611** | 1 309 | 1 532 |
| Reserves | 16 | **20 816** | 16 750 | 14 031 |
| **Shareholders' equity** | | **23 737** | 19 350 | 16 866 |
| **Minority shareholders' equity** | 17 | **228** | 171 | 241 |
| **Total shareholders' and minority shareholders' equity** | | **23 965** | 19 521 | 17 107 |
| **Liabilities** | | | | |
| Deposits and current accounts | 18 | **278 582** | 234 380 | 222 056 |
| Derivative and trading liabilities | 19 | **21 638** | 30 856 | 12 050 |
| Other liabilities | 20 | **7 723** | 6 256 | 5 745 |
| Deferred taxation | 21.1 | **2 063** | 1 331 | 1 451 |
| Taxation | 21.5 | **489** | 567 | 327 |
| Provisions | 22 | **1 509** | 1 272 | 1 081 |
| Insurance funds | 23 | **5 964** | 4 115 | 1 396 |
| Other borrowed funds | 24 | **5 590** | 7 067 | 5 686 |
| Liabilities to clients under acceptances | | **1 163** | 1 483 | 2 165 |
| **Total liabilities** | | **324 721** | 287 327 | 251 957 |
| **Total shareholders' equity and liabilities** | | **348 686** | 306 848 | 269 064 |
| **Contingent liabilities** | 28 | **16 630** | 16 637 | 14 275 |

# Income statement

for the year ended 31 March

| | Note | Group 2005 Rm | 2004 Rm | 2003 Rm |
|---|---|---|---|---|
| Interest income | 25.2 | **27 132** | 28 901 | 30 299 |
| Interest expense | 25.3 | **(16 568)** | (19 183) | (21 467) |
| **Net interest income** | | **10 564** | 9 718 | 8 832 |
| Impairment of advances | 6 | **(1 283)** | (1 900) | (1 957) |
| **Income from lending activities** | | **9 281** | 7 818 | 6 875 |
| Non-interest income | 25.4 | **11 914** | 10 753 | 9 127 |
| **Operating income** | | **21 195** | 18 571 | 16 002 |
| Operating expenditure | 25.6 | **(12 761)** | (11 679) | (10 731) |
| Indirect taxation | 21.3 | **(780)** | (672) | (695) |
| Impairment charge | 25.8 | **(137)** | (116) | (103) |
| **Net income from operations** | | **7 517** | 6 104 | 4 473 |
| Share of associated companies' income | 11 | **116** | 119 | 92 |
| **Net income before taxation** | | **7 633** | 6 223 | 4 565 |
| Taxation | 21.2 | **(2 048)** | (1 627) | (1 104) |
| **Net income after taxation** | | **5 585** | 4 596 | 3 461 |
| Minority shareholders' interest | 17 | **(74)** | (91) | (70) |
| **Net income attributable to shareholders** | | **5 511** | 4 505 | 3 391 |
| **Headline earnings** | 26.1 | **5 484** | 4 447 | 3 441 |
| **Headline earnings per share (cents)** | 26.2 | **841,0** | 688,5 | 528,1 |
| **Diluted headline earnings per share (cents)** | 26.3 | **811,1** | 682,8 | 528,1 |
| **Earnings per share (cents)** | 26.2 | **845,1** | 697,5 | 520,5 |
| **Diluted earnings per share (cents)** | 26.3 | **815,1** | 691,7 | 520,5 |
| **Dividends per share paid during the year (cents)** | 27 | **205,0** | 157,1 | 123,0 |
| **Dividends per share relating to income for the year (cents)** | 27 | **295,0** | 182,0 | 145,0 |
| **Dividend cover (times)** | | **2,9** | 3,8 | 3,6 |

# Cash flow statement

for the year ended 31 March

| | Note | Group 2005 Rm | 2004 Rm | 2003 Rm |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash receipts from customers | 37 | **38 665** | 39 214 | 39 049 |
| Cash paid to customers, employees and suppliers | 38 | **(27 648)** | (29 921) | (31 334) |
| Cash inflow from operating activities | 36 | **11 017** | 9 293 | 7 715 |
| Taxation paid | 39 | **(2 125)** | (1 890) | (1 929) |
| Cash flows from operating activities before changes in operating assets and liabilities | | **8 892** | 7 403 | 5 786 |
| **Net decrease in operating funds** | | **(2 182)** | (3 290) | (3 802) |
| Increase in income-earning funds and other debtors | 40 | **(39 609)** | (36 580) | (21 000) |
| Increase in deposits and other creditors and provisions | 41 | **37 427** | 33 290 | 17 198 |
| **Net cash inflow from operating activities** | | **6 710** | 4 113 | 1 984 |
| **Cash flows from investing activities** | | **(3 063)** | (2 780) | (1 012) |
| Capital expenditure on property and equipment | 42.1 | **(821)** | (800) | (747) |
| Proceeds on disposal of property and equipment | 42.2 | **49** | 110 | 146 |
| Disposal of/(investment in) subsidiary companies | 43 | **189** | 132 | (512) |
| Disposal of/(investment in) associated companies | | **75** | (141) | 3 |
| Investment in shares | 44 | **(3 082)** | (2 673) | (503) |
| Proceeds on disposal of investments | | **500** | 576 | 582 |
| Dividends received from associated companies | 11 | **27** | 16 | 19 |
| **Cash flows from financing activities** | | **(2 526)** | 422 | 677 |
| Issue of share capital | | **321** | (20) | — |
| Proceeds on issue of preference shares | | **158** | — | — |
| Proceeds on issue of debentures and notes | | **—** | 1 529 | 1 500 |
| Redemption of debentures and notes | | **(1 635)** | — | (16) |
| Dividends paid | 45 | **(1 370)** | (1 087) | (807) |
| **Net increase in cash and short-term assets** | | **1 121** | 1 755 | 1 649 |
| **Cash and short-term assets at the beginning of the year** | | **14 068** | 12 617 | 11 688 |
| **Other movements** | | **(5)** | (304) | (720) |
| **Cash and short-term assets at the end of the year** | 1 | **15 184** | 14 068 | 12 617 |

# Statement of changes in equity

at 31 March 2005

| Group | Note | Number of ordinary shares '000 | Share capital Rm | Share premium Rm | Regulatory general credit risk reserve Rm |
|---|---|---|---|---|---|
| **Balance at 31 March 2002** | | 651 547 | 1 303 | 1 532 | — |
| Foreign currency translation effects | | | — | — | — |
| Transfer to insurance contingency reserve | | | — | — | — |
| Changes in value on investments held by short-term insurance company | | | — | — | — |
| Share of associated companies' retained earnings | 11 | | — | — | — |
| Attributable income | | | — | — | — |
| Dividends paid | 27 | | — | — | — |
| **Balance at 31 March 2003** | | 651 547 | 1 303 | 1 532 | — |
| AC 133 opening balance adjustments | | | — | — | 451 |
| **Restated opening balance at 1 April 2003** | | 651 547 | 1 303 | 1 532 | 451 |
| Net shares repurchased and issued in terms of odd-lot offer | 15.1 | (492) | (1) | (19) | — |
| Consolidation of share incentive trust | | (5 376) | (11) | (204) | — |
| Movement in regulatory general credit risk reserve | | | — | — | (119) |
| Fair value movement in available-for-sale assets | | | — | — | — |
| Changes in value of investments held by short-term insurance companies | | | — | — | — |
| Movement in fair value of cash flow hedges | | | — | — | — |
| Foreign currency translation effects | | | — | — | — |
| Transfer to insurance contingency reserve | | | — | — | — |
| Share of associated companies' retained earnings | 11 | | — | — | — |
| Attributable income | | | — | — | — |
| Dividends paid | 27 | | — | — | — |
| **Balance at 31 March 2004** | | 645 679 | 1 291 | 1 309 | 332 |
| Shares issued | 15.1 | **4 000** | **8** | **111** | **—** |
| Consolidation of share incentive trust | | **4 930** | **11** | **191** | **—** |
| Movement in regulatory general credit risk reserve | | | **—** | **—** | **(332)** |
| Fair value movement in available-for-sale assets | | | **—** | **—** | **—** |
| Movement in fair value of cash flow hedges | | | **—** | **—** | **—** |
| Foreign currency translation effects | | | **—** | **—** | **—** |
| Transfer to insurance contingency reserve | | | **—** | **—** | **—** |
| Share of associated companies' retained earnings | 11 | | **—** | **—** | **—** |
| Attributable income | | | **—** | **—** | **—** |
| Dividends paid | 27 | | **—** | **—** | **—** |
| **Balance at 31 March 2005** | | **654 609** | **1 310** | **1 611** | **—** |

| Available-for-sale reserve Rm | Cash flow hedges reserve Rm | Translation (deficit)/ reserve Rm | Insurance contingency reserve Rm | Unrealised gains on investments Rm | Associated companies' retained earnings Rm | Distributable reserves Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| — | — | 918 | 75 | 171 | 244 | 11 092 | 15 335 |
| — | — | (711) | — | — | (14) | — | (725) |
| — | — | — | (5) | — | — | (29) | (34) |
| — | — | — | — | (300) | — | — | (300) |
| — | — | — | — | — | 65 | (65) | — |
| — | — | — | — | — | — | 3 391 | 3 391 |
| — | — | — | — | — | — | (801) | (801) |
| — | — | 207 | 70 | (129) | 295 | 13 588 | 16 866 |
| (78) | — | — | — | 134 | — | (1 165) | (658) |
| (78) | — | 207 | 70 | 5 | 295 | 12 423 | 16 208 |
| — | — | — | — | — | — | — | (20) |
| — | — | — | — | — | — | 97 | (118) |
| — | — | — | — | — | — | 119 | — |
| (2) | — | — | — | — | — | — | (2) |
| — | — | — | — | (5) | — | — | (5) |
| — | 95 | — | — | — | — | — | 95 |
| — | — | (286) | — | — | (4) | — | (290) |
| — | — | — | 34 | — | — | (34) | — |
| — | — | — | — | — | 92 | (92) | — |
| — | — | — | — | — | — | 4 505 | 4 505 |
| — | — | — | — | — | — | (1 023) | (1 023) |
| (80) | 95 | (79) | 104 | — | 383 | 15 995 | 19 350 |
| **—** | **—** | **—** | **—** | **—** | **—** | **—** | **119** |
| **—** | **—** | **—** | **—** | **—** | **—** | **(4)** | **198** |
| **—** | **—** | **—** | **—** | **—** | **—** | **332** | **—** |
| **(75)** | **—** | **—** | **—** | **—** | **—** | **—** | **(75)** |
| **—** | **(56)** | **—** | **—** | **—** | **—** | **—** | **(56)** |
| **—** | **—** | **30** | **—** | **—** | **(2)** | **—** | **28** |
| **—** | **—** | **—** | **31** | **—** | **—** | **(31)** | **—** |
| **—** | **—** | **—** | **—** | **—** | **(20)** | **20** | **—** |
| **—** | **—** | **—** | **—** | **—** | **—** | **5 511** | **5 511** |
| **—** | **—** | **—** | **—** | **—** | **—** | **(1 338)** | **(1 338)** |
| **(155)** | **39** | **(49)** | **135** | **—** | **361** | **20 485** | **23 737** |

# Accounting policies

## 1. Principal accounting policies

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, the going-concern principle, and using the historical-cost basis, except where otherwise indicated.

The accounting policies adopted and applied are set out below and are, in all material respects, consistent with those of the prior year, except as indicated in accounting policy note 5 – Goodwill.



## 2. Revenue recognition

Interest income is recognised at the effective rates of interest inherent in finance contracts and is brought into income in proportion to the balance outstanding on a time proportional method. In terms of AC 133, interest is also accrued in respect of impaired advances, based on the original effective interest rate used to determine the recoverable amount.

Revenue arising from the provision of services to customers is recognised on an accrual basis in the period in which the services are rendered.

Dividends are recognised in the period in which the right to receipt is established.

## 3. Basis of consolidation

The consolidated annual financial statements include those of the Company, its subsidiaries, associated companies and special purpose entities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of their acquisition or to the date of their disposal. Companies in which the Group exercises effective voting control, at either equity or board level, are regarded as subsidiaries.

Entities over which banking subsidiaries have acquired control in the course of lending activities or to protect advances are not consolidated, but are shown as advances. Where control is intended to be temporary owing to the subsidiary being held with a view to its subsequent disposal, such subsidiaries are not consolidated but disclosed as investments.

All inter-company transactions, balances and unrealised gains and losses are eliminated upon consolidation.

## 4. Associated companies

Associated companies are those companies which are not subsidiaries and in which the Group holds an equity investment and exercises a significant influence on the financial and operating policies. Significant influence is normally evidenced when Absa owns 20% or more of a company's voting rights. Investments in associates for which significant influence is intended to be temporary because the investments are acquired and held exclusively with a view to their subsequent disposal are recorded as investments. The results of associated companies are accounted for according to the equity method, based on their most recent audited financial statements. If the most recent available audited financial statements are for an accounting period that ended more than six months prior to the Group's year-end, then the most recently available management accounting results have been brought to account. The Group's interest in the post-acquisition reserves of associated companies is treated as non-distributable in the Group's annual financial statements.

The investment in an associated company is written down when there is considered to be an impairment in value.

Income from associated companies operating in hyper-inflation economies is not recognised in the income statement, except to the extent of cash received, owing to the restrictions on the transferabilty of funds.

## 5. Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of net assets, on the acquisition date, of the subsidiary or associated company. Negative goodwill is any excess of the fair value of the Group's share of net assets of the entity acquired, on the acquisition date, over the cost of acquisition.

In accordance with AC 140, the amortisation of goodwill ceased with effect from 1 April 2004. Previously, goodwill was amortised using the straight-line method over the estimated useful life, not exceeding twenty years. The estimated useful life was determined by the underlying business acquired. That portion of negative goodwill attributable to expected, identifiable future losses and expenses is recognised in the income statement when such losses and expenses are recognised. Any negative goodwill not attributable to such future losses and expenses is recognised as income on acquisition.

The carrying amount of goodwill is now reviewed annually for indications of impairment or changes in estimated future benefits. A writedown is made if the carrying amount exceeds the recoverable amount. Any negative goodwill is recognised in income on acquisition.

## 6. Financial instruments

Investments in financial instruments are held for investment, trading and hedging purposes and recorded on a trade date basis.

### 6.1 Equity investments

Strategic long-term investments are classified as available-for-sale and carried at fair value. Unrealised gains and losses, net of applicable taxes, are reported in shareholders' equity until such investments are sold or otherwise disposed of, or until such investments are determined to be impaired.

Equity investments held for trading purposes are classified as such and carried at fair value. Realised and unrealised gains and losses are accounted for as non-interest income in the income statement.

All other equity investments, including those held for investment banking purposes and investments held by the short-term insurance companies, are classified as fair value election and carried at fair value. Unrealised gains and losses are accounted for as non-interest income in the income statement.

### 6.2 Financial investments

Financial investments consist of money market instruments, government and other securities as well as other debt instruments. Management determines the appropriate classification at the time of purchase and may include any of the following categories:

- **Held-to-maturity** – Investments with a fixed maturity date and where the Group has a firm intention and ability to hold the investments to such date. This typically includes short-dated instruments held for regulatory liquid asset purposes. These investments are held at amortised cost and reviewed for impairment where appropriate. Premiums and discounts arising on purchase are amortised on the yield-to-maturity basis.
- **Available-for-sale** – Investments normally held to maturity date, but that may be sold in response to a need for liquidity or owing to changes in interest rates, exchange rates or other economic conditions. This category includes longer-dated government stock held for regulatory liquid asset purposes.

- **Fair value election** – Investments purchased for their potential to yield a reasonable return for the Group over the longer term are included in this category. Also included are instruments held or utilised for hedging purposes, even if also held to meet liquid asset requirements. These investments are carried at fair value and unrealised gains and losses are accounted for as interest (if utilised for interest rate hedging purposes) or non-interest income (if held for investment purposes) in the income statement.
- **Trading assets** – Investments acquired for the purpose of generating short-term fluctuations in price or dealer's margin. Trading assets are held at fair value and unrealised gains and losses are accounted for as non-interest income in the income statement.



### *6.2.1 Derivative instruments and hedging*

Financial future contracts, options, forward rate agreements and interest rate swap agreements are stated at fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow and option pricing models.

The Group also uses derivative instruments as part of its asset and liability management activities to hedge exposures to interest rate, foreign currency and credit risks. The Group applies either fair value or cash flow hedge accounting when transactions meet the criteria as set out in AC 133.

At the time a financial instrument is designated as a hedge, the Group documents the relationship between the hedging instruments and the hedged items, including its risk management objectives and its strategy in undertaking the hedge transaction, together with the methods that will be used to assess the hedge effectiveness. The Group assesses on an ongoing basis whether the hedge has been highly effective (between 80% and 125%) in offsetting fair value changes or the cash flows of hedged items. Hedge accounting is discontinued when a derivative is not highly effective as a hedge or is sold, terminated or exercised. The same applies if the hedged item is sold or repaid.

For qualifying fair value hedges, the change in fair value of the hedging derivative is recognised in the income statement. Changes in fair value of the hedged risk within a hedged item are reflected as an adjustment to the carrying value of the hedged item, which is also recognised in the income statement.

Gains or losses, arising from fair value adjustments associated with the effective portion of a derivative designated as a cash flow hedge, are recognised initially in shareholders' equity. When the cash flows that the derivative is hedging materialise, resulting in income or expense, then the associated gain or loss on the hedging instrument is simultaneously transferred from shareholders' equity to the corresponding line in the income statement. If a cash flow hedge is deemed to be no longer effective, or the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in shareholders' equity remains in shareholders' equity until the committed or forecast transaction occurs, at which time it is transferred to the income statement.

Derivatives not qualifying for hedge accounting in terms of AC 133 are fair valued, with gains and losses reflected in the income statement. Where appropriate, the underlying hedged items of such non-qualifying hedges have been designated as trading instruments (fair value election) and carried at fair value. Unrealised gains and losses are also reflected in the income statement to ensure matching of fair value adjustments to the hedging derivative and hedged item.

### *6.2.2 Embedded derivatives*

A derivative may be embedded in a host contract. If the host contract is not carried at fair value with changes in fair value reported in the income statement, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative instrument at fair value if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the embedded derivative meets the definition of a derivative.

### *6.2.3 Available-for-sale assets*

Unrealised gains and losses, net of applicable taxes, on available-for-sale assets are recognised in shareholders' equity until such assets are sold or otherwise disposed of, or until such assets are considered to be impaired. On disposal of such assets, the accumulated unrealised gain or loss previously included in shareholders' equity is transferred to the income statement.

If available-for-sale assets are considered to be impaired, the cumulative unrealised loss previously recognised in shareholders' equity is included in the income statement.



### *6.2.4 Loans and advances originated by the Group*

Loans and advances originated by the Group include loans where money is provided directly to the borrower, other than those originated with the intent to be sold in the short term, which are recorded as trading assets. Purchased loans are classified either as held-to-maturity, available-for-sale or fair value election assets.

Originated loans and advances are initially recorded at cost, which is the fair value of the cash given to originate the loan, including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Origination costs are capitalised to the appropriate advance and amortised to interest income over the estimated period of repayment.

Fees relating to loan originations are deferred and amortised to interest income over the estimated duration of the loan.

Unsold repossessed properties are included under advances and are valued at the lower of cost and net realisable value. Costs include the outstanding balance on repossession, capitalised interest and other charges related to the repossession. Maintenance costs are expensed in the period incurred. Any gain or loss on the sale of repossessed properties is reflected as a recovery within the impairment of advances charge.

### *6.2.5 Impairment of advances*

Advances are stated net of specific and portfolio impairments. An impairment of advances is made if there is objective evidence that the Group will be unable to collect all amounts due on a claim according to the original contractual terms. Advances are subjected to regular evaluations that take cognisance of, inter alia, past experience, economic climate, the customer's overall risk profile and payment record and the realisable value of any collateral. Where applicable, specific impairments are determined by systems based on predetermined criteria.

Impairment is measured and allowances for credit losses are established for the difference between the carrying amount of advances and its estimated recoverable amount. The estimated recoverable amount is the present value of expected future cash flows which may result from restructuring, liquidation or collateral held.

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

Loans and advances portfolios are also regularly evaluated for impairment. To the extent that the Group is of the opinion the credit premium included in the pricing of loans and advances is not sufficient to compensate for future losses inherent in the performing advances portfolio, or that insufficient data exists to reliably determine such credit losses, a portfolio impairment is created.

All impaired loans and advances are reviewed on a regular basis and any changes to the amount and timing of the expected future cash flows compared with previous estimates will result in a change to the charge for impairment of advances in the income statement. Changes in interest rates will also result in changes to the impairment of advances charge in respect of impaired variable rate loans.

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

### 6.3 Fair value

The determination of fair values of financial instruments is generally based on quoted market prices in active markets, dealer price quotations or discounted expected cash flows. For non-quoted equity investments, the fair value is determined by applying recognised valuation techniques. Standard methods applied are based on discounted expected cash flows or multiples of earnings observed in the market for comparable companies.



## 7. Investment properties

Investment properties are stated at market value based on valuations obtained annually from internal valuers. Unrealised gains are transferred to non-distributable reserves.

## 8. Foreign currencies

### 8.1 Foreign currency translations

All foreign businesses are treated as independent foreign entities for accounting purposes.

The assets and liabilities of foreign subsidiary companies are translated at the middle closing exchange rates ruling at year-end. Income statement items in respect of foreign entities are translated at the appropriate weighted average exchange rate for the year. Gains and losses arising on translation are transferred to non-distributable reserves.

### 8.2 Foreign currency transactions

Monetary items denominated in foreign currencies are translated at the middle closing exchange rates ruling at year-end and unrealised differences on translation are recognised in the income statement in the period in which they arise.

Foreign currency transactions are recorded at the middle closing exchange rate ruling at the date of the transaction and any realised differences are recognised in the income statement.

## 9. Repurchase agreements

Where the Group sells investments from its investment portfolio and agrees to repurchase these at future dates, the risks and rewards of ownership remain with the Group and the considerations received are included under deposits and current accounts. The investments are shown on the balance sheet and valued according to the Group's policy regarding that category of investments.

The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repurchase agreements.

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

## 10. Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## 11. Property and equipment

Property and equipment is shown at cost less accumulated depreciation.

Property under construction is stated at cost. Cost includes the cost of the land and construction costs to date. Borrowing costs during construction are expensed in the period incurred.

All property and equipment, other than land, is depreciated on the straight-line basis over its expected economic life.

The rates used to depreciate assets are as follows:

| | |
|---|---|
| Freehold buildings | 3,3% |
| Computer equipment and systems | 20% |
| Furniture | 10% |
| Other equipment | 15% |
| Motor vehicles | 25% |

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

## 12. Constructed assets held for resale

Costs incurred in the construction of properties that are held for resale are capitalised until sold.

## 13. Cash and short-term assets

Cash and short-term assets consist of cash, balances with central banks and balances with other banks.

## 14. Intangible assets

### 14.1 Computer software development costs

Costs associated with developing computer software programs are recognised as an expense as incurred. Costs that are clearly associated with an identifiable and unique product, which will be controlled by the Group and have probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives, not exceeding a period of five years.

Costs associated with the maintenance of existing computer software programs and modifications are expensed as incurred.

### 14.2 Other intangible assets

Expenditure on acquired trademarks and licences is capitalised and amortised using the straight-line method over their useful lives, not exceeding a period of five years. Intangible assets are not revalued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where considered necessary.

Expenditure on the development of the Absa brand is expensed as incurred.

## 15. Instalment credit agreements

Leases, instalment credit and rental agreements are regarded as financing transactions, and rentals and instalments receivable thereunder, less unearned finance charges, are included under advances. Finance charges earned are computed at the effective rates of interest inherent in the contracts and are brought to income in proportion to balances outstanding.

## 16. Provisions

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

## 17. Deferred taxation

Deferred tax is provided on the comprehensive basis, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax.

Under this method, the Group is required to make provision for deferred taxes on the revaluation of certain non-current assets and, in relation to an acquisition, on the difference between the fair values of net assets acquired and their tax base. Provision for tax, mainly withholding taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, is only made where there is a current intention to remit such earnings.

The principal temporary differences arise from depreciation on equipment, revaluation of certain non-current assets, provisions for employee benefits and tax losses carried forward. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

## 18. Secondary tax on companies (STC)

STC is provided for at currently enacted tax rates on the net of dividends declared less dividends received (unless exempt from STC) by the Group during the reporting period. STC credits that arise from dividends received and receivable that exceed dividends paid are accounted for as a deferred tax asset.

## 19. Employee benefits

### 19.1 Post-retirement benefits

The Group makes provision for post-retirement benefits to eligible employees and pensioners, the cost of which is assessed in accordance with actuarial principles using the projected unit credit method, and actuarial gains and losses are recognised in the income statement on a systematic basis over employees' remaining years of service.

Contributions to the defined contribution and defined benefit structures of the Absa Group Pension Fund are expensed as incurred.

The Group has no liability in respect of post-retirement medical aid benefits.

### 19.2 Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions and free services. It excludes equity-based benefits and termination benefits. Short-term benefits are fully payable in the twelve months after the end of the period in which the employee rendered his or her services.

## 20. Contingent liabilities and commitments

Transactions are classified as contingent liabilities where the Group's obligations depend on uncertain future events and principally consist of third party obligations underwritten by banking subsidiaries.

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

## 21. Managed funds and trust activities

Where Group companies operate unit trusts, hold and invest funds on behalf of customers and act as trustees in any fiduciary capacity, the assets and liabilities representing these activities are not reflected on the balance sheet. Refer to note 31 on managed funds.

## 22. Related party transactions

Absa Group Limited does not have a controlling shareholder.

All subsidiaries and associated companies of the Group are related parties. A list of the major subsidiaries and associated companies is included on pages 356 to 361 of this annual report. Details of loans to and from subsidiaries and associated companies are also provided. All transactions entered into with subsidiaries and associated companies were under terms no more favourable than those with third parties, except where otherwise disclosed in the annual financial statements.

There were no material contracts with directors or officers except where otherwise disclosed.

## 23. Repurchase of issued shares

When issued shares are repurchased, the consideration paid is accounted for as deductions from share capital (par value of shares) and share premium (the remainder of the purchase price including directly attributable costs). These repurchased shares are then cancelled by the issuing company.

Shares purchased by wholly-owned group companies in their holding company are classified as treasury shares and held at cost. On consolidation, the par value of the treasury shares is deducted from share capital whereas the remainder of the cost price is deducted from share premium. Treasury shares are deducted from the issued and weighted average number of shares on consolidation.

Dividends received on treasury shares are eliminated on consolidation.

## 24. Scrip lending

The Group does not account for scrip lending transactions on its balance sheet, as the risks and rewards of ownership of these assets and liabilities never transfer to the Group.

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

## 25. Segmental reporting

The Group is structured into the following main operating segments: retail banking, commercial banking, wholesale and international banking, financial services and other Group activities.

Primary segmental reporting is based on the type of business and correlates with the activities of the main operating divisions. Secondary segmental reporting is based on the geographical location of the business.

# Notes to the financial statements

for the year ended 31 March

| | | Group | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **1.** | **Cash and short-term assets** | | | |
| | Coins and bank notes | **3 463** | 3 165 | 2 679 |
| | Money on call | **5 178** | 6 056 | 5 784 |
| | Balances with South African Reserve Bank | **5 981** | 4 286 | 3 652 |
| | Balances with other central banks | **562** | 561 | 502 |
| | | **15 184** | 14 068 | 12 617 |
| **2.** | **Money market assets** | | | |
| | Landbank bills | **25** | 543 | — |
| | Treasury bills | **711** | 47 | 922 |
| | Promissory notes | **992** | 549 | 89 |
| | Bank acceptances | **1 667** | 944 | 1 791 |
| | NCDs | **1 169** | 1 123 | 1 432 |
| | Other | **438** | 482 | 850 |
| | | **5 002** | 3 688 | 5 084 |
| | Fair value | **5 002** | 3 688 | 5 065 |
| | *Portfolio analysis** | | | |
| | Held-to-maturity – at cost | **315** | 1 043 | |
| | Trading portfolio | **1 996** | 1 038 | |
| | at cost | **1 996** | 1 035 | |
| | fair value adjustment | **—** | 3 | |
| | Fair value election | **2 691** | 1 607 | |
| | at cost | **2 703** | 1 615 | |
| | fair value adjustment | **(12)** | (8) | |
| | | **5 002** | 3 688 | |

**There was no requirement for the restatement of the comparative figures (2003) on transition to AC 133 in 2004.*

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **3. Capital market assets** | | | |
| Government and government guaranteed | **2 862** | 4 801 | 5 428 |
| Public sector securities | **2 317** | 1 765 | 2 002 |
| Corporate and other securities | **761** | 2 595 | 3 041 |
| Book value | **5 940** | 9 161 | 10 471 |
| Fair value | **5 940** | 9 161 | 10 700 |
| *Maturity analysis* | | | |
| Within 1 year | **1 219** | 2 431 | 1 029 |
| From 1 year to 3 years | **2 008** | 2 964 | 4 421 |
| More than 3 years | **2 713** | 3 766 | 5 021 |
| | **5 940** | 9 161 | 10 471 |
| *Portfolio analysis** | | | |
| Held-to-maturity – at cost | **282** | 393 | |
| Trading portfolio | **294** | 837 | |
| at cost | **290** | 828 | |
| fair value adjustment | **4** | 9 | |
| Fair value election | **5 364** | 7 931 | |
| at cost | **5 311** | 7 746 | |
| fair value adjustment | **53** | 185 | |
| | **5 940** | 9 161 | |
| *Geographical analysis* | | | |
| South Africa | **1 801** | 4 791 | 4 662 |
| Europe | **3 120** | 2 905 | 4 647 |
| Other African countries | **578** | 713 | 971 |
| Asia | **431** | 227 | 133 |
| Other | **10** | 525 | 58 |
| | **5 940** | 9 161 | 10 471 |

The maturity analysis is based on the remaining period from year-end to contractual maturity.

**There was no requirement for the restatement of the comparative figures (2003) on transition to AC 133 in 2004.*

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **4. Statutory liquid asset portfolio** | | | |
| RSA – Government stock | **9 047** | 6 400 | 6 314 |
| Treasury bills | **4 041** | 5 442 | 5 874 |
| Landbank bills | **795** | 756 | 782 |
| Debentures | **501** | — | — |
| Book value | **14 384** | 12 598 | 12 970 |
| Fair value | **14 381** | 12 698 | 12 953 |
| *Maturity analysis* | | | |
| Within 1 year | **5 628** | 6 788 | 6 808 |
| From 1 year to 3 years | **3 848** | 565 | 3 562 |
| More than 3 years | **4 908** | 5 245 | 2 600 |
| | **14 384** | 12 598 | 12 970 |
| *Portfolio analysis** | | | |
| Held-to-maturity – at cost | **5 342** | 6 354 | |
| Available-for-sale | **4 621** | 4 793 | |
| at cost | **4 504** | 4 872 | |
| fair value adjustment | **117** | (79) | |
| Fair value election | **4 421** | 1 451 | |
| at cost | **4 273** | 1 472 | |
| fair value adjustment | **148** | (21) | |
| | **14 384** | 12 598 | |
| *Geographical analysis* | | | |
| South Africa | **14 384** | 12 598 | 12 970 |
| Included above are the following assets pledged with the South African Reserve Bank (SARB) | **3 398** | 3 183 | 3 108 |

The maturity analysis is based on the remaining period from year-end to contractual maturity.

**There was no requirement for the restatement of the comparative figures (2003) on transition to AC 133 in 2004.*

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **5. Advances** | | | |
| Accrued interest | **1 340** | 1 194 | 1 586 |
| Corporate overdrafts | **2 305** | 2 067 | 4 801 |
| Foreign currency loans | **16 111** | 16 101 | 23 701 |
| Instalment finance | **43 951** | 36 260 | 29 042 |
| Gross advances | **49 962** | 41 610 | 35 053 |
| Unearned finance charges | **(6 011)** | (5 350) | (6 011) |
| Loans granted under resale agreements (Carries)* | **3 395** | 4 814 | — |
| Microloans | **1 582** | 2 722 | 3 400 |
| Mortgages | **131 281** | 105 110 | 90 603 |
| Gross advances | **130 786** | 104 822 | 90 603 |
| Originators' costs capitalised | **495** | 288 | — |
| Overnight finance | **6 737** | 2 600 | 5 132 |
| Personal loans | **10 547** | 9 614 | 10 691 |
| Preference shares | **8 318** | 5 762 | 3 552 |
| Repossessed properties | **327** | 490 | 605 |
| Retail overdrafts and credit cards | **19 184** | 16 715 | 16 676 |
| Securitised corporate loans (ABACAS) | **6 087** | 3 773 | — |
| Specialised and project finance | **14 536** | 15 138 | 10 196 |
| Other | **8 374** | 7 493 | 7 409 |
| Fair value adjustments | **564** | 245 | — |
| Instalment finance | **55** | — | — |
| Mortgages | **288** | 121 | — |
| Specialised and project finance | **249** | 113 | — |
| Other | **(28)** | 11 | — |
| | **274 639** | 230 098 | 207 394 |
| Impairments of advances (refer to note 6) | **(6 399)** | (7 703) | (8 097) |
| | **268 240** | 222 395 | 199 297 |
| *Portfolio analysis*** | | | |
| Originated loans and advances | **256 672** | 217 057 | |
| Available-for-sale | **2 740** | 2 757 | |
| at cost | **2 740** | 2 757 | |
| fair value adjustment | **—** | — | |
| Fair value election | **15 227** | 10 284 | |
| at cost | **14 663** | 10 039 | |
| fair value adjustment | **564** | 245 | |
| | **274 639** | 230 098 | |

**Disclosed as derivative instruments – unsettled transactions in 2003. Refer to note 30.4.*
***There was no requirement for the restatement of the comparative figures (2003) on transition to AC 133 in 2004.*

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **5. Advances** *(continued)* | | | |
| *Sectoral analysis* | | | |
| Agriculture | **10 689** | 7 688 | 8 308 |
| Construction and property | **9 484** | 5 085 | 4 418 |
| Consumer | **156 378** | 132 655 | 106 959 |
| Electricity | **1 193** | 820 | 820 |
| Finance | **41 936** | 32 430 | 39 020 |
| Government | **710** | 91 | 75 |
| Manufacturing | **13 122** | 12 819 | 10 507 |
| Mining | **4 702** | 4 712 | 2 890 |
| Services | **17 157** | 11 285 | 15 123 |
| Transport | **2 497** | 3 825 | 3 629 |
| Wholesale | **8 193** | 9 704 | 10 123 |
| Other | **8 578** | 8 984 | 5 522 |
| | **274 639** | 230 098 | 207 394 |
| *Maturity analysis* | | | |
| On demand | **46 741** | 32 381 | 25 940 |
| Within 1 year | **37 609** | 36 574 | 38 638 |
| From 1 year to 5 years | **69 729** | 61 793 | 50 211 |
| More than 5 years | **120 560** | 99 350 | 92 605 |
| | **274 639** | 230 098 | 207 394 |
| *Geographical analysis* | | | |
| South Africa | **259 675** | 217 612 | 190 755 |
| Europe | **8 848** | 6 262 | 9 661 |
| Asia | **2 651** | 2 342 | 2 739 |
| Other African countries | **2 473** | 2 499 | 2 973 |
| Americas | **973** | 1 003 | 1 136 |
| Australia | **19** | 380 | 130 |
| | **274 639** | 230 098 | 207 394 |

The maturity analysis is based on the remaining period from year-end to contractual maturity.

## 6. Impairment of advances

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| Balance at the beginning of the year | **7 703** | 8 097 | 7 727 |
| AC 133 opening balance adjustment | **—** | 421 | — |
| Specific impairments | **—** | 1 065 | — |
| Reversal of general impairments | **—** | (644) | — |
| Exchange differences | **(19)** | (116) | (154) |
| Acquisitions | **—** | 79 | 81 |
| Specific impairments | **—** | 76 | 72 |
| Portfolio impairments | **—** | 3 | 9 |
| Amounts written off during the year | **(2 805)** | (2 890) | (1 636) |
| | **4 879** | 5 591 | 6 018 |
| Impairments raised during the year | **1 520** | 2 112 | 2 079 |
| Balance at the end of the year | **6 399** | 7 703 | 8 097 |
| *Comprising* | | | |
| Specific impairments | **5 369** | 6 642 | 6 508 |
| Non-performing loans | **3 946** | 5 332 | 6 508 |
| Other impaired loans | **918** | 388 | — |
| Net present value adjustment | **505** | 922 | — |
| Portfolio impairments | **1 030** | 1 061 | 1 589 |
| | **6 399** | 7 703 | 8 097 |
| *Income statement charge* | | | |
| Net impairments raised during the year | **1 520** | 2 112 | 2 079 |
| Specific impairments | **1 705** | 1 792 | 2 041 |
| Specific impairments – net present value adjustment | **(149)** | 196 | — |
| Portfolio impairments | **(36)** | 124 | 38 |
| Recoveries of advances previously written off | **(237)** | (212) | (122) |
| Charge to the income statement | **1 283** | 1 900 | 1 957 |

## 7. Non-performing advances

| | Group | | | | |
|---|---|---|---|---|---|
| | As % of total advances | Outstanding balance Rm | Security and recoveries Rm | Net exposure Rm | Impairments raised* Rm |
| **2005** | | | | | |
| Personal loans | 0,1 | 231 | 104 | 127 | 127 |
| Retail overdrafts and credit cards | 0,2 | 668 | 149 | 519 | 519 |
| Foreign currency loans | 0,2 | 559 | 2 | 557 | 557 |
| Instalment finance | 0,1 | 368 | 86 | 282 | 282 |
| Mortgages | 0,7 | 1 917 | 1 249 | 668 | 668 |
| Microloans | 0,5 | 1 354 | 355 | 999 | 999 |
| Other | 0,4 | 836 | 42 | 794 | 794 |
| | 2,2 | 5 933 | 1 987 | 3 946 | 3 946 |
| *Sectoral analysis* | | | | | |
| Agriculture | 0,0 | 126 | 85 | 41 | 41 |
| Construction and property | 0,3 | 688 | 196 | 492 | 492 |
| Consumer | 1,2 | 3 214 | 1 284 | 1 930 | 1 930 |
| Electricity | 0,0 | 38 | 8 | 30 | 30 |
| Finance | 0,1 | 260 | 116 | 144 | 144 |
| Manufacturing | 0,2 | 632 | 25 | 607 | 607 |
| Mining | 0,0 | 6 | 6 | — | — |
| Services | 0,1 | 259 | 158 | 101 | 101 |
| Transport | 0,0 | 14 | 5 | 9 | 9 |
| Wholesale | 0,2 | 455 | 86 | 369 | 369 |
| Other | 0,1 | 241 | 18 | 223 | 223 |
| | 2,2 | 5 933 | 1 987 | 3 946 | 3 946 |

**Impairments raised do not include the net present value adjustment on future cash flows as these are disclosed separately under note 6.*

| | Group | | | | |
|---|---|---|---|---|---|
| | As % of total advances | Outstanding balance Rm | Security and recoveries Rm | Net exposure Rm | Impairments raised* Rm |
| **7. Non-performing advances** *(continued)* | | | | | |
| **2004** | | | | | |
| Personal loans | 0,2 | 334 | 126 | 208 | 208 |
| Retail overdrafts and credit cards | 0,4 | 1 026 | 162 | 864 | 864 |
| Foreign currency loans | 0,2 | 565 | 173 | 392 | 392 |
| Instalment finance | 0,2 | 342 | 83 | 259 | 259 |
| Mortgages | 1,3 | 2 913 | 2 229 | 684 | 684 |
| Microloans** | 1,0 | 2 411 | 468 | 1 943 | 1 943 |
| Other | 0,5 | 1 097 | 115 | 982 | 982 |
| | 3,8 | 8 688 | 3 356 | 5 332 | 5 332 |
| *Sectoral analysis* | | | | | |
| Agriculture | 0,1 | 242 | 151 | 91 | 91 |
| Construction and property | 0,6 | 1 175 | 413 | 762 | 762 |
| Consumer | 2,1 | 4 857 | 2 031 | 2 826 | 2 826 |
| Electricity | 0,0 | 42 | 4 | 38 | 38 |
| Finance | 0,1 | 288 | 146 | 142 | 142 |
| Manufacturing | 0,1 | 309 | 59 | 250 | 250 |
| Mining | 0,0 | 12 | 7 | 5 | 5 |
| Services | 0,4 | 696 | 322 | 374 | 374 |
| Transport | 0,0 | 22 | 6 | 16 | 16 |
| Wholesale | 0,2 | 504 | 132 | 372 | 372 |
| Other | 0,2 | 541 | 85 | 456 | 456 |
| | 3,8 | 8 688 | 3 356 | 5 332 | 5 332 |

**Impairments raised do not include the net present value adjustment on future cash flows as these are disclosed separately under note 6.*
***The criteria for the classification of microloans as non-performing were revised in 2004, resulting in a more stringent classification.*

| | Group | | | | |
|---|---|---|---|---|---|
| | As % of total advances | Outstanding balance Rm | Security and recoveries Rm | Net exposure* Rm | Impairments raised* Rm |
| **7. Non-performing advances** *(continued)* | | | | | |
| **2003** | | | | | |
| Personal loans | 0,3 | 601 | 263 | 338 | 364 |
| Retail overdrafts and credit cards | 0,8 | 1 671 | 462 | 1 209 | 1 250 |
| Foreign currency loans | 0,3 | 627 | 172 | 455 | 460 |
| Instalment finance | 0,2 | 505 | 114 | 391 | 392 |
| Mortgages | 2,0 | 3 908 | 3 042 | 866 | 924 |
| Microloans | 0,9 | 1 969 | — | 1 969 | 1 969 |
| Other | 0,6 | 1 305 | 398 | 907 | 1 149 |
| | 5,1 | 10 586 | 4 451 | 6 135 | 6 508 |
| *Sectoral analysis* | | | | | |
| Agriculture | 0,2 | 340 | 169 | 171 | 174 |
| Construction and property | 0,6 | 1 334 | 869 | 465 | 466 |
| Consumer | 2,6 | 5 371 | 2 064 | 3 307 | 3 380 |
| Electricity | 0,0 | 52 | 2 | 50 | 47 |
| Finance | 0,3 | 562 | 213 | 349 | 346 |
| Manufacturing | 0,2 | 487 | 169 | 318 | 338 |
| Mining | 0,0 | 13 | 7 | 6 | 4 |
| Services | 0,5 | 955 | 554 | 401 | 407 |
| Transport | 0,0 | 51 | 18 | 33 | 35 |
| Wholesale | 0,4 | 839 | 183 | 656 | 692 |
| Other | 0,3 | 582 | 203 | 379 | 619 |
| | 5,1 | 10 586 | 4 451 | 6 135 | 6 508 |

**The 2003 non-performing advances were not restated in terms of AC 133.*

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **8. Derivative and trading assets** | | | |
| Trading assets (refer note 30.5)* | **17 934** | 27 934 | 13 469 |
| Hedging assets (refer note 30.5)* | **600** | 333 | — |
| | **18 534** | 28 267 | 13 469 |

In the 2003 financial year netting was applied where ISDA netting agreements were in place. In respect of the 2005 and 2004 financial years, netting was applied only where a legally enforceable right to set-off exists and there is an intention to settle on a net basis or to settle on the same day.

**Previously disclosed in note 9 as other assets.*

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **9. Other assets** | | | |
| Accounts receivable and prepayments | **7 970** | 5 063 | 5 738 |
| Constructed assets held for resale | **121** | 675 | 143 |
| Accrued interest and dividends | **66** | 108 | 116 |
| Taxation | **5** | 28 | 15 |
| | **8 162** | 5 874 | 6 012 |
| **10. Investments** | | | |
| At carrying value | | | |
| *Listed* | | | |
| Ordinary and preference shares | **6 351** | 4 206 | 2 134 |
| *Unlisted* | **2 061** | 1 586 | 1 372 |
| Ordinary and preference shares | **2 045** | 1 571 | 1 372 |
| Fixed property investments | **16** | 15 | — |
| Total carrying value | **8 412** | 5 792 | 3 506 |
| Market value of listed investments | **6 351** | 4 206 | 2 067 |
| Directors' valuation of unlisted investments | **2 061** | 1 586 | 1 370 |
| Total market value and directors' valuation | **8 412** | 5 792 | 3 437 |
| *Portfolio analysis** | | | |
| Available-for-sale | **69** | 102 | |
| at cost | **65** | 38 | |
| fair value adjustment | **4** | 64 | |
| Trading | **1 127** | 337 | |
| at cost | **1 091** | 333 | |
| fair value adjustment | **36** | 4 | |
| Fair value election | **7 216** | 5 353 | |
| at cost | **6 821** | 5 245 | |
| fair value adjustment | **395** | 108 | |
| | **8 412** | 5 792 | |

Details regarding investments required in terms of the Companies Act of South Africa are kept at each company's registered office. This information will be made available to shareholders on written request.

**There was no requirement for the restatement of the comparative figures (2003) on transition to AC 133 in 2004.*

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **11. Associated companies** | | | |
| Shares at book value | **243** | 234 | 147 |
| Balance at the beginning of the year | **234** | 147 | 180 |
| Acquisitions | **28** | 135 | 7 |
| Impairment charge | **(19)** | (48) | (40) |
| Loans | **—** | 7 | 8 |
| Total loan exposure | **3 736** | 4 755 | 2 200 |
| Amount included in other liabilities | **28** | 26 | 32 |
| Amounts included in advances | **(3 764)** | (4 774) | (2 224) |
| Share of post-acquisition reserves | **361** | 383 | 295 |
| Share of current year's income before taxation | **143** | 135 | 111 |
| Dividends received | **(27)** | (16) | (19) |
| Amount as per income statement | **116** | 119 | 92 |
| Taxation (refer to note 21.2) | **(40)** | (34) | (25) |
| Share of attributable income after dividends | **76** | 85 | 67 |
| Realisation on disposal of associated companies | **(96)** | 7 | (2) |
| Transfer to non-distributable reserves | **(20)** | 92 | 65 |
| Currency translation movements | **(2)** | (4) | (14) |
| Share of reserves at the beginning of the year | **383** | 295 | 244 |
| Carrying value | **604** | 624 | 450 |
| Market value of listed shares | **144** | 154 | 39 |
| Directors' valuation of unlisted shares and loans | **488** | 729 | 613 |
| Total market value and directors' valuation | **632** | 883 | 652 |

## 11. Associated companies *(continued)*

Summarised financial information of significant associated companies.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm | **2005 Rm** | 2004 Rm | 2003 Rm |
| | **Conbros Limited** | | | **Ford Credit South Africa (Proprietary) Limited** | | |
| *Carrying value* | **37** | 35 | 32 | **153** | 143 | 119 |
| *Balance sheet* | | | | | | |
| Non-current assets | **—** | 31 | 43 | **—** | — | — |
| Current assets | **45** | 23 | 17 | **5 471** | 4 785 | 4 097 |
| Non-current liabilities | **—** | 10 | 7 | **18** | 11 | 14 |
| Current liabilities | **12** | 12 | 16 | **5 132** | 4 485 | 3 846 |
| Equity | **33** | 32 | 37 | **321** | 289 | 237 |
| *Share of income* | | | | | | |
| Operating income before tax | **1** | 3 | 3 | **47** | 34 | 35 |
| Dividends paid | **—** | — | — | **(19)** | — | — |
| Taxation and other | **—** | — | (1) | **(18)** | (10) | (11) |
| Share of attributable income after dividends | **1** | 3 | 2 | **10** | 24 | 24 |
| Loans (from)/to associated companies | **(28)** | (26) | (32) | **2 871** | 3 868 | 1 492 |
| | **Capricorn Investment Holdings Limited*** | | | **Commercial Bank of Zimbabwe Limited (CBZ)**** | | |
| *Carrying value* | **245** | 205 | 164 | **—** | — | 39 |
| *Balance sheet* | | | | | | |
| Non-current assets | **221** | 244 | 102 | **108** | 64 | 335 |
| Current assets | **4 947** | 4 230 | 3 647 | **2 660** | 571 | 10 603 |
| Non-current liabilities | **—** | — | — | **—** | — | — |
| Current liabilities | **4 458** | 3 866 | 3 396 | **2 382** | 574 | 10 106 |
| Equity | **710** | 608 | 353 | **386** | 61 | 832 |
| *Share of income* | | | | | | |
| Operating income before tax | **67** | 53 | 50 | **—** | — | — |
| Dividends paid | **(8)** | (3) | (5) | **—** | — | — |
| Taxation and other | **(19)** | (19) | (16) | **—** | — | — |
| Share of attributable income after dividends | **40** | 31 | 29 | **—** | — | — |
| Loans to associated companies | **—** | — | — | **—** | — | — |

**Capricorn Investment Holdings Limited was previously known as Bank Windhoek Holdings Limited.*

***The investment was impaired in the previous financial year. Income from CBZ is not recognised owing to the inability to repatriate funds to South Africa. The inflation-adjusted share of attributable income after dividends amounted to R108 million (2004: R90 million loss, 2003: R0 million). The balance sheet figures for the 2005 and 2004 financial years were adjusted for inflation.*

## 11. Associated companies *(continued)*

Summarised financial information of significant associated companies.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm | **2005 Rm** | 2004 Rm | 2003 Rm |
| | **Revesco Holdings (Proprietary) Limited*** ** | | | **Meeg Bank Holdings Limited**** ** | | |
| *Carrying value* | **—** | 5 | 8 | **—** | — | 17 |
| *Balance sheet* | | | | | | |
| Non-current assets | **—** | 24 | 35 | **—** | — | 30 |
| Current assets | **—** | 57 | 70 | **—** | — | — |
| Non-current liabilities | **—** | 5 | 6 | **—** | — | 53 |
| Current liabilities | **—** | 83 | 73 | | | 3 |
| Equity | **—** | (7) | 26 | **—** | — | (26) |
| *Share of income* | | | | | | |
| Operating income before tax | **—** | — | — | **—** | — | (10) |
| Dividends paid | **—** | — | — | **—** | — | — |
| Taxation and other | **—** | — | — | **—** | — | 3 |
| Share of attributable income after dividends | **—** | — | — | **—** | — | (7) |
| Loans to associated companies | **—** | 7 | — | **—** | — | — |
| | **Stonehage Financial Services Holdings Limited*** ** | | | **Global Access Telecommunication South Africa (Proprietary) Limited***** ** | | |
| *Carrying value* | **—** | 71 | 61 | **—** | — | 7 |
| *Balance sheet* | | | | | | |
| Non-current assets | **—** | 57 | 74 | **—** | — | 21 |
| Current assets | **—** | 162 | 135 | **—** | — | 12 |
| Non-current liabilities | **—** | — | 14 | **—** | — | 20 |
| Current liabilities | **—** | 77 | 78 | **—** | — | 8 |
| Equity | **—** | 142 | 117 | **—** | — | 5 |
| *Share of income* | | | | | | |
| Operating income before tax | **28** | 22 | 30 | **—** | — | — |
| Dividends paid | **—** | (13) | (14) | **—** | — | — |
| Taxation and other | **—** | — | — | **—** | — | — |
| Share of attributable income after dividends | **28** | 9 | 16 | **—** | — | — |
| Loans to associated companies | **—** | — | 8 | **—** | — | — |

*** *Sold during the year.*
**** *Shareholding has increased, now a subsidiary and consolidated.*
***** *Sold in the 2004 financial year.*

## 11. Associated companies *(continued)*

Summarised financial information of significant associated companies.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm | **2005 Rm** | 2004 Rm | 2003 Rm |
| | **MAN Financial Services (South Africa) (Proprietary) Limited** | | | **AVAF alliances (Unitrans)** | | |
| *Carrying value* | **21** | 14 | 3 | **3** | 1 | — |
| *Balance sheet* | | | | | | |
| Non-current assets | **—** | — | — | **—** | — | 545 |
| Current assets | **1 265** | 836 | 415 | **91** | 261 | 321 |
| Non-current liabilities | **—** | 6 | 23 | **—** | 255 | 569 |
| Current liabilities | **1 225** | 802 | 385 | **83** | 2 | 297 |
| Equity | **40** | 28 | 7 | **8** | 4 | — |
| *Share of income* | | | | | | |
| Operating income before income and tax | **11** | 15 | 3 | **3** | 2 | — |
| Dividends paid | **—** | — | — | **—** | — | — |
| Taxation and other | **(4)** | (4) | — | **(1)** | (1) | — |
| Share of attributable income after dividends | **7** | 11 | 3 | **2** | 1 | — |
| Loans to associated companies | **904** | 802 | 384 | **16** | 130 | 380 |
| | **Sage Group Limited** | | | **Blakes and Associates Holdings (Proprietary) Limited******** | | |
| *Carrying value* | **125** | 150 | — | **9** | — | — |
| *Balance sheet* | | | | | | |
| Non-current assets | **8 315** | 7 511 | — | **14** | — | — |
| Current assets | **655** | 653 | — | **17** | — | — |
| Non-current liabilities | **7 827** | 7 499 | — | **7** | — | — |
| Current liabilities | **1 068** | 541 | — | **6** | — | — |
| Equity | **75** | 124 | — | **18** | — | — |
| *Share of income* | | | | | | |
| Operating income before income and tax | **(6)** | 6 | — | **2** | — | — |
| Dividends paid | **—** | — | — | **—** | — | — |
| Taxation and other | **—** | — | — | **—** | — | — |
| Share of attributable income after dividends | **(6)** | 6 | — | **2** | — | — |
| Loans to associated companies | **—** | — | — | **1** | — | — |

*******Shareholding has decreased, now an associate.*

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm | **2005 Rm** | 2004 Rm | 2003 Rm |

## 11. Associated companies *(continued)*

Summarised financial information of significant associated companies.

| | **Sanlam Home Loans (Proprietary) Limited*******| | | | **Total** | |
|---|---|---|---|---|---|---|
| *Carrying value* | **11** | — | — | **604** | 624 | 450 |
| *Balance sheet* | | | | | | |
| Non-current assets | **374** | — | — | **9 032** | 7 931 | 1 185 |
| Current assets | **2** | — | — | **15 153** | 11 578 | 19 317 |
| Non-current liabilities | **347** | — | — | **8 199** | 7 786 | 706 |
| Current liabilities | **8** | — | — | **14 374** | 10 442 | 18 208 |
| Equity | **21** | — | — | **1 612** | 1 281 | 1 588 |
| *Share of income* | | | | | | |
| Operating income before tax | **(10)** | — | — | **143** | 135 | 111 |
| Dividends paid | **—** | — | — | **(27)** | (16) | (19) |
| Taxation and other | **2** | — | — | **(40)** | (34) | (25) |
| Share of attributable income after dividends | **(8)** | — | — | **76** | 85 | 67 |
| Loans to associated companies | **—** | — | — | **3 764** | 4 781 | 2 232 |

*******50% of Sanlam Home Loans (Proprietary) Limited was acquired during the year.*

Balance sheets of associated companies are converted at the official ruling foreign currency exchange rate on 31 March.

Refer to pages 356 to 361 for further information regarding the associated companies.

## 12. Property and equipment

| | Group | | | | |
|---|---|---|---|---|---|
| | Freehold property Rm | Computer equipment and systems Rm | Furniture and other equipment Rm | Motor vehicles Rm | Total Rm |
| **2005** | | | | | |
| At cost | **1 295** | **2 430** | **2 616** | **46** | **6 387** |
| Accumulated depreciation | **(437)** | **(1 512)** | **(1 721)** | **(34)** | **(3 704)** |
| Carrying value | **858** | **918** | **895** | **12** | **2 683** |
| Movement in property and equipment | | | | | |
| Balance at the beginning of the year | **832** | **905** | **849** | **11** | **2 597** |
| Translation movements | **(5)** | **(8)** | **(2)** | **—** | **(15)** |
| Acquisitions | **—** | **1** | **2** | **—** | **3** |
| Additions | **94** | **376** | **318** | **8** | **796** |
| Disposals | **(10)** | **(8)** | **(16)** | **(1)** | **(35)** |
| Depreciation | **(53)** | **(348)** | **(256)** | **(6)** | **(663)** |
| Balance at the end of the year | **858** | **918** | **895** | **12** | **2 683** |
| **2004** | | | | | |
| At cost | 1 228 | 2 214 | 2 581 | 45 | 6 068 |
| Accumulated depreciation | (396) | (1 309) | (1 732) | (34) | (3 471) |
| Carrying value | 832 | 905 | 849 | 11 | 2 597 |
| Movement in property and equipment | | | | | |
| Balance at the beginning of the year | 828 | 862 | 907 | 16 | 2 613 |
| Translation movements | (29) | (15) | (7) | (1) | (52) |
| Acquisitions | 10 | — | 3 | — | 13 |
| Additions | 130 | 425 | 229 | 5 | 789 |
| Disposals | (23) | (24) | (15) | (3) | (65) |
| Depreciation | (46) | (343) | (268) | (6) | (663) |
| Impairments | (38) | — | — | — | (38) |
| Balance at the end of the year | 832 | 905 | 849 | 11 | 2 597 |

| | Group | | | | |
|---|---|---|---|---|---|
| | Freehold property Rm | Computer equipment and systems Rm | Furniture and other equipment Rm | Motor vehicles Rm | Total Rm |
| **12. Property and equipment** *(continued)* | | | | | |
| **2003** | | | | | |
| At cost | 1 210 | 2 554 | 2 589 | 52 | 6 405 |
| Accumulated depreciation | (382) | (1 692) | (1 682) | (36) | (3 792) |
| Carrying value | 828 | 862 | 907 | 16 | 2 613 |
| Movement in property and equipment | | | | | |
| Balance at the beginning of the year | 808 | 738 | 990 | 16 | 2 552 |
| Translation movements | — | (24) | (5) | (1) | (30) |
| Acquisitions | 53 | 41 | 25 | 2 | 121 |
| Additions | 67 | 435 | 208 | 8 | 718 |
| Disposals | (50) | (34) | (30) | (2) | (116) |
| Depreciation | (50) | (294) | (281) | (7) | (632) |
| Balance at the end of the year | 828 | 862 | 907 | 16 | 2 613 |

Freehold property is officially valued every three years by both external and internal valuers, using the income yield method. The most recent valuation was performed on 31 March 2005 and the current surplus amounts to R369 million (2004: R246 million, 2003: R226 million).

In terms of the Companies Act, details regarding freehold property are kept at each company's registered office and this information will be made available to shareholders on written request.

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **13. Intangible assets** | | | |
| Computer software development costs | **58** | 50 | 55 |
| At cost | **114** | 654 | 698 |
| Accumulated amortisation | **(56)** | (604) | (643) |
| Movement in intangible assets | **58** | 50 | 55 |
| Balance at the beginning of the year | **50** | 55 | 50 |
| Net additions* | **25** | 10 | 29 |
| Amortisation charge | **(17)** | (15) | (24) |

**Computer software, with cost and accumulated amortisation of R565 million, was scrapped during the year.*

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **14. Goodwill** | **139** | 84 | 132 |
| At cost | **380** | 224 | 223 |
| Accumulated amortisation and impairment | **(241)** | (140) | (91) |
| Movement in goodwill | **139** | 84 | 132 |
| Balance at the beginning of the year | **84** | 132 | 16 |
| Additions | **162** | 1 | 212 |
| Amortisation charge | **—** | (49) | (42) |
| Impairment charge | **(107)** | — | (54) |
| Goodwill comprises: | | | |
| Abvest Holdings (Proprietary) Limited | **27** | — | 3 |
| Woodbook Finance Limited (previously MLS Bank Limited) subsidiaries | **—** | 3 | 3 |
| Banco Austral, Sarl – Mozambique | **—** | 21 | 42 |
| Absa Trading and Investment Solutions Holdings Limited (previously PSG Investment Bank Holdings Limited) | **—** | 60 | 84 |
| Avena LeasePlan (SA) (Proprietary) Limited | **112** | — | — |
| | **139** | 84 | 132 |
| **15. Share capital and premium** | | | |
| **15.1 Share capital** | | | |
| *Authorised* | | | |
| **800 000 000** (2004: 800 000 000, 2003: 700 000 000) ordinary shares of R2 each | **1 600** | 1 600 | 1 400 |
| *Issued* | | | |
| **655 055 074** (2004: 651 055 074, 2003: 651 546 749) ordinary shares of R2 each | **1 310** | 1 302 | 1 303 |
| *Less:* **446 073** (2004: 5 375 693) shares held by the share incentive trust | **0** | (11) | — |
| | **1 310** | 1 291 | 1 303 |

*Unissued shares*

All the unissued shares are under the control of the directors in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming annual general meeting of the Group.

The Group has a share incentive trust in terms of which shares are issued and options are granted. Details of the share incentive trust are set out on pages 362 to 363. As required by the JSE Limited, the share incentive trust was consolidated into the Group annual financial statements for the first time during the 2004 financial year.

*Shares issued during the year*

On 17 November 2004, 4 000 000 shares were issued at R30,00 per share, being R2,00 par value and R28,00 share premium.

| | | Group | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **15.** | **Share capital and premium** *(continued)* | | | |
| **15.2** | **Share premium** | | | |
| | Balance at the beginning of the year | **1 309** | 1 532 | 1 532 |
| | Arising during the year | **111** | — | — |
| | Utilised during share buy-back | **—** | (19) | — |
| | Consolidation of share incentive trust | **191** | (204) | — |
| | Balance at the end of the year | **1 611** | 1 309 | 1 532 |
| **15.3** | **Preference share capital – unlisted** | | | |
| | *Authorised* | | | |
| | **80 467 500** (2004 and 2003: nil) redeemable preference shares of R2 each | **161** | — | — |
| | *Issued* | | | |
| | **79 237 500** (2004 and 2003: nil) redeemable preference shares of R2 each* | **158** | — | — |
| | **Disclosed under other borrowed funds (refer to note 24.6)* | | | |
| **16.** | **Reserves** | | | |
| **16.1** | **Non-distributable reserves** | | | |
| | Foreign currency translation (deficit)/reserve | **(49)** | (79) | 207 |
| | Insurance contingency reserve | **135** | 104 | 70 |
| | Share of post-acquisition reserves of associated companies | **361** | 383 | 295 |
| | Regulatory general credit risk reserve | **—** | 332 | — |
| | Fair value gains in respect of cash flow hedges | **39** | 95 | — |
| | Fair value deficits in respect of available-for-sale assets | **(155)** | (80) | — |
| | Unrealised loss on investments held by short-term insurance companies | **—** | — | (129) |
| | | **331** | 755 | 443 |
| **16.2** | **Distributable reserves** | | | |
| | Retained income | **20 485** | 15 995 | 13 588 |
| | **Total reserves** | **20 816** | 16 750 | 14 031 |
| **17.** | **Minority shareholders' equity** | | | |
| | Balance at the beginning of the year | **171** | 241 | 151 |
| | Net acquisitions/(disposals) | **30** | (22) | 64 |
| | Share of net income attributable to minorities | **74** | 91 | 70 |
| | Dividends | **(32)** | (96) | (10) |
| | Foreign currency translation movement | **(15)** | (43) | (34) |
| | Balance at the end of the year | **228** | 171 | 241 |

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **18. Deposits and current accounts** | | | |
| Deposits from other banks | **21 070** | 20 471 | 19 708 |
| Deposits from central banks | **3 300** | 3 100 | 4 121 |
| Call deposits | **28 519** | 30 600 | 20 005 |
| Current accounts | **55 637** | 46 058 | 41 339 |
| Savings and transmission deposits | **19 111** | 16 726 | 14 870 |
| Negotiable certificates of deposit | **31 398** | 5 897 | 39 949 |
| Fixed and notice deposits | **71 198** | 51 468 | 45 898 |
| Foreign currency deposits | **18 379** | 22 838 | 26 292 |
| Credit card deposits | **2 050** | 2 198 | 2 072 |
| Accrued interest | **1 613** | 1 404 | 2 608 |
| Promissory notes | **10 873** | 24 028 | — |
| Other deposits | **15 434** | 9 592 | 5 194 |
| | **278 582** | 234 380 | 222 056 |
| Held at cost | **272 456** | 220 927 | 222 056 |
| Held at fair value | **6 126** | 13 453 | — |
| | **278 582** | 234 380 | 222 056 |
| *Maturity analysis* | | | |
| On demand | **126 443** | 119 047 | 95 824 |
| Within 1 month | **45 358** | 34 265 | 36 618 |
| From 1 month to 6 months | **73 603** | 54 299 | 58 157 |
| Between 6 months and 1 year | **18 369** | 14 918 | 23 656 |
| More than 1 year | **14 809** | 11 851 | 7 801 |
| | **278 582** | 234 380 | 222 056 |
| *Geographical analysis* | | | |
| South Africa | **261 943** | 213 002 | 194 913 |
| Europe | **10 170** | 13 712 | 16 780 |
| Asia | **2 085** | 2 662 | 3 766 |
| Other African countries | **3 878** | 4 190 | 4 844 |
| Americas | **506** | 814 | 1 753 |
| | **278 582** | 234 380 | 222 056 |

The maturity analysis is based on the remaining period from year-end to contractual maturity.

| | | Group | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **19.** | **Derivative and trading liabilities** | | | |
| | Trading liabilities (refer to note 30.5)* | **20 028** | 30 080 | 12 050 |
| | Hedging liabilities (refer to note 30.5)* | **1 610** | 776 | — |
| | | **21 638** | 30 856 | 12 050 |

In the 2003 financial year, netting was applied where ISDA netting agreements were in place. In respect of the 2005 and 2004 financial years, netting was applied only where a legally enforceable right to set-off exists and there is an intention to settle on a net basis or to settle on the same day.

**Previously disclosed in note 20 as other liabilities.*

| | | | | |
|---|---|---|---|---|
| **20.** | **Other liabilities** | | | |
| | Other creditors | **7 723** | 6 256 | 5 745 |
| **21.** | **Taxation** | | | |
| **21.1** | **Deferred taxation** | | | |
| | Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 29% (2004: 30%, 2003: 30%). | | | |
| | The movement on the deferred income tax account is as follows: | | | |
| | Balance at the beginning of the year | **1 164** | 960 | 969 |
| | As previously stated | **1 164** | 1 228 | 969 |
| | AC 133 opening balance adjustment | **—** | (268) | — |
| | Deferred tax on net life income | **27** | 17 | (34) |
| | Deferred tax on unrealised capital gains | **18** | 16 | (60) |
| | Deferred tax asset raised on STC credits | **(16)** | (6) | — |
| | Deferred taxation on fair value election | **2** | — | — |
| | Acquisition of subsidiaries | **15** | (15) | 13 |
| | Income statement charge | **704** | 192 | 421 |
| | Tax effect of translation and other differences | **(32)** | — | (81) |
| | Balance at the end of the year | **1 882** | 1 164 | 1 228 |

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **21. Taxation** *(continued)* | | | |
| **21.1 Deferred taxation** *(continued)* | | | |
| Deferred income tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right to offset at settlement. | | | |
| The following amounts are disclosed in the balance sheet: | | | |
| Deferred tax assets – normal | **159** | 161 | 223 |
| Deferred tax assets – STC* | **22** | 6 | — |
| | **181** | 167 | 223 |
| Deferred tax liabilities | **2 063** | 1 331 | 1 451 |

**Previously disclosed in note 9 as other assets – taxation.*

| | | | |
|---|---|---|---|
| Tax effect of temporary differences between tax and book value for: | | | |
| Accruals and provisions | **2 092** | 1 490 | 1 356 |
| Impairment of advances | **(202)** | (221) | (396) |
| Property allowances | **40** | 37 | 147 |
| Unrealised gains on investments | **(82)** | (115) | (87) |
| Tax losses | **34** | (27) | 208 |
| | **1 882** | 1 164 | 1 228 |

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

Deferred income tax liabilities have not been established for withholding tax and other taxes that will be payable on the unremitted earnings of certain subsidiaries, as such amounts are assumed to be permanently reinvested.

| | | | |
|---|---|---|---|
| **21.2 Taxation – income statement charge** | | | |
| South African normal – current year | **1 149** | 1 179 | 425 |
| South African normal – prior year | **6** | 55 | 91 |
| Deferred | **704** | 192 | 421 |
| Secondary tax on companies | **66** | 74 | 52 |
| Share of taxation of associated companies (refer to note 11) | **40** | 34 | 25 |
| Foreign taxation | **83** | 93 | 90 |
| | **2 048** | 1 627 | 1 104 |

| | | Group | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **21.** | **Taxation** *(continued)* | | | |
| **21.3** | **Indirect taxation – income statement charge** | | | |
| | Payments to third parties | **178** | 228 | 226 |
| | Value-added tax net of input credits | **484** | 353 | 347 |
| | Regional Services Council levies | **72** | 69 | 64 |
| | Stamp duty | **11** | 6 | 42 |
| | Training levy | **35** | 16 | 16 |
| | | **780** | 672 | 695 |
| | | **%** | % | % |
| **21.4** | **Rate of taxation** | **30** | 30 | 30 |
| | The rate of taxation has been reduced as a consequence of: | | | |
| | Dividend income | **(4)** | (2) | (2) |
| | Capital (gains) on disposal of investments | **—** | — | (1) |
| | Assessed tax losses | **(1)** | — | (1) |
| | Other permanent differences | **1** | (3) | (3) |
| | Secondary taxation on companies | **1** | 1 | 1 |
| | Effective rate – taxation on income | **27** | 26 | 24 |
| **21.5** | **Taxation liability** | | | |
| | Normal taxation | **489** | 562 | 327 |
| | Secondary tax on companies | **—** | 5 | — |
| | | **489** | 567 | 327 |
| **21.6** | **Future tax relief** | | | |
| | The Group has estimated tax losses of R202 million (2004: R445 million, 2003: R511 million), of which R18 million (2004: R44 million, 2003: R46 million) has been applied to reduce the deferred tax balances. The above figures exclude tax losses and reversing timing differences of R520 million (2004: R388 million, 2003: R718 million), for which deferred tax assets have been raised (refer to note 21.1). | | | |
| | Reconciliation of tax relief | | | |
| | Balance at the beginning of the year | **445** | 511 | 214 |
| | Operating losses incurred | **—** | 249 | 17 |
| | Deferred tax asset not raised | **—** | — | 300 |
| | Operating losses utilised | **(41)** | (312) | (15) |
| | Timing difference movement | **(202)** | (3) | (5) |
| | Balance at the end of the year | **202** | 445 | 511 |
| **21.7** | **Secondary tax on companies (STC)** | | | |
| | Accumulated STC credits | **176** | 203 | 155 |
| | Deferred tax asset raised | **22** | 6 | — |
| | Movement in deferred tax asset for the year (refer to note 21.1) | **16** | 6 | — |

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **22. Provisions** | | | |
| Leave pay | **345** | 291 | 240 |
| Balance at the beginning of the year | **291** | 240 | 231 |
| Exchange difference | **1** | (3) | (1) |
| Acquisitions | **—** | 3 | 1 |
| Charge to income statement | **143** | 114 | 51 |
| Utilised during the year | **(90)** | (63) | (42) |
| Staff bonuses and incentives | **662** | 509 | 447 |
| Balance at the beginning of the year | **509** | 447 | 304 |
| Exchange difference | **—** | (3) | (2) |
| Acquisitions | **—** | 1 | — |
| Charge to income statement | **717** | 482 | 497 |
| Utilised during the year | **(564)** | (418) | (352) |
| Audit fees | **18** | 19 | 15 |
| Balance at the beginning of the year | **19** | 15 | 15 |
| Exchange difference | **(2)** | (1) | (2) |
| Additional provisions | **—** | 1 | — |
| Charge to income statement | **43** | 38 | 36 |
| Utilised during the year | **(42)** | (34) | (34) |
| Provisions for claims and losses | **484** | 453 | 379 |
| Balance at the beginning of the year | **453** | 379 | 369 |
| Exchange difference | **(5)** | (20) | — |
| Charge to income statement | **98** | 165 | 368 |
| Utilised during the year | **(62)** | (71) | (358) |
| | **1 509** | 1 272 | 1 081 |
| **23. Insurance funds** | | | |
| Life assurance fund (refer to note 23.1) | **5 579** | 3 781 | 1 159 |
| Short-term insurance fund | **385** | 334 | 237 |
| | **5 964** | 4 115 | 1 396 |
| **23.1 Life assurance fund** | | | |
| Balance at the beginning of the year | **3 781** | 1 159 | 1 231 |
| Inclusion of cell captives | **1 130** | 1 449 | — |
| Transfer from/(to) income statement for the year (refer to note 25.4) | **668** | 1 173 | (72) |
| Balance at the end of the year | **5 579** | 3 781 | 1 159 |

**23.2 Embedded value**

Details of the life assurance fund embedded value and value of new business are provided on pages 366 to 367.

| | | | | Group | | |
|---|---|---|---|---|---|---|
| | | | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **24.** | **Other borrowed funds** | | | | | |
| | The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act 1990. | | | | | |
| **24.1** | **Subordinated convertible loans** | | | **54** | 138 | 286 |
| | *Interest rate* | *Conversion date* | | | | |
| | 13,95% effective | 15 September 2003 | | **—** | — | 46 |
| | 12,95% effective | 25 November 2003 | | **—** | — | 29 |
| | 16,60% effective | 20 October 2005 | | **54** | 138 | 211 |
| | The above loans are unsecured and are compulsorily convertible by Absa Group Limited into ordinary shares of Absa Bank Limited at the dates set out above. | | | | | |
| **24.2** | **Redeemable convertible cumulative preference shares** | | | **38** | 29 | — |
| | *Preference dividend rate* | *Redemption date* | *Number* | | | |
| | 5,0% fixed rate | 12 March 2006 | 848 478 | **38** | 29 | — |
| | The dividends on the 5,0% fixed rate convertible cumulative preference shares are compounded and payable semi-annually on 31 March and 30 September. The shares were issued by Meeg Bank Limited on 12 March 2001 and the mandatory redemption date is 12 March 2006. The shares are convertible into ordinary shares at the option of the preference shareholders on redemption date. | | | | | |
| **24.3** | **Unsecured subordinated redeemable debentures** | | | **750** | 1 050 | 1 050 |
| | *Interest rate* | *Redemption date* | *Number* | | | |
| | 15,70% | 20 October 2004 | 300 | **—** | 300 | 300 |
| | 14,65% | 20 October 2005 | 200 | **200** | 200 | 200 |
| | 14,45% | 20 October 2005 | 300 | **300** | 300 | 300 |
| | 17,90% | 25 November 2005 | 250 | **250** | 250 | 250 |
| | The above debentures are redeemable in full on the dates noted above. Interest is paid semi-annually in arrear at the interest rates set out above. | | | | | |
| **24.4** | **Variable rate debentures** | | | **2** | — | — |
| | *Interest rate* | *Redemption date* | | | | |
| | Variable | No terms for redemption | | **2** | — | — |
| | The above debentures are issued by Absa Specialised Investments (Proprietary) Limited. These debentures' interest rates are variable, dependent on market performance, with no terms for redemption. | | | | | |

| | | | Group | | |
|---|---|---|---|---|---|
| | | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **24.** | **Other borrowed funds** *(continued)* | | | | |
| **24.5** | **Subordinated callable notes** | | **4 600** | 5 850 | 4 350 |
| | *Interest rate* | *Final maturity date* | | | |
| | 14,25% | 22 March 2014 | **3 100** | 3 100 | 3 100 |
| | 10,75% | 26 March 2015 | **1 100** | 1 100 | — |
| | 3-month JIBAR + 0,75% | 26 March 2015 | **400** | 400 | — |
| | 15,00% | 1 March 2010 | **—** | 1 250 | 1 250 |

The 14,25% notes may be redeemed in full at the option of Absa Bank Limited on 22 March 2009. Interest is paid semi-annually in arrear on 22 March and 22 September of each year, provided that the last date for payment shall be 22 March 2009 and quarterly in arrear thereafter on 22 March, 22 June, 22 September and 22 December, with the first quarterly payment commencing on 22 June 2009.

The 10,75% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 26 March 2010. Interest is paid semi-annually in arrear on 26 March and 26 September of each year, provided that the last date for payment shall be 26 March 2010. If Absa Bank Limited does not exercise the redemption option, then interest is payable thereafter at a floating rate of three-month JIBAR plus 4,35%, quarterly in arrear on 26 March, 26 June, 26 September and 26 December, with the first quarterly payment commencing on 26 June 2010.

The 3-month JIBAR floating rate notes may be redeemed in full at the option of Absa Bank Limited on 26 March 2010. Interest is paid quarterly in arrear on 26 March, 26 June, 26 September and 26 December of each year, provided that the last date for payment shall be 26 March 2010. If Absa Bank Limited does not exercise the redemption option, then the coupon rate payable after 26 March 2010 reprices from 3-month JIBAR plus 0,75% to 3-month JIBAR plus 3,70%.

The 15,00% notes were redeemed in full at the option of Absa Bank Limited on 1 March 2005. Interest was paid semi-annually in arrear on 1 March and 1 September.

The notes are listed on the Bond Exchange of South Africa. Preliminary expenses relating to the placement of the notes were capitalised and are expensed on a systematic basis over the period of the notes.

| | | | | Group | | |
|---|---|---|---|---|---|---|
| | | | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **24.** | **Other borrowed funds** *(continued)* | | | | | |
| **24.6** | **Redeemable cumulative option-holding preference shares** | | | **146** | — | — |
| | *Preference dividend rate* | *Option exercise dates* | *Number* | | | |
| | 72% of the prime overdraft rate | 1 July 2007 to 1 July 2009 1 March, 1 June, 1 September or 1 December of each year | 79 237 500* | **158** | — | — |
| | Consolidation of employee share ownership programme | | | **(12)** | — | — |
| | The dividends are compounded and payable semi-annually in arrear on 30 September and 31 March of each year. The shares were issued by Absa Group Limited on 1 July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ending on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1 March, 1 June, 1 September or 1 December of each year. The shares are convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100. | | | | | |
| | | | | **5 590** | 7 067 | 5 686 |

**Refer to note 15.3.*

## 25. Income and expenditure

### 25.1 Turnover

Turnover is a concept not relevant to the business of banking. The Group's revenue consists of net interest income, service fees, commissions, net trading income, insurance-related and other income.

### 25.2 Interest income

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| Advances | **25 095** | 26 213 | 27 036 |
| Cheque accounts | **1 598** | 1 710 | 1 999 |
| Corporate overdrafts | **147** | 298 | 378 |
| Credit cards | **685** | 676 | 628 |
| Foreign currency loans | **643** | 853 | 1 454 |
| Instalment credit agreements | **4 502** | 4 405 | 4 267 |
| Mortgage loans | **11 617** | 12 042 | 12 974 |
| Gross interest earned | **11 911** | 12 292 | 12 974 |
| Origination cost amortised | **(294)** | (250) | — |
| Other advances | **1 422** | 1 491 | 951 |
| Overnight finance | **337** | 468 | 540 |
| Microloans | **254** | 424 | 491 |
| Personal loans | **1 250** | 1 547 | 1 553 |
| Preference shares | **833** | 273 | 236 |
| Specialised and project finance | **1 561** | 1 642 | 1 565 |
| Interest accrued on impaired advances | **246** | 324 | — |
| Movement in fair value election advances after hedging | **—** | 60 | — |
| Cash and short-term assets | **286** | 318 | 426 |
| Money market assets | **383** | 400 | 664 |
| Capital market assets | **322** | 373 | 813 |
| Statutory liquid asset portfolio | **1 046** | 1 470 | 1 360 |
| Net other interest and hedging income | **—** | 127 | — |
| | **27 132** | 28 901 | 30 299 |

| | | Group | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **25.** | **Income and expenditure** *(continued)* | | | |
| **25.3** | **Interest expense** | | | |
| | Deposits | **15 198** | 17 939 | 20 064 |
| | Call deposits | **2 164** | 2 167 | 4 356 |
| | Cheque account deposits | **2 381** | 2 631 | 3 030 |
| | Credit card deposits | **58** | 127 | 165 |
| | Fixed deposits | **4 559** | 4 908 | 4 076 |
| | Foreign currency deposits | **530** | 538 | 1 326 |
| | Negotiable certificates of deposit | **3 440** | 4 659 | 4 457 |
| | Notice deposits | **349** | 983 | 1 631 |
| | Other deposits | **1 351** | 1 307 | 322 |
| | Savings and transmission deposits | **410** | 550 | 701 |
| | Movement in fair value election deposits | **(44)** | 69 | — |
| | Other borrowed funds | **1 006** | 980 | 929 |
| | Indirect interest costs | **224** | 264 | 474 |
| | Net other interest and hedging expenses | **140** | — | — |
| | | **16 568** | 19 183 | 21 467 |

| | | Group | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **25.** | **Income and expenditure** *(continued)* | | | |
| **25.4** | **Non-interest income** | | | |
| | Banking-related income | **9 474** | 8 700 | 7 821 |
| | Commissions and fees | **7 807** | 6 712 | 6 044 |
| | Net trading income (refer to note 25.5) | **520** | 987 | 1 075 |
| | Knowledge-based income | **192** | 159 | 130 |
| | Valuation fees | **123** | 78 | 63 |
| | Unit and property trust income | **202** | 174 | 119 |
| | Pension fund payment services | **433** | 421 | 267 |
| | Other banking income | **197** | 169 | 123 |
| | Insurance-related income | **1 547** | 1 236 | 908 |
| | Net broking commissions | **446** | 399 | 338 |
| | Trust and estate income | **164** | 148 | 129 |
| | Net insurance underwriting surplus | **410** | 231 | 115 |
| | Net life surplus | **381** | 283 | 178 |
| | Excess of income over expenses | **1 049** | 1 456 | 106 |
| | Transfer (from)/to life fund | **(668)** | (1 173) | 72 |
| | Other | **146** | 175 | 148 |
| | Investment income | **762** | 685 | 305 |
| | Net profit on realisation of investments | **313** | 231 | 136 |
| | Net profit on fair value election investments | **275** | 146 | 136 |
| | Net profit on sale of available-for-sale investments | **26** | 59 | — |
| | Profit on disposal of subsidiary | **12** | 26 | — |
| | Unrealised gains on fair value election investments | **206** | 262 | — |
| | Dividend income | **243** | 192 | 169 |
| | Other activities | **131** | 132 | 93 |
| | Profit on disposal of property and equipment | **14** | 45 | 30 |
| | Property development profits | **41** | 10 | 38 |
| | Property rentals | **76** | 77 | 25 |
| | | **11 914** | 10 753 | 9 127 |
| **25.5** | **Net trading income – Treasury** | | | |
| | Trading income | **520** | 987 | 1 075 |
| | Other non-interest income* | **135** | 24 | 11 |
| | Net interest income** | **203** | (110) | (378) |
| | | **858** | 901 | 708 |

**Included in non-interest income in note 25.4 above.*
***Included in interest income in note 25.2 above.*

| | | Group | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **25.** | **Income and expenditure** *(continued)* | | | |
| **25.6** | **Operating expenditure** | | | |
| | Amortisation | **17** | 64 | 66 |
| | Computer software development costs | **17** | 15 | 24 |
| | Goodwill | **—** | 49 | 42 |
| | Auditors' remuneration | **70** | 49 | 39 |
| | Audit fees | **42** | 38 | 34 |
| | Underprovision prior year | **1** | — | 2 |
| | Other fees | **27** | 11 | 3 |
| | Depreciation | **663** | 663 | 632 |
| | Freehold property | **53** | 46 | 50 |
| | Computer equipment and systems | **348** | 343 | 294 |
| | Furniture and other equipment | **256** | 268 | 281 |
| | Motor vehicles | **6** | 6 | 7 |
| | Information technology costs | **1 059** | 873 | 916 |
| | Marketing costs | **499** | 395 | 320 |
| | Operating lease charges | **737** | 689 | 585 |
| | Office premises | **724** | 665 | 567 |
| | Equipment | **13** | 24 | 18 |
| | Other professional fees | **944** | 783 | 485 |
| | Staff costs (refer to note 25.7) | **6 340** | 5 708 | 5 338 |
| | Other expenses | **2 432** | 2 455 | 2 350 |
| | | **12 761** | 11 679 | 10 731 |
| **25.7** | **Staff costs** | | | |
| | Salaries | **5 389** | 4 821 | 4 501 |
| | Employer contributions to retirement funds | **338** | 311 | 301 |
| | Training costs | **135** | 113 | 111 |
| | Other | **478** | 463 | 425 |
| | | **6 340** | 5 708 | 5 338 |
| **25.8** | **Impairment charge** | | | |
| | Goodwill | **107** | — | 54 |
| | Freehold property | **—** | 38 | — |
| | Associated companies and long-term investments* | **19** | — | 49 |
| | Available-for-sale investments and strategic investments | **11** | 78 | — |
| | | **137** | 116 | 103 |

**Previously disclosed in note 25.6.*

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **26. Determination of headline earnings per share** | | | |
| **26.1 Headline earnings** | | | |
| Headline earnings is determined as follows: | | | |
| Net income attributable to shareholders | **5 511** | 4 505 | 3 391 |
| Net profit on disposal of property and equipment | **(14)** | (45) | (30) |
| Net profit on disposal of available-for-sale assets and strategic investments | **(150)** | (166) | (16) |
| Impairment of strategic and available-for-sale investments, associated companies and property | **30** | 104 | — |
| Goodwill impaired and written off | **107** | 49 | 96 |
| | **5 484** | 4 447 | 3 441 |

**26.2 Earnings and headline earnings per share**

Earnings per share is calculated on net income attributable to shareholders of R5 511 million (2004: R4 505 million, 2003: R3 391 million) and headline earnings per share is calculated on R5 484 million (2004: R4 447 million, 2003: R3 441 million), based on the weighted average number of 652 088 453 ordinary shares (2004: 645 890 291, 2003: 651 546 749) in issue during the year.

**26.3 Diluted earnings and diluted headline earnings per share**

Diluted earnings per share is calculated on net income attributable to shareholders of R5 520 million (2004: R4 505 million, 2003: R3 391 million) and diluted headline earnings per share is calculated on R5 494 million (2004: R4 447 million, 2003: R3 441 million), based on the weighted average number of 677 337 082 ordinary shares (2004: 651 332 868, 2003: 651 546 749) in issue during the year.

The dilution represents the effective discount between the average option price and the average market price at which option holders can convert into ordinary shares. This includes options issued in respect of the Absa Share Incentive Trust, the Absa Share Ownership Trust and Batho Bonke Capital (Proprietary) Limited, Absa's black economic empowerment partner.

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **27. Dividends** | | | |
| Final dividend number 35 of 110 cents per ordinary share (2004: 85 cents, 2003: 63 cents) | **716** | 554 | 410 |
| Interim dividend number 36 of 95 cents per ordinary share (2004: 72,1 cents, 2003: 60 cents) | **622** | 469 | 391 |
| Total dividends paid during the year | **1 338** | 1 023 | 801 |
| Interim dividend number 36 of 95 cents per ordinary share (2004: 72 cents, 2003: 60 cents) | **622** | 469 | 391 |
| Final dividend number 37 of 200 cents per ordinary share (2004: 110 cents, 2003: 85 cents) | **1 334** | 716 | 554 |
| Total dividends relating to income for the year | **1 956** | 1 185 | 945 |

A final dividend of 200 cents per ordinary share was declared by the board on 9 May 2005. The total dividend amounts to R1 334 million and the STC payable by the Group in respect of the dividend approved and declared subsequent to 31 March 2005 amounts to R167 million. No provision has been made for this dividend and the related STC in the financial statements for the year ended 31 March 2005.

| | | | |
|---|---|---|---|
| **28. Contingent liabilities** | | | |
| Guarantees | **13 188** | 12 868 | 10 131 |
| Letters of credit | **3 430** | 3 351 | 3 819 |
| Commercial paper | **12** | 418 | 325 |
| | **16 630** | 16 637 | 14 275 |

No material losses, other than those for which provision has been made in the financial statements, are anticipated as a result of these transactions.

## 29. Commitments

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| *Capital expenditure* | | | |
| Authorised and contracted for | **215** | 226 | 79 |
| Authorised but not contracted for | **33** | 19 | 36 |
| | **248** | 245 | 115 |

Funds to meet these commitments will be provided from internal Group resources.

| | | | |
|---|---|---|---|
| *Operating leases* | | | |
| Office premises | **3 946** | 3 997 | 4 446 |
| Within 1 year | **681** | 627 | 618 |
| From 1 year to 5 years | **2 141** | 1 903 | 1 933 |
| More than 5 years | **1 124** | 1 467 | 1 895 |
| Equipment | **42** | 40 | 73 |
| Within 1 year | **8** | 8 | 36 |
| From 1 year to 5 years | **34** | 32 | 37 |
| Total operating lease commitments | **3 988** | 4 037 | 4 519 |

| | | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2005 | | | | 2004 | | 2003 | |
| | | Notional amount Rm | Fair value Rm | Fair value assets Rm | Fair value liabilities Rm | Notional amount Rm | Fair value Rm | Notional amount Rm | Fair value Rm |
| **30.** | **Derivative financial instruments** | | | | | | | | |
| **30.1** | **Trading** | | | | | | | | |
| | *Foreign exchange derivatives* | | | | | | | | |
| | Forward exchange contracts | **288 346** | **195** | **7 138** | **(6 943)** | 369 422 | 1 909 | 448 640 | 3 082 |
| | Currency swaps | **33 660** | **(2 343)** | **570** | **(2 913)** | 718 | (9) | 6 561 | 187 |
| | Currency interest rate swaps | **6 072** | **84** | **1 337** | **(1 253)** | 56 106 | (1 713) | | — |
| | OTC foreign exchange options | **3 967** | **(18)** | **40** | **(58)** | 842 | 8 | 9 358 | 231 |
| | OTC foreign exchange options purchased | **2 101** | **40** | **40** | **—** | 477 | 158 | 4 690 | 476 |
| | OTC foreign exchange options written | **1 866** | **(58)** | **—** | **(58)** | 365 | (150) | 4 668 | (245) |
| | **OTC derivatives** | **332 045** | **(2 082)** | **9 085** | **(11 167)** | 427 088 | 195 | 464 559 | 3 500 |
| | Eurodollar futures | **—** | **—** | **—** | **—** | 37 673 | 11 | 1 606 | 28 |
| | **Exchange traded derivatives** | **—** | **—** | **—** | **—** | 37 673 | 11 | 1 606 | 28 |
| | **Total** | **332 045** | **(2 082)** | **9 085** | **(11 167)** | 464 761 | 206 | 466 165 | 3 528 |
| | *Interest rate derivatives* | | | | | | | | |
| | Forward rate agreements | **258 493** | **46** | **307** | **(261)** | 272 855 | 49 | 108 277 | 9 |
| | Swap contracts | **6 103** | **26** | **75** | **(49)** | 214 128 | (300) | 205 711 | 291 |
| | Interest rate swaps | **322 204** | **(1 667)** | **5 944** | **(7 611)** | — | — | — | — |
| | OTC options on FRAs and swaps | **25 711** | **18** | **30** | **(12)** | 12 058 | (21) | 3 650 | (10) |
| | OTC options on FRAs and swaps purchased | **25 711** | **18** | **30** | **(12)** | 7 100 | 33 | 840 | — |
| | OTC options on FRAs and swaps written | **—** | **—** | **—** | **—** | 4 958 | (54) | 2 810 | (10) |
| | OTC bond option contracts | **278** | **(5)** | **1** | **(6)** | 1 331 | (2) | 265 | (1) |
| | OTC bond options purchased | **103** | **1** | **1** | **—** | 650 | 4 | 125 | 2 |
| | OTC bond options written | **175** | **(6)** | **—** | **(6)** | 681 | (6) | 140 | (3) |
| | Other OTC interest rate derivatives | **—** | **—** | **—** | **—** | — | — | 1 625 | 7 |
| | **Total OTC derivatives** | **612 789** | **(1 582)** | **6 357** | **(7 939)** | 500 372 | (274) | 319 528 | 296 |
| | Exchange traded futures | **19 530** | **—** | **—** | **—** | 8 565 | — | 19 344 | — |
| | **Exchange traded derivatives** | **19 530** | **—** | **—** | **—** | 8 565 | — | 19 344 | — |
| | **Total** | **632 319** | **(1 582)** | **6 357** | **(7 939)** | 508 937 | (274) | 338 872 | 296 |

| | | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **2005** | | | | 2004 | | 2003 | |
| | | **Notional amount Rm** | **Fair value Rm** | **Fair value assets Rm** | **Fair value liabilities Rm** | Notional amount Rm | Fair value Rm | Notional amount Rm | Fair value Rm |
| **30.** | **Derivative financial instruments** *(continued)* | | | | | | | | |
| **30.1** | **Trading** *(continued)* | | | | | | | | |
| | *Equity derivatives* | | | | | | | | |
| | OTC options purchased | **6 131** | **140** | **140** | **—** | 2 929 | 102 | 14 | — |
| | OTC options written | **4 896** | **(234)** | **—** | **(234)** | 3 302 | (280) | 306 | (12) |
| | Equity futures | **902** | **676** | **700** | **(24)** | — | — | — | — |
| | Other OTC equity derivatives | **645** | **17** | **17** | **—** | — | — | — | — |
| | **OTC derivatives** | **12 574** | **599** | **857** | **(258)** | 6 231 | (178) | 320 | (12) |
| | Exchange traded options purchased | **12** | **12** | **12** | **—** | 2 200 | (6) | 482 | (44) |
| | Exchange traded options written | **1 757** | **(20)** | **(5)** | **(15)** | 1 873 | (5) | 821 | 21 |
| | Exchange traded futures | **30** | **(18)** | **—** | **(18)** | 679 | 175 | 292 | (75) |
| | Other exchange traded equity derivatives | **—** | **—** | **—** | **—** | 68 | (10) | — | — |
| | **Exchange traded derivatives** | **1 799** | **(26)** | **7** | **(33)** | 4 820 | 154 | 1 595 | (98) |
| | **Total** | **14 373** | **573** | **864** | **(291)** | 11 051 | (24) | 1 915 | (110) |
| | *Commodity derivatives* | | | | | | | | |
| | Agricultural forwards | **89** | **(12)** | **—** | **(12)** | 87 | 2 | 237 | 127 |
| | OTC agricultural options purchased | **33** | **3** | **3** | **—** | 44 | (2) | — | — |
| | OTC agricultural options written | **203** | **(26)** | **—** | **(26)** | — | — | — | — |
| | OTC options on gold | **2 553** | **25** | **46** | **(21)** | 953 | 5 | 1 598 | 18 |
| | OTC gold options purchased | **1 336** | **46** | **46** | **—** | 537 | 22 | 852 | 91 |
| | OTC gold options written | **1 217** | **(21)** | **—** | **(21)** | 416 | (17) | 746 | (73) |
| | Other OTC commodity derivatives | **3 057** | **161** | **487** | **(326)** | 2 692 | (23) | 90 | — |
| | **OTC derivatives** | **5 935** | **151** | **536** | **(385)** | 3 776 | (18) | 1 925 | 145 |
| | Exchange traded agricultural options purchased | **153** | **24** | **24** | **—** | — | — | 46 | 11 |
| | Exchange traded agricultural options written | **5** | **(1)** | **—** | **(1)** | 44 | (2) | 38 | (6) |
| | Exchange traded agricultural futures | **70** | **11** | **11** | **—** | 90 | 5 | 230 | 106 |
| | Other exchange traded commodity derivatives | **—** | **—** | **—** | **—** | 228 | 1 | — | — |
| | **Exchange traded derivatives** | **228** | **34** | **35** | **(1)** | 362 | 4 | 314 | 111 |
| | **Total** | **6 163** | **185** | **571** | **(386)** | 4 138 | (14) | 2 239 | 256 |

| | | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2005 | | | | 2004 | | 2003 | |
| | | Notional amount Rm | Fair value Rm | Fair value assets Rm | Fair value liabilities Rm | Notional amount Rm | Fair value Rm | Notional amount Rm | Fair value Rm |
| **30.** | **Derivative financial instruments** *(continued)* | | | | | | | | |
| **30.1** | **Trading** *(continued)* | | | | | | | | |
| | *Credit derivatives* | | | | | | | | |
| | Credit derivatives purchased | **191** | **2** | **2** | **—** | 98 | (1) | 131 | — |
| | Credit derivatives written | **2 135** | **30** | **32** | **(2)** | 418 | 3 | 484 | 3 |
| | **Total** | **2 326** | **32** | **34** | **(2)** | 516 | 2 | 615 | 3 |
| | **Total trading** | **987 226** | **(2 874)** | **16 911** | **(19 785)** | 989 403 | (104) | 809 806 | 3 973 |
| **30.2** | **Hedging** | | | | | | | | |
| | *Cash flow hedges* | | | | | | | | |
| | Currency | **749** | **—** | **5** | **(5)** | — | — | | |
| | Interest rate | **38 695** | **50** | **125** | **(75)** | 23 069 | 138 | | |
| | Total | **39 444** | **50** | **130** | **(80)** | 23 069 | 138 | | |
| | *Fair value hedges* | | | | | | | | |
| | Interest rate | **8 130** | **(245)** | **8** | **(253)** | — | — | | |
| | Total | **8 130** | **(245)** | **8** | **(253)** | — | — | | |
| | *Non-qualifying hedges* | | | | | | | | |
| | Currency | **—** | **—** | **—** | **—** | 3 061 | (60) | | |
| | Interest rate | **119 134** | **(815)** | **462** | **(1 277)** | 41 535 | (521) | | |
| | Total | **119 134** | **(815)** | **462** | **(1 277)** | 44 596 | (581) | | |
| | **Total hedging** | **166 708** | **(1 010)** | **600** | **(1 610)** | 67 665 | (443) | 53 524 | (809) |
| | **Total derivative instruments** | **1 153 934** | **(3 884)** | **17 511** | **(21 395)** | 1 057 068 | (547) | 863 330 | 3 164 |

## 30. Derivative financial instruments *(continued)*

### 30.3 Maturity analysis

| | Group | | | |
|---|---|---|---|---|
| | Less than 1 year | 1 to 5 years | More than 5 years | Total |
| **2005** | | | | |
| **Trading** | | | | |
| Foreign exchange derivatives | **149** | **(655)** | **(1 576)** | **(2 082)** |
| Interest rate derivatives | **73** | **(1 231)** | **(424)** | **(1 582)** |
| Equity derivatives | **585** | **(12)** | **—** | **573** |
| Commodity derivatives | **166** | **19** | **—** | **185** |
| Credit derivatives | **—** | **14** | **18** | **32** |
| **Total trading** | **973** | **(1 865)** | **(1 982)** | **(2 874)** |
| **Hedging** | | | | |
| Cash flow hedges – interest rate | **38** | **12** | **—** | **50** |
| Fair value hedges – interest rate | **(5)** | **(208)** | **(32)** | **(245)** |
| Non-qualifying hedges – interest rate | **(4)** | **(657)** | **(154)** | **(815)** |
| **Total hedging** | **29** | **(853)** | **(186)** | **(1 010)** |
| **Total derivative instruments** | **1 002** | **(2 718)** | **(2 168)** | **(3 884)** |
| **2004** | | | | |
| **Trading** | | | | |
| Foreign exchange derivatives | 913 | 156 | (863) | 206 |
| Interest rate derivatives | 46 | 177 | (497) | (274) |
| Equity derivatives | (18) | (6) | — | (24) |
| Commodity derivatives | 43 | (54) | (3) | (14) |
| Credit derivatives | 1 | 1 | — | 2 |
| **Total trading** | 985 | 274 | (1 363) | (104) |
| **Hedging** | | | | |
| *Cash flow hedges* | 94 | 44 | — | 138 |
| Interest rate | 94 | 44 | — | 138 |
| *Non-qualifying hedges* | (94) | (445) | (42) | (581) |
| Currency | (54) | (6) | — | (60) |
| Interest rate | (40) | (439) | (42) | (521) |
| **Total hedging** | — | (401) | (42) | (443) |
| **Total derivative instruments** | 985 | (127) | (1 405) | (547) |

| | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | | | | 2004 | | 2003 | |
| | **Notional amount Rm** | **Fair value Rm** | **Fair value assets Rm** | **Fair value liabilities Rm** | Notional amount Rm | Fair value Rm | Notional amount Rm | Fair value Rm |
| **30. Derivative financial instruments** *(continued)* | | | | | | | | |
| **30.4 Unsettled transactions*** | | | | | | | | |
| Carry and repurchase transactions purchased | — | — | — | | — | — | 8 716 | 9 454 |
| Carry and repurchase transactions sold | — | — | — | | — | — | 4 942 | (5 338) |
| Unsettled gilts | — | — | — | — | — | — | 5 163 | 4 692 |
| Unsettled gilts purchased | — | — | — | | — | — | 4 858 | 5 239 |
| Unsettled gilts sold | — | — | — | | — | — | 305 | (547) |
| Other unsettled transactions | — | — | — | | — | — | 341 | (1) |
| **Total unsettled transactions** | — | — | — | — | — | — | 19 162 | 8 807 |

**The Group has adopted trade date accounting in terms of the implementation of AC 133. Accordingly, all unsettled transactions have been recorded on the balance sheet for the current and 2004 financial years.*

| | Group | |
|---|---|---|
| | 2005 | |
| **30.5 Classification** | **Fair value assets Rm** | **Fair value liabilities Rm** |
| Total derivative instruments | **17 511** | **(21 395)** |
| *Less:* Exchange traded derivatives settled | **(42)** | **34** |
| *Add:* Other trading instruments | **1 065** | **(277)** |
| *Less:* Hedging instruments (Notes 8 and 19) | **(600)** | **1 610** |
| Total trading instruments (Notes 8 and 19) | **17 934** | **(20 028)** |

In the 2003 financial year, netting was applied where ISDA netting agreements were in place. In respect of the 2005 and 2004 financial years, netting was applied only where a legally enforceable right to set-off exists and there is an intention to settle on a net basis or to settle on the same day.

**Derivative financial instruments**

Derivative financial instruments are entered into in the normal course of business to manage various financial risks.

Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Group's accounting policies. There are no commitments or contingent commitments under derivative financial instruments that are not settled other than with cash.

## 30. Derivative financial instruments *(continued)*

**Notional amount**

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the extent of the Group's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

**Fair value**

The amounts disclosed represent the net fair value as at year-end of all derivative financial instruments held. The fair value of a derivative financial instrument represents the market value if the rights and obligations arising from derivative instruments were closed out by the Group in orderly market conditions at year-end. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, where appropriate.

**Fair value assets and liabilities**

The fair value assets and liabilities represent the fair value of derivative financial instruments aggregated per counterparty. The impact of master netting agreements is not taken into account in determining the on-balance sheet fair value of assets which represent the credit exposure arising on such contracts.



| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **31. Managed funds** | | | |
| Estates | **1 327** | 1 188 | 1 039 |
| Portfolio management | **5 971** | 11 588 | 10 573 |
| Trusts | **3 898** | 3 091 | 2 803 |
| Participation bond schemes | **1 328** | 1 242 | 1 128 |
| Unit trusts | **42 110** | 35 158 | 22 770 |
| Property funds | **16 490** | 13 280 | 10 371 |
| Other | **9 167** | 4 648 | 6 857 |
| | **80 291** | 70 195 | 55 541 |

The above assets are managed in a fiduciary capacity on behalf of customers.

## 32. Related party transactions

### 32.1 Subsidiary companies

Absa Group Limited and its subsidiaries entered into various financial services transactions with fellow subsidiaries and other related parties during the year. These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

Refer to pages 356 to 361 for detailed disclosure of investments in subsidiaries.

### 32.2 Associated companies

Absa Group Limited and its subsidiaries entered into a limited number of non-material transactions with associated companies during the year. These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

Refer to note 11 and pages 356 to 361 for detailed disclosure of investments in associated companies.

### 32.3 Loan to Absa Group Limited Share Incentive Trust

Absa Bank Limited has extended a loan of R23 million (2004: R237 million, 2003: R438 million) to the Absa Group Limited Share Incentive Trust. This loan is secured by a cession of 446 073 (2004: 5 375 693, 2003: 14 590 274) shares owned by the Absa Group Limited Share Incentive Trust in Absa Group Limited. This loan is eliminated on consolidation.

### 32.4 Directors' emoluments

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| *Executive directors* | **38,5** | 24,2 | 22,3 |
| Fees for services as director | **0,3** | 0,3 | 0,2 |
| Salaries | **9,1** | 8,2 | 6,2 |
| Allowances | **0,1** | — | — |
| Retirement fund contributions | **0,7** | 0,6 | 0,5 |
| Bonuses | **24,5** | 13,5 | 13,2 |
| Gain on exercise of share options | **—** | 0,8 | 1,2 |
| Loss of office | **3,5** | — | — |
| Other services | **0,3** | 0,8 | 1,0 |
| *Non-executive directors* | **5,9** | 4,6 | 4,2 |
| Fees for services as director | **3,7** | 2,8 | 2,7 |
| Other services | **2,2** | 1,8 | 1,5 |
| Paid by subsidiary companies | **(42,4)** | (27,5) | (25,4) |
| | **2,0** | 1,3 | 1,1 |

## 32. Related party transactions *(continued)*

### 32.4 Directors' emoluments *(continued)*

For further detail on the relationships between Absa Group Limited and its subsidiaries with the directors and officers of the Group, refer to the directors' report and directors' remuneration report on pages 276 and 79 respectively.

The bonuses disclosed are bonuses paid and payable in terms of the Absa Group performance for the financial year. Refer to the directors' remuneration report on pages 79 to 93.

### 32.5 Share options granted to executive directors

The aggregate number of shares and share options granted to the executive directors of the Company during the year was 614 856 (2004: 720 000, 2003: 375 000). The share options were granted on the same terms and conditions as those offered to other employees of the Group. The outstanding number of shares and share options granted to the executive directors at the end of the year was 1 686 006 (2004: 2 193 187, 2003: 1 534 798).

## 33. Retirement funds

With the exception of certain employees who have exercised an option not to become members, all full-time permanent employees are members of the Absa Group Pension Fund (the fund), which has a defined benefit and a defined contribution structure. All members at 31 March 1997 had the option to convert to the defined contribution structure, of which the majority did. Members joining the fund on or after 1 April 1997 are entitled to benefits under the defined contribution structure.

Of the employees belonging to the fund, 99,8% (2004: 99,8%, 2003: 99,7%) were members of the defined contribution structure, whereas 0,2% (2004: 0,2%, 2003: 0,3%) were members of the defined benefit structure. As at 31 March 2005, the defined benefit structure had 67 (2004: 74, 2003: 87) contributing members.

The fund is financed by Company and employee contributions and investment income. Company contributions in respect of the defined benefit structure are based on actuarial advice and are expensed in the income statement. It is Absa's policy to ensure that the fund is adequately funded to provide for the benefits of members, and particularly to ensure that any shortfall with regard to the defined benefit structure is being met by way of additional contributions.

The benefits provided by the defined benefit structure are based on a formula taking into account years of membership and remuneration levels. The benefits provided by the defined contribution structure are determined by accumulated contributions and returns on investments.

The fund is governed by the Pension Funds Act, 1956, which requires that an actuarial valuation be carried out at least every three years. The most recent valuation of the fund was effected on 1 April 2004 and confirmed that the fund was in a sound financial position.

Liabilities in respect of the defined benefit structure are calculated based on assumptions regarding the expected experience in respect of death, withdrawals, early retirement, family statistics, rate of increase in pensionable remuneration and medical allowances, administration costs and the expected yield on assets. The key assumptions include:

| | |
|---|---|
| – General rate of inflation | 6,5% |
| – Valuation rate | 10,0% |
| – Expected investment return | 10,0% |
| – Salary inflation | 7,5% + merit increases |

The most recent valuation of the fund was performed on 1 April 2004. This valuation applied the Pension Funds Second Amendment Act (2001) for the first time. This Act facilitates the determination of the surplus apportionment to members, while avoiding the inappropriate distribution of surpluses. The Act requires that a fund explicitly establish additional contingency reserves to ensure the financial soundness of the fund going forward. The valuation has been performed using a projected benefit method in respect of the defined benefit structure, which is consistent with prior valuations, and confirmed that the actuarial value of the assets in respect of the defined benefit structure of the fund, amounting to R3 327 million, is sufficient to fund the value of the actuarially determined liabilities, amounting to R3 327 million.

## 33. Retirement funds *(continued)*

In the comparative years, the amounts disclosed do not include the additional contingency reserves required by the Pension Funds Second Amendment Act (2001) and reflect assets of – 2004: R3 153 million, 2003: R2 915 million, and liabilities of – 2004: R2 701 million, 2003: R2 500 million.

Current contribution levels are also considered to be adequate to meet future obligations.

The pension fund costs were as follows:

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| Employer contributions to defined contribution structure | **323** | 294 | 279 |
| Employer contributions to defined benefit structure | **1** | 1 | 1 |
| Subsidiary companies' employer contributions to non-Absa schemes | **14** | 16 | 21 |
| | **338** | 311 | 301 |

The charge in relation to the defined benefit structure represents the current service cost. Given the limited number of members of this fund, there are no actuarial gains or losses that have not been recognised. The interest on the obligation is offset by the expected return on the plan assets.

| | | Group | | | | |
|---|---|---|---|---|---|---|
| | ZAR | USD | GBP | Euro | Other | **Total** |
| **2005** | Rm | Rm | Rm | Rm | Rm | **Rm** |
| **34. Group currency profile** | | | | | | |
| **Assets** | | | | | | |
| Cash and short-term assets | 12 906 | 1 240 | — | 417 | 621 | **15 184** |
| Money market assets | 3 772 | 426 | — | 57 | 747 | **5 002** |
| Capital market assets | 3 647 | 677 | 16 | 799 | 801 | **5 940** |
| Statutory liquid asset portfolio | 14 384 | — | — | — | — | **14 384** |
| Advances | 256 415 | 11 825 | — | — | — | **268 240** |
| Derivative and trading assets | 18 412 | 100 | 21 | 1 | — | **18 534** |
| Other assets and taxation | 7 840 | 24 | 60 | 164 | 74 | **8 162** |
| Deferred taxation | 125 | 1 | 37 | 18 | — | **181** |
| Investments and subsidiary companies | 8 046 | 216 | 13 | 117 | 20 | **8 412** |
| Associated companies | 604 | — | — | — | — | **604** |
| Property and equipment | 2 502 | 3 | 27 | 7 | 144 | **2 683** |
| Intangible assets and goodwill | 167 | — | — | 8 | 22 | **197** |
| Client liabilities under acceptances | 1 045 | 33 | — | 85 | — | **1 163** |
| **Total assets** | 329 865 | 14 545 | 174 | 1 673 | 2 429 | **348 686** |
| **Shareholders' equity and liabilities** | | | | | | |
| Share capital | 1 310 | — | — | — | — | **1 310** |
| Share premium | 1 611 | — | — | — | — | **1 611** |
| Reserves | 20 422 | (133) | 172 | 293 | 62 | **20 816** |
| **Shareholders' equity** | 23 343 | (133) | 172 | 293 | 62 | **23 737** |
| **Minority shareholders' equity** | 186 | — | — | 42 | — | **228** |
| **Total shareholders' and minority shareholders' equity** | 23 529 | (133) | 172 | 335 | 62 | **23 965** |
| **Liabilities** | | | | | | |
| Deposits and current accounts | 259 919 | 10 807 | — | 308 | 7 548 | **278 582** |
| Derivative and trading liabilities | 21 579 | 39 | 19 | — | 1 | **21 638** |
| Other liabilities and provisions | 8 552 | 60 | 53 | 271 | 296 | **9 232** |
| Deferred taxation | 2 031 | — | — | 24 | 8 | **2 063** |
| Taxation | 464 | 5 | 15 | — | 5 | **489** |
| Insurance funds | 5 964 | — | — | — | — | **5 964** |
| Other borrowed funds | 5 590 | — | — | — | — | **5 590** |
| Liabilities to clients under acceptances | 1 045 | 33 | — | 85 | — | **1 163** |
| **Total liabilities** | 305 144 | 10 944 | 87 | 688 | 7 858 | **324 721** |
| **Total shareholders' equity and liabilities** | 328 673 | 10 811 | 259 | 1 023 | 7 920 | **348 686** |
| Gross currency position | | 3 734 | (85) | 650 | (5 491) | **(1 192)** |
| Foreign currency derivative | | | | | | **1 878** |
| **Net currency position** | | 3 734 | (85) | 650 | (5 491) | **686** |

| | | Group | | | | | |
|---|---|---|---|---|---|---|---|
| | **2004** | ZAR Rm | USD Rm | GBP Rm | Euro Rm | Other Rm | Total Rm |
| **34.** | **Group currency profile** *(continued)* | | | | | | |
| | **Assets** | | | | | | |
| | Cash and short-term assets | 10 247 | 2 411 | 355 | 691 | 364 | 14 068 |
| | Money market assets | 2 340 | 162 | 703 | 3 | 480 | 3 688 |
| | Capital market assets | 1 922 | 2 292 | 108 | 3 612 | 1 227 | 9 161 |
| | Statutory liquid asset portfolio | 12 598 | — | — | — | — | 12 598 |
| | Advances | 206 411 | 10 504 | 734 | 2 958 | 1 788 | 222 395 |
| | Derivative and trading assets | 28 080 | 153 | 32 | 1 | — | 28 266 |
| | Other assets and taxation | 4 917 | 375 | 20 | 481 | 82 | 5 875 |
| | Deferred taxation | 74 | 2 | 71 | 20 | — | 167 |
| | Investments and subsidiary companies | 5 501 | 206 | 14 | 46 | 25 | 5 792 |
| | Associated companies | 624 | — | — | — | — | 624 |
| | Property and equipment | 2 417 | 1 | 22 | 3 | 154 | 2 597 |
| | Intangible assets and goodwill | 107 | — | — | — | 27 | 134 |
| | Client liabilities under acceptances | 1 446 | 37 | — | — | — | 1 483 |
| | **Total assets** | 276 684 | 16 143 | 2 059 | 7 815 | 4 147 | 306 848 |
| | **Shareholders' equity and liabilities** | | | | | | |
| | Share capital | 1 291 | — | — | — | — | 1 291 |
| | Share premium | 1 309 | — | — | — | — | 1 309 |
| | Reserves | 16 708 | (272) | 37 | 222 | 55 | 16 750 |
| | **Shareholders' equity** | 19 308 | (272) | 37 | 222 | 55 | 19 350 |
| | **Minority shareholders' equity** | 171 | — | — | — | — | 171 |
| | **Total shareholders' and minority shareholders' equity** | 19 479 | (272) | 37 | 222 | 55 | 19 521 |
| | **Liabilities** | | | | | | |
| | Deposits and current accounts | 206 017 | 19 206 | 1 201 | 5 468 | 2 488 | 234 380 |
| | Derivative and trading liabilities | 30 772 | 56 | 27 | — | 1 | 30 856 |
| | Other liabilities and provisions | 6 672 | (16) | 66 | 32 | 774 | 7 528 |
| | Deferred taxation | 1 306 | — | — | 17 | 8 | 1 331 |
| | Taxation | 540 | — | 20 | — | 7 | 567 |
| | Insurance funds | 4 115 | — | — | — | — | 4 115 |
| | Other borrowed funds | 7 067 | — | — | — | — | 7 067 |
| | Liabilities to clients under acceptances | 1 446 | 37 | — | — | — | 1 483 |
| | **Total liabilities** | 257 935 | 19 283 | 1 314 | 5 517 | 3 278 | 287 327 |
| | **Total shareholders' equity and liabilities** | 277 414 | 19 011 | 1 351 | 5 739 | 3 333 | 306 848 |
| | Gross currency position | | (2 868) | 708 | 2 076 | 814 | 730 |
| | Foreign currency derivative | | | | | | 737 |
| | **Net currency position** | | (2 868) | 708 | 2 076 | 814 | 1 467 |

| | | Group | | | | | |
|---|---|---|---|---|---|---|---|
| | **2003** | ZAR Rm | USD Rm | GBP Rm | Euro Rm | Other Rm | Total Rm |
| **34.** | **Group currency profile** *(continued)* | | | | | | |
| | **Assets** | | | | | | |
| | Cash and short-term assets | 9 281 | 2 249 | 133 | 317 | 637 | 12 617 |
| | Money market assets | 2 786 | 392 | 1 204 | 5 | 697 | 5 084 |
| | Capital market assets | 2 012 | 3 441 | 145 | 3 620 | 1 253 | 10 471 |
| | Statutory liquid asset portfolio | 12 970 | — | — | — | — | 12 970 |
| | Advances | 172 208 | 20 560 | 520 | 3 598 | 2 411 | 199 297 |
| | Derivative and trading assets | 13 380 | 73 | 15 | 1 | — | 13 469 |
| | Other assets and taxation | 5 588 | (19) | 57 | 25 | 361 | 6 012 |
| | Deferred taxation | 183 | — | 40 | — | — | 223 |
| | Investments and subsidiary companies | 2 968 | 197 | 18 | 138 | 185 | 3 506 |
| | Associated companies | 450 | — | — | — | — | 450 |
| | Property and equipment | 2 383 | 2 | 29 | 5 | 194 | 2 613 |
| | Intangible assets and goodwill | 163 | — | — | — | 24 | 187 |
| | Client liabilities under acceptances | 2 139 | 24 | — | 1 | 1 | 2 165 |
| | **Total assets** | 226 511 | 26 919 | 2 161 | 7 710 | 5 763 | 269 064 |
| | **Shareholders' equity and liabilities** | | | | | | |
| | Share capital | 1 303 | — | — | — | — | 1 303 |
| | Share premium | 1 532 | — | — | — | — | 1 532 |
| | Reserves | 13 789 | (53) | (31) | 225 | 101 | 14 031 |
| | **Shareholders' equity** | 16 624 | (53) | (31) | 225 | 101 | 16 866 |
| | **Minority shareholders' equity** | 241 | — | — | — | — | 241 |
| | **Total shareholders' and minority shareholders' equity** | 16 865 | (53) | (31) | 225 | 101 | 17 107 |
| | **Liabilities** | | | | | | |
| | Deposits and current accounts | 189 303 | 23 135 | 1 021 | 5 605 | 2 992 | 222 056 |
| | Derivative and trading liabilities | 12 016 | 22 | 11 | — | 1 | 12 050 |
| | Other liabilities and provisions | 5 916 | 66 | 89 | 188 | 567 | 6 826 |
| | Deferred taxation | 1 440 | — | — | — | 11 | 1 451 |
| | Taxation | 305 | 2 | — | — | 20 | 327 |
| | Insurance funds | 1 396 | — | — | — | — | 1 396 |
| | Other borrowed funds | 5 686 | — | — | — | — | 5 686 |
| | Liabilities to clients under acceptances | 2 139 | 24 | — | 1 | 1 | 2 165 |
| | **Total liabilities** | 218 201 | 23 249 | 1 121 | 5 794 | 3 592 | 251 957 |
| | **Total shareholders' equity and liabilities** | 235 066 | 23 196 | 1 090 | 6 019 | 3 693 | 269 064 |
| | Gross currency position | | 3 723 | 1 071 | 1 691 | 2 070 | 8 555 |
| | Foreign currency derivative | | — | — | — | — | 339 |
| | **Net currency position** | | 3 723 | 1 071 | 1 691 | 2 070 | 8 894 |

Balance sheets of offshore subsidiaries/branches/representative offices were translated at the appropriate exchange rate at year-end as set out on page 342.

| | Group | | |
|---|---|---|---|
| | **2005** | 2004 | 2003 |
| **34. Group currency profile** *(continued)* | | | |
| **Principal foreign currency conversion rates** | | | |
| **One South African rand equals** | | | |
| Japanese yen | **17,1821** | 16,4204 | 14,9701 |
| Pound sterling | **0,0852** | 0,0861 | 0,0797 |
| United States dollar | **0,1607** | 0,1579 | 0,1261 |
| Euro | **0,1238** | 0,1292 | 0,1157 |
| Tanzanian shillings | **175,439** | 175,439 | 112,866 |
| Mozambican metical | **3 115,265** | 3 676,471 | 2 624,000 |

The above exchange rates were used to translate foreign currency monetary items to South African rand at the financial year-end.

| | | Group | | | | |
|---|---|---|---|---|---|---|
| | 2005 | On demand Rm | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Total Rm |
| **35.** | **Group liquidity profile** | | | | | |
| | **Assets** | | | | | |
| | Cash and short-term assets | 13 579 | 1 203 | 402 | — | **15 184** |
| | Money market assets | 1 089 | 3 913 | — | — | **5 002** |
| | Capital market assets | 17 | 1 236 | 2 747 | 1 940 | **5 940** |
| | Statutory liquid asset portfolio | 10 | 5 618 | 8 568 | 188 | **14 384** |
| | Advances | 51 315 | 35 779 | 61 742 | 119 404 | **268 240** |
| | Derivative and trading assets | (221) | 18 229 | 495 | 31 | **18 534** |
| | Other assets and taxation | 2 954 | 4 799 | 197 | 212 | **8 162** |
| | Deferred taxation | (258) | 126 | 291 | 22 | **181** |
| | Investments and subsidiary companies | (4 627) | 5 380 | 1 536 | 6 123 | **8 412** |
| | Associated companies | 149 | — | 191 | 264 | **604** |
| | Property and equipment | 454 | 338 | 784 | 1 107 | **2 683** |
| | Intangible assets and goodwill | 27 | 19 | 151 | — | **197** |
| | Client liabilities under acceptances | (376) | 1 539 | — | — | **1 163** |
| | **Total assets** | 64 112 | 78 179 | 77 104 | 129 291 | **348 686** |
| | **Shareholders' equity and liabilities** | | | | | |
| | Share capital | — | — | — | 1 310 | **1 310** |
| | Share premium | — | — | — | 1 611 | **1 611** |
| | Reserves | 4 101 | 748 | 205 | 15 762 | **20 816** |
| | **Shareholders' equity** | 4 101 | 748 | 205 | 18 683 | **23 737** |
| | **Minority shareholders' equity** | — | — | — | 228 | **228** |
| | **Total shareholders' and minority shareholders' equity** | 4 101 | 748 | 205 | 18 911 | **23 965** |
| | **Liabilities** | | | | | |
| | Deposits and current accounts | 112 868 | 154 790 | 9 406 | 1 518 | **278 582** |
| | Deferred taxation | (182) | 833 | 773 | 639 | **2 063** |
| | Derivative and trading liabilities | 1 | 20 092 | 1 328 | 217 | **21 638** |
| | Other liabilities and provisions | 2 796 | 5 553 | 281 | 602 | **9 232** |
| | Taxation | (245) | 435 | 299 | — | **489** |
| | Insurance funds | — | 385 | — | 5 579 | **5 964** |
| | Other borrowed funds | 2 170 | 803 | 2 617 | — | **5 590** |
| | Liabilities to clients under acceptances | (376) | 1 539 | — | — | **1 163** |
| | **Total liabilities** | 117 032 | 184 430 | 14 704 | 8 555 | **324 721** |
| | **Total shareholders' equity and liabilities** | 121 133 | 185 178 | 14 909 | 27 466 | **348 686** |
| | **Net liquidity position** | (57 021) | (106 999) | 62 195 | 101 825 | **—** |

| | | Group | | | | |
|---|---|---|---|---|---|---|
| | 2004 | On demand Rm | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Total Rm |
| **35.** | **Group liquidity profile** *(continued)* | | | | | |
| | **Assets** | | | | | |
| | Cash and short-term assets | 11 206 | 2 862 | — | — | 14 068 |
| | Money market assets | 600 | 3 021 | 67 | — | 3 688 |
| | Capital market assets | 543 | 2 357 | 3 621 | 2 640 | 9 161 |
| | Statutory liquid asset portfolio | 15 | 6 788 | 5 772 | 23 | 12 598 |
| | Advances | 31 769 | 34 823 | 58 326 | 97 477 | 222 395 |
| | Derivative and trading assets | (102) | 27 788 | 534 | 47 | 28 267 |
| | Other assets and taxation | 3 008 | 2 811 | — | 55 | 5 874 |
| | Deferred taxation | — | 103 | 44 | 20 | 167 |
| | Investments and subsidiary companies | 1 538 | 3 117 | 1 036 | 101 | 5 792 |
| | Associated companies | — | — | 15 | 609 | 624 |
| | Property and equipment | — | 150 | 1 018 | 1 429 | 2 597 |
| | Intangible assets and goodwill | — | 100 | 34 | — | 134 |
| | Client liabilities under acceptances | — | 1 208 | 275 | — | 1 483 |
| | **Total assets** | 48 577 | 85 128 | 70 742 | 102 401 | 306 848 |
| | **Shareholders' equity and liabilities** | | | | | |
| | Share capital | — | — | — | 1 291 | 1 291 |
| | Share premium | — | — | — | 1 309 | 1 309 |
| | Reserves | — | 667 | — | 16 083 | 16 750 |
| | **Shareholders' equity** | — | 667 | — | 18 683 | 19 350 |
| | **Minority shareholders' equity** | — | — | — | 171 | 171 |
| | **Total shareholders' and minority shareholders' equity** | — | 667 | — | 18 854 | 19 521 |
| | **Liabilities** | | | | | |
| | Deposits and current accounts | 118 766 | 92 405 | 18 611 | 4 598 | 234 380 |
| | Derivative and trading liabilities | 1 | 29 714 | 832 | 309 | 30 856 |
| | Other liabilities and provisions | 2 081 | 5 144 | — | 303 | 7 528 |
| | Deferred taxation | — | 104 | 777 | 450 | 1 331 |
| | Taxation | — | 529 | 38 | — | 567 |
| | Insurance funds | — | 334 | — | 3 781 | 4 115 |
| | Other borrowed funds | — | — | 1 217 | 5 850 | 7 067 |
| | Liabilities to clients under acceptances | — | 1 206 | 275 | 2 | 1 483 |
| | **Total liabilities** | 120 848 | 129 436 | 21 750 | 15 293 | 287 327 |
| | **Total shareholders' equity and liabilities** | 120 848 | 130 103 | 21 750 | 34 147 | 306 848 |
| | **Net liquidity position** | (72 271) | (44 975) | 48 992 | 68 254 | — |

| | | Group | | | |
|---|---|---|---|---|---|
| | On demand | Within 1 year | From 1 year to 5 years | More than 5 years | Total |
| 2003 | Rm | Rm | Rm | Rm | Rm |
| **35. Group liquidity profile** *(continued)* | | | | | |
| **Assets** | | | | | |
| Cash and short-term assets | 11 819 | 798 | — | — | 12 617 |
| Money market assets | 497 | 4 486 | 101 | — | 5 084 |
| Capital market assets | 403 | 778 | 3 689 | 5 601 | 10 471 |
| Statutory liquid asset portfolio | — | 6 656 | 6 314 | — | 12 970 |
| Advances | 23 825 | 36 604 | 47 458 | 91 410 | 199 297 |
| Derivative and trading assets | (161) | 13 247 | 360 | 23 | 13 469 |
| Other assets and taxation | 13 842 | (7 626) | (257) | 53 | 6 012 |
| Deferred taxation | — | 91 | 80 | 52 | 223 |
| Investments and subsidiary companies | 486 | 1 528 | 1 266 | 226 | 3 506 |
| Associated companies | — | — | 90 | 360 | 450 |
| Property and equipment | — | 530 | 1 328 | 755 | 2 613 |
| Intangible assets and goodwill | — | 49 | 138 | — | 187 |
| Client liabilities under acceptances | — | 1 597 | 568 | — | 2 165 |
| **Total assets** | 50 711 | 58 738 | 61 135 | 98 480 | 269 064 |
| **Shareholders' equity and liabilities** | | | | | |
| Share capital | — | — | — | 1 303 | 1 303 |
| Share premium | — | — | — | 1 532 | 1 532 |
| Reserves | — | 554 | — | 13 477 | 14 031 |
| **Shareholders' equity** | — | 554 | — | 16 312 | 16 866 |
| **Minority shareholders' equity** | — | — | — | 241 | 241 |
| **Total shareholders' and minority shareholders' equity** | — | 554 | — | 16 553 | 17 107 |
| **Liabilities** | | | | | |
| Deposits and current accounts | 95 824 | 118 432 | 6 727 | 1 073 | 222 056 |
| Derivative and trading liabilities | — | 11 189 | 740 | 121 | 12 050 |
| Other liabilities and provisions | 14 088 | (7 544) | (45) | 327 | 6 826 |
| Deferred taxation | — | 691 | 590 | 170 | 1 451 |
| Taxation | — | 304 | 23 | — | 327 |
| Insurance funds | 237 | — | — | 1 159 | 1 396 |
| Other borrowed funds | — | 74 | 1 262 | 4 350 | 5 686 |
| Liabilities to clients under acceptances | — | 1 597 | 568 | — | 2 165 |
| **Total liabilities** | 110 149 | 124 743 | 9 865 | 7 200 | 251 957 |
| **Total shareholders' equity and liabilities** | 110 149 | 125 297 | 9 865 | 23 753 | 269 064 |
| **Net liquidity position** | (59 438) | (66 559) | 51 270 | 74 727 | — |

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **36. Reconciliation of operating profit to cash flows from operating activities** | | | |
| Operating profit | **7 517** | 6 104 | 4 473 |
| Adjusted for: | | | |
| Amortisation | **17** | 64 | 66 |
| Depreciation | **663** | 663 | 632 |
| Impairment charge | **137** | 116 | 103 |
| Indirect taxation | **780** | 672 | 695 |
| Provisions | **1 001** | 214 | 166 |
| Impairment of advances | **1 283** | 1 900 | 1 957 |
| Transaction costs capitalised | **294** | — | — |
| Profit on sale of property and equipment | **(14)** | (45) | (30) |
| Profit on realisation of investments | **(273)** | (231) | (136) |
| Net unrealised (profit)/loss | **(361)** | | |
| Write-up of dated securities | **—** | (148) | (192) |
| Dividends received from associated companies | **(27)** | (16) | (19) |
| Cash inflow from operating activities | **11 017** | 9 293 | 7 715 |
| **37. Cash receipts from customers** | | | |
| Interest income | **27 132** | 28 901 | 30 299 |
| Write-up of dated securities | **—** | (148) | (192) |
| Fees and commission income | **7 807** | 6 712 | 6 139 |
| Trading and other income | **3 726** | 3 749 | 2 803 |
| | **38 665** | 39 214 | 39 049 |
| **38. Cash paid to customers, employees and suppliers** | | | |
| Interest expense | **16 568** | 19 183 | 21 467 |
| Employee costs | **6 340** | 5 708 | 5 338 |
| Other payments | **4 740** | 5 030 | 4 529 |
| | **27 648** | 29 921 | 31 334 |

| | Group | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **39. Taxation paid** | | | |
| Amounts unpaid at the beginning of the year | **1 703** | 1 540 | 1 656 |
| Other liabilities | **1 898** | 1 778 | 2 154 |
| Other assets | **(195)** | (238) | (498) |
| Acquisitions | **—** | — | 39 |
| Other liabilities | **—** | — | 39 |
| Income statement charge | **2 048** | 1 627 | 1 104 |
| Indirect taxation in income statement | **780** | 672 | 695 |
| Taxation on associated companies | **(40)** | (34) | (25) |
| Non-cash flow as a result of AC 133 | **—** | (212) | — |
| Amounts unpaid at the end of the year | **(2 366)** | (1 703) | (1 540) |
| Other liabilities | **(2 552)** | (1 898) | (1 778) |
| Other assets | **186** | 195 | 238 |
| | **2 125** | 1 890 | 1 929 |
| **40. Increase in income-earning funds and other debtors** | | | |
| Advances and other accounts | **47 175** | 24 901 | 16 342 |
| Money market assets | **1 314** | (1 341) | (294) |
| Capital market assets | **(3 221)** | (1 282) | 238 |
| Statutory liquid asset portfolio | **1 786** | (308) | (707) |
| Derivative and trading assets | **(9 733)** | 14 798 | 13 469 |
| Other assets | **2 288** | (188) | (8 048) |
| | **39 609** | 36 580 | 21 000 |
| **41. Increase in deposits and other creditors and provisions** | | | |
| Deposits | **44 088** | 11 773 | 6 512 |
| Insurance funds | **1 849** | 2 714 | (391) |
| Derivative and trading liabilities | **(9 218)** | 18 806 | 12 050 |
| Creditors and other liabilities | **708** | (3) | (973) |
| | **37 427** | 33 290 | 17 198 |

| | | Group | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **42.** | **Property and equipment** | | | |
| **42.1** | **Capital expenditure on:** | | | |
| | Freehold property | **(94)** | (130) | (67) |
| | Computer equipment and systems | **(376)** | (425) | (435) |
| | Furniture and other equipment | **(318)** | (229) | (208) |
| | Motor vehicles | **(8)** | (5) | (8) |
| | Computer software development costs | **(25)** | (11) | (29) |
| | | **(821)** | (800) | (747) |
| **42.2** | **Proceeds on disposal of:** | | | |
| | Freehold property | **25** | 55 | 87 |
| | Computer equipment and systems | **21** | 32 | 30 |
| | Furniture and other equipment | **3** | 20 | 27 |
| | Motor vehicles | **—** | 3 | 2 |
| | | **49** | 110 | 146 |
| **43.** | **Disposal of/(investment in) subsidiary companies** | | | |
| | Investment in shares | **206** | 172 | (505) |
| | Minority shareholders | **(17)** | (40) | (7) |
| | | **189** | 132 | (512) |
| **44.** | **Investment in shares** | | | |
| | The inclusion of the cell captives by Absa Financial Services on the balance sheet, being funds managed on behalf of third parties, has contributed R1 130 million (2004: R1 963 million, 2003: R0 million) to this amount. | | | |
| **45.** | **Dividends paid** | | | |
| | Total dividends paid during the year (refer to note 27) | **1 338** | 1 023 | 801 |
| | Dividends paid to minorities | **32** | 64 | 6 |
| | | **1 370** | 1 087 | 807 |

## 46. Acquisitions

### 46.1 Avena LeasePlan (SA) (Proprietary) Limited

On 1 July 2004, the Group acquired the entire issued share capital in Avena LeasePlan (Proprietary) Limited with effect from 1 May 2004.

Details of the net assets acquired and goodwill are as follows:

| | Rm |
|---|---|
| Purchase consideration | |
| Cash paid and payable | 159 |
| *Less:* Fair value of net assets acquired | (47) |
| Goodwill | 112 |
| Fair value adjustments were made to the book values of net assets acquired: | |
| Cash and short-term assets | 2 |
| Advances | 429 |
| Other assets | 6 |
| Property and equipment | 1 |
| Other liabilities | (237) |
| Provisions | (154) |
| Fair value of net assets acquired: | 47 |
| Goodwill | 112 |
| Total purchase consideration | 159 |
| *Less:* Cash and short-term assets acquired in subsidiary | (2) |
| Cash outflow on acquisition | 157 |

### 46.2 Abvest Holdings (Proprietary) Limited

During September 2004, the Group acquired an additional 30% of the share capital in Abvest Holdings (Proprietary) Limited.

Details of the net assets acquired and goodwill are as follows:

| | Rm |
|---|---|
| Purchase consideration | |
| Cash paid | 35 |
| *Less:* Fair value of net assets acquired | (8) |
| Goodwill | 27 |
| Fair value adjustments were made to the book values of net assets acquired: | |
| Cash and short-term assets | 33 |
| Other assets | 8 |
| Property and equipment | 1 |
| Other liabilities | (14) |
| Provisions and taxation | (3) |
| Fair value of net assets as at 30 September 2004: | 25 |
| 30% of the above value | 8 |
| Goodwill | 27 |
| Total purchase consideration | 35 |
| *Less:* Cash and short-term assets acquired in subsidiary | (33) |
| Cash outflow on acquisition | 2 |

## 46. Acquisitions *(continued)*

### 46.3 Sineus Holdings AG

On 1 July 2004, the Group acquired 61% of the issued share capital in Sineus Holdings AG. The shareholding was increased to 99,9% in January 2005.

Details of the net assets acquired and goodwill are as follows:

| | Rm |
|---|---|
| Purchase consideration | |
| Cash paid and payable | **47** |
| *Less:* Fair value of net assets acquired | **(24)** |
| Goodwill | **23** |
| Fair value adjustments were made to the book values of net assets acquired: | |
| Investments | **7** |
| Other assets | **49** |
| Property and equipment | **—** |
| Other liabilities | **(30)** |
| Provisions | **(2)** |
| Fair value of net assets acquired: | **24** |
| Goodwill | **23** |
| Total purchase consideration | **47** |
| *Less:* Cash and short-term assets acquired in subsidiary | **—** |
| Cash outflow on acquisition | **47** |

# Segmental reporting per geographical segment

for the year ended 31 March 2005

| | South Africa | Rest of Africa | Europe | Asia | Other | Total |
|---|---|---|---|---|---|---|
| **2005 (Rm)** | | | | | | |
| Net interest income | **10 116** | **266** | **141** | **27** | **14** | **10 564** |
| Impairment of advances | **(1 431)** | **91** | **74** | **(4)** | **(13)** | **(1 283)** |
| Non-interest income | **11 384** | **201** | **259** | **64** | **6** | **11 914** |
| Operating expenditure | **(12 041)** | **(293)** | **(377)** | **(47)** | **(3)** | **(12 761)** |
| Indirect taxation | **(774)** | **(1)** | **(5)** | **—** | **—** | **(780)** |
| | **7 254** | **264** | **92** | **40** | **4** | **7 654** |
| Taxation and other | **(1 971)** | **(23)** | **(162)** | **(6)** | **(8)** | **(2 170)** |
| **Headline earnings** | **5 283** | **241** | **(70)** | **34** | **(4)** | **5 484** |
| Advances | **257 034** | **1 589** | **6 700** | **2 153** | **764** | **268 240** |
| Deposits and current accounts | **261 947** | **3 906** | **10 079** | **2 139** | **511** | **278 582** |
| Total assets | **326 447** | **4 712** | **13 384** | **3 117** | **1 026** | **348 686** |
| Capital expenditure | **787** | **27** | **3** | **2** | **—** | **819** |
| **2004 (Rm)** | | | | | | |
| Net interest income | 9 177 | 217 | 248 | 76 | — | 9 718 |
| Impairment of advances | (1 498) | 7 | (15) | (394) | — | (1 900) |
| Non-interest income | 10 049 | 168 | 454 | 81 | 1 | 10 753 |
| Operating expenditure | (10 886) | (309) | (424) | (60) | — | (11 679) |
| Indirect taxation | (666) | (2) | (4) | — | — | (672) |
| | 6 176 | 81 | 259 | (297) | 1 | 6 220 |
| Taxation and other | (1 718) | (6) | (44) | (5) | — | (1 773) |
| **Headline earnings** | 4 458 | 75 | 215 | (302) | 1 | 4 447 |
| Advances | 209 857 | 1 042 | 7 339 | 4 151 | 6 | 222 395 |
| Deposits and current accounts | 211 050 | 3 781 | 14 180 | 5 329 | 40 | 234 380 |
| Total assets | 274 402 | 4 234 | 19 313 | 8 674 | 225 | 306 848 |
| Capital expenditure | 221 | 50 | 4 | 1 | — | 276 |

# Segmental reporting per market segment

for the year ended 31 March

| | Retail | | Commercial | | Wholesale and international | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| **Income statement (Rm)** | | | | | | |
| Net interest income | **5 771** | 5 429 | **3 550** | 3105 | **1 109** | 851 |
| Impairment of advances | **(355)** | (600) | **(639)** | (720) | **(266)** | (567) |
| Non-interest income | **5 470** | 4 658 | **1 861** | 1 546 | **1 584** | 2 076 |
| Operating expenditure | **(7 060)** | (6 571) | **(2 674)** | (2 457) | **(1 530)** | (1 457) |
| Taxation and other | **(1 420)** | (1 145) | **(695)** | (482) | **(54)** | (219) |
| **Headline earnings** | **2 406** | 1 771 | **1 403** | 992 | **843** | 684 |
| **Balance sheet (Rm)** | | | | | | |
| Total assets* | **182 833** | 154 024 | **102 012** | 86 958 | **197 551** | 178 714 |
| Total advances | **132 232** | 107 306 | **76 115** | 63 067 | **58 045** | 51 152 |
| Total deposits and current accounts | **62 745** | 55 763 | **50 565** | 46 046 | **161 872** | 129 087 |
| **Financial performance (%)** | | | | | | |
| Return on average equity | **40,0** | 31,9 | **27,8** | 21,9 | **14,8** | 12,9 |
| Return on average assets, excluding acceptances | **1,43** | 1,16 | **1,49** | 1,25 | **0,45** | 0,41 |
| **Operating performance (%)** | | | | | | |
| Net interest margin on average assets | **3,43** | 3,57 | **3,77** | 3,91 | **0,59** | 0,51 |
| Charge for impairment of advances to average advances | **0,30** | 0,60 | **0,92** | 1,23 | **0,49** | 1,14 |
| Non-interest income as % of operating income | **48,7** | 46,2 | **34,4** | 33,2 | **58,8** | 70,9 |
| Cost-to-income ratio | **62,8** | 65,1 | **49,4** | 52,8 | **56,8** | 49,8 |
| Cost-to-assets ratio | **4,2** | 4,3 | **2,8** | 3,1 | **0,8** | 0,9 |

**Total assets include intergroup balances of R157 609 million (2004: R130 790 million).*

***Absa's African operations were managed as part of the Group's wholesale operations up to 31 March 2004. As from 1 April 2004, Africa was established as a separate business unit with its own management and support structure. This resulted in additional costs being debited to the unit. If the results were compiled on the same basis as the 2004 financial year, the Group's African operations would have reported headline earnings growth of 3,6% for the 2005 financial year.*

| African operations** | | Financial services | | Other | | Absa Group | |
|---|---|---|---|---|---|---|---|
| **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | | | | | | | |
| **229** | 217 | **153** | 178 | **(248)** | (62) | **10 564** | 9 718 |
| **(20)** | 7 | **(3)** | (9) | **—** | (11) | **(1 283)** | (1 900) |
| **185** | 168 | **1 931** | 1 575 | **883** | 730 | **11 914** | 10 753 |
| **(310)** | (309) | **(689)** | (620) | **(498)** | (265) | **(12 761)** | (11 679) |
| **(12)** | (8) | **(268)** | (234) | **(501)** | (357) | **(2 950)** | (2 445) |
| **72** | 75 | **1 124** | 890 | **(364)** | 35 | **5 484** | 4 447 |
| | | | | | | | |
| **4 390** | 4 225 | **13 279** | 9 846 | **6 230** | 3 871 | **506 295** | 437 638 |
| **1 160** | 1 034 | **167** | 147 | **521** | (311) | **268 240** | 222 395 |
| **3 168** | 3 071 | **—** | — | **232** | 413 | **278 582** | 234 380 |
| | | | | | | | |
| **19,9** | 20,8 | **38,4** | 37,2 | **n/a** | n/a | **25,5** | 24,6 |
| **1,67** | 1,60 | **9,72** | 12,08 | **n/a** | n/a | **1,68** | 1,55 |
| | | | | | | | |
| **5,32** | 4,64 | **n/a** | n/a | **n/a** | n/a | **3,27** | 3,40 |
| **1,82** | (0,74) | **n/a** | n/a | **n/a** | n/a | **0,52** | 0,90 |
| **44,7** | 43,6 | **92,7** | 89,8 | **n/a** | n/a | **53,0** | 52,5 |
| **74,9** | 80,3 | **33,1** | 35,4 | **n/a** | n/a | **56,8** | 57,1 |
| **7,2** | 6,6 | **6,0** | 8,4 | **n/a** | n/a | **3,9** | 4,1 |

| | Absa Private Bank | | Personal Financial Services* | | Retail Banking Services | | Flexi Banking Services** | |
|---|---|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| **Retail banking** | | | | | | | | |
| Headline earnings (Rm) | **18** | 1 | **203** | 171 | **404** | 263 | **203** | 125 |
| Total assets (Rm)**** | **3 254** | 2 453 | **17 273** | 16 301 | **31 407** | 27 813 | **4 865** | 4 777 |
| Total advances (Rm) | **2 998** | 2 265 | **15 068** | 11 454 | **5 058** | 4 395 | **497** | 1 020 |
| Total deposits and current accounts (Rm) | **2 050** | 1 705 | **12 231** | 11 527 | **30 352** | 26 817 | **3 991** | 3 526 |
| Return on average equity (%) | **11,5** | 0,6 | **24,5** | 22,4 | **79,1** | 62,1 | **202,9** | 240,4 |
| Cost-to-income ratio (%) | **68,1** | 75,9 | **64,8** | 62,3 | **78,8** | 80,2 | **77,7** | 81,8 |

| | Business Banking Services*** | | Absa Vehicle and Asset Finance (AVAF) | | Total | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| **Commercial banking** | | | | | | |
| Headline earnings (Rm) | **844** | 589 | **559** | 403 | **1 403** | 992 |
| Total assets (Rm)**** | **54 664** | 48 332 | **47 348** | 38 626 | **102 012** | 86 958 |
| Total advances (Rm) | **32 799** | 27 599 | **43 316** | 35 468 | **76 115** | 63 067 |
| Total deposits and current accounts (Rm) | **47 700** | 43 206 | **2 865** | 2 840 | **50 565** | 46 046 |
| Return on average equity (%) | **38,1** | 34,0 | **19,7** | 17,7 | **27,8** | 21,9 |
| Cost-to-income ratio (%) | **50,8** | 52,3 | **47,2** | 53,8 | **49,4** | 52,8 |

These results are after the allocation of all head office and support charges.

**Includes the results of MLS.*

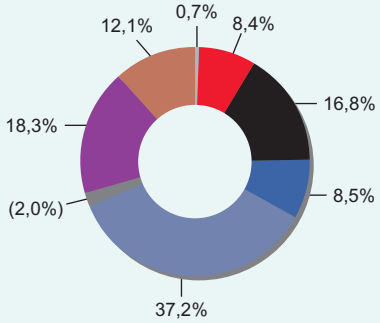
***Includes the results of UB Micro Loans.*

****In the previous year, Small Business was still part of Business Banking Services, however the required adjustments to the comparative figures have been made.*

*****Total assets include intergroup balances.*

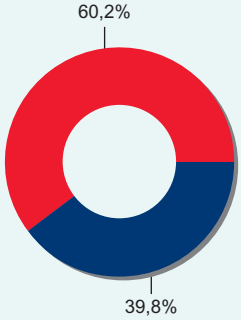
| Absa Home Loans | | Repossessed Properties | | Absa Card | | Small Business*** | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | | | | | | | | | |
| **897** | 764 | **(49)** | (142) | **440** | 355 | **290** | 234 | **2 406** | 1 771 |
| **107 342** | 87 066 | **56** | 196 | **5 844** | 4 670 | **12 792** | 10 748 | **182 833** | 154 024 |
| **99 851** | 80 731 | **—** | 154 | **5 161** | 4 120 | **3 599** | 3 167 | **132 232** | 107 306 |
| **—** | — | **—** | — | **2 047** | 2 195 | **12 074** | 9 993 | **62 745** | 55 763 |
| **24,1** | 25,3 | **n/a** | n/a | **112,5** | 157,1 | **90,1** | 68,5 | **40,0** | 31,9 |
| **34,6** | 35,1 | **n/a** | **n/a** | **44,4** | 47,5 | **69,9** | 72,4 | **62,8** | 65,1 |

**Headline earnings %**




**Retail banking 2005**

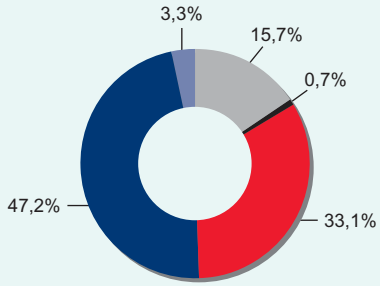
**Retail banking 2005** Absa Private Bank
Personal Financial Services Retail Banking Services
Flexi Banking Services Absa Home Loans
Repossessed Properties Absa Card Small Business




**Commercial banking 2005**

**Commercial banking 2005** Business Banking Services
Absa Vehicle and Asset Finance (AVAF)

**Headline earnings %**




**Financial services 2005**

**Financial services 2005** Life assurance Short-term insurance
Advisory services Wealth management Other

# Subsidiary and associated companies

| Name | Nature of business |
|---|---|
| **Subsidiary companies** | |
| **Banking related** | |
| Absa Bank Limited and its major divisions/subsidiaries | |
| **Retail banking** | |
| *Segment business units* | |
| Absa Private Bank | Offers wealth management services to high net worth individuals with net asset value (NAV) in excess of R10 million. |
| Personal Financial Services | Renders financial services and advice to the affluent market. |
| Retail Banking Services | Provides customer-centric financial solutions to middle market customers. |
| Flexi Banking Services | Provides affordable and appropriate financial services to the lower income segment of the market. |
| UB Micro Loans Limited | Provides microlending services to the underbanked market. |
| Small Business | Offers a comprehensive range of commercial banking products and services to small business customers. |
| *Product business units* | |
| Absa Card | Provides global card acceptance, electronic payment and financial solutions in selected market segments. |
| Absa Home Loans | Offers innovative products and services to suit the needs of residential property customers. |
| *Shared services* | |
| Delivery Channel Services | Provides the physical and electronic delivery footprint for the Group's customers. |
| **Commercial banking** | |
| Business Banking Services | Offers a comprehensive range of commercial banking products and services to medium and large business customers. |
| Absa Vehicle and Asset Finance (AVAF) | Offers asset-based finance through customised products and services ranging from tax-efficient finance and insurance to finance packages structured to suit the customer's particular needs. |
| **Wholesale banking** | |
| Absa Corporate and Merchant Bank | Provides corporate and merchant banking solutions to the corporate market segment. |
| Absa Bank London | Offers a range of niche corporate and merchant banking and treasury products and services to selected customer bases. |
| Absa Bank Singapore | Offers a range of niche corporate and merchant banking and treasury products and services to selected customer bases. |
| Bankhaus Wölbern & Co (Germany) | Provides commercial banking and closed-end property investment products to predominantly high net worth customers. |
| Absa Bank (Asia) Limited (Hong Kong) | Offers a range of niche corporate and merchant banking and treasury products and services to selected customer bases. |
| Absa Development Company Holdings (Proprietary) Limited | Specialises in township development and sale of residential, commercial and industrial land. |
| Absa Finance Company (Proprietary) Limited | Provides debtor financing to business customers. |
| Woodbook Finance Limited (previously MLS Bank Limited) | Markets and delivers a range of banking and insurance products to medical and dental practitioners and private hospitals in South Africa. |
| Absa Manx Holdings Limited (Isle of Man) | Captive insurance company for the Group and responsible for investment in the insurance markets. |
| Absa Syndicate Investments Holdings Limited (United Kingdom) | It is a corporate member of Lloyd's based in London. It underwrites on ten syndicates and has a premium income limit of £24 million for 2005 (£34 million for 2004). |
| Absa Stockbrokers (Proprietary) Limited | Enables customers to trade online or by telephone in shares, warrants and exchange traded funds (EFTs). |
| Abvest Holdings (Proprietary) Limited | An institutional asset management company that offers fixed income, equity, structured products and alternative investment solutions to customers through various pooled and segregated investment mandates. |

| Country of incorporation | Issued capital | Direct holding | Shares at book value | | | Net indebtedness | | |
|---|---|---|---|---|---|---|---|---|
| | **2005 Rm** | **2005 %** | **2005 Rm** | 2004 Rm | 2003 Rm | **2005 Rm** | 2004 Rm | 2003 Rm |
| | **293** | **100** | **3 469** | 3 469 | 2 469 | **(1 725)** | (2 078) | (610) |
| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
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| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
| London | | | | | | | | |
| Singapore | | | | | | | | |
| Germany | | | | | | | | |
| Hong Kong | | | | | | | | |
| South Africa | **—** | **100** | **33** | 23 | 23 | **(3)** | — | — |
| South Africa | **—** | **100** | **—** | — | 10 | **761** | 658 | 607 |
| South Africa | **30** | **100** | **76** | 87 | 87 | **—** | 40 | — |
| Isle of Man | **1** | **100** | **436** | 175 | 3 | **—** | — | — |
| South Africa | **—** | **100** | **—** | — | — | **1 213** | 1 073 | 43 |
| South Africa | **—** | **90** | **68** | 33 | 33 | **—** | — | — |

| Name | Nature of business |
|---|---|
| **Subsidiary companies** *(continued)* | |
| **Banking related** *(continued)* | |
| AllPay Consolidated Investment Holdings (Proprietary) Limited | Distributes social security grants and other payments to beneficiaries on behalf of third parties, mainly provincial government departments. |
| Alpha Trust | Provides preference share funding. |
| Cars1 (Proprietary) Limited | Securitisation vehicle for Absa Vehicle and Asset Finance division. |
| UniFer Holdings Limited | Microlending holding company. |
| Banco Austral, Sarl (Mozambique)* | Commercial bank that provides retail and limited corporate services from a network of branches, ATMs and savings posts. |
| National Bank of Commerce Limited (Tanzania)* | Commercial bank that provides retail and limited corporate services from a national network of branches, agencies and ATMs. |
| Absa Trading and Investment Solutions Holdings Limited | Investment Bank holding company. |
| Asset Backed Collateralised Securities (Proprietary) Limited (ABACAS) | Securitisation vehicle for Specialised Finance division. |
| Meeg Bank Limited | Provides a comprehensive range of banking and financial services to the personal markets, small- to medium-sized corporates and the public sector in the Eastern Cape. |
| **Financial services** | |
| Absa Financial Services Limited and its major subsidiaries | |
| Absa Insurance Company Limited | Short-term insurance provider to house and vehicle owners. |
| Absa Life Limited | Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments. |
| Absa Brokers (Proprietary) Limited | Provides the full spectrum of financial advisory services ranging from risk management to wealth creation and preservation and estate planning. |
| Absa Trust Limited | Main activities include the drafting and safe custody of wills, the administration of deceased estates and trusts, portfolio management and estate and financial planning. |
| Absa Consultants and Actuaries (Proprietary) Limited | Offers comprehensive administrative, actuarial and consulting services, including asset consulting services in respect of pension funds, provident funds and other employee benefit group schemes. |
| Absa Fund Managers Limited | Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally. |
| Absa Mortgage Fund Managers (Proprietary) Limited | Provides loans to small and large companies, close corporations, trusts, property investors and developers for the development, acquisition or refinancing of income-producing commercial and industrial property. |
| Absa Investment Management Services (Proprietary) Limited | Approved investment manager and linked investment service provider. It offers off-the-shelf local and international linked investment products as well as investment solutions to suit specific needs. |
| **Absa Group Limited Share Incentive Trust** | Share purchase and option scheme for staff. |
| **Absa Group Limited Employee Share Ownership Programme (Absa ESOP)** | Share purchase and option scheme for staff. |
| **Subsidiaries' aggregate profits and losses after taxation** | |
| Aggregate profits after taxation | |
| Aggregate losses after taxation | |

**31 December year-end.*

| Country of incorporation | Issued capital | Direct holding | Shares at book value | | | Net indebtedness | | |
|---|---|---|---|---|---|---|---|---|
| | **2005 Rm** | **2005 %** | **2005 Rm** | 2004 Rm | 2003 Rm | **2005 Rm** | 2004 Rm | 2003 Rm |
| South Africa | **—** | **100** | — | — | — | **1 383** | 980 | 408 |
| South Africa | **n/a** | **100** | **500** | 500 | — | **—** | — | — |
| South Africa | **—** | **100** | **60** | 60 | — | **—** | — | — |
| South Africa | **13** | **100** | **—** | — | — | **1 379** | 1 534 | 1 885 |
| Mozambique | **177** | **80** | **131** | 131 | 131 | **—** | — | — |
| Tanzania | **81** | **55** | **86** | 86 | 86 | **—** | — | — |
| South Africa | **8** | **100** | **857** | 857 | 928 | **—** | — | — |
| South Africa | **—** | **100** | **—** | — | — | **—** | — | — |
| South Africa | **1** | **50** | **11** | 11 | — | **—** | — | — |
| South Africa | **—** | **100** | **118** | 118 | 118 | **44** | (22) | 199 |
| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
| South Africa | | | | | | | | |
| South Africa | **—** | **—** | **13** | 215 | — | **(23)** | (237) | — |
| | **—** | **—** | **12** | — | — | **—** | — | — |
| | | | **5 354** | 4 303 | 3 324 | | | |
| | | | **(2)** | (30) | (69) | | | |

| Name | Nature of business |
|---|---|
| **Associated companies** | |
| Commercial Bank of Zimbabwe Limited (Zimbabwe)* | Commercial bank that provides retail and commercial banking services from a network of branches, sub-branches, agencies and bulk cash deposit facilities. |
| Capricorn Investment Holdings Limited (formerly Bank Windhoek Holdings Limited) (Namibia)** | Financial services institution providing primarily retail and commercial banking services in Namibia with a network of branches and ATMs. |
| Global Access Telecommunications Services (SA) (Proprietary) Limited** | Specialises in high-end digital communication products and services, including television activities aimed at corporate customers in local and overseas market corporations. Sold in the 2004 financial year. |
| Conbros Limited | Used to provide offshore loan facilities and is currently winding down. |
| Blakes and Associates Holdings (Proprietary) Limited | Provides debt recovery management and operates an international call centre. Shareholding decreased during the year. |
| Revesco Holdings (Proprietary) Limited | Investment holding company. |
| Ford Credit South Africa (Proprietary) Limited | Provides financing solutions to Ford Motor Company customers. |
| Sage Group Limited | Provides life assurance, investment and unit trust management services to customers. |
| Stonehage Financial Services Holdings Limited (United Kingdom) | Provides individualised wealth protection and preservation services to high net worth individuals. Sold in the current year. |
| Sanlam Home Loans (Proprietary) Limited* | Manages and administers the granting of loans as well as secure funding for these loans. |
| MAN Financial Services (South Africa) (Proprietary) Limited | Joint venture between Absa Bank and MAN Financial Services for the financing of trucks and buses. |
| AVAF alliance (Unitrans) | Strategic alliance between Absa Bank and Unitrans Motors. |
| **Associated companies' aggregate profits and losses after taxation** | |
| Aggregate profits after taxation | |
| Aggregate losses after taxation | |

Details are given in respect of companies that are material to the proper appreciation of the affairs of the Group.
All companies are registered in South Africa, unless otherwise indicated.

**31 December year-end.*
***30 June year-end.*

| Country of incorporation | Issued capital | Direct holding | Shares at book value | | | Net indebtedness | | |
|---|---|---|---|---|---|---|---|---|
| | **2005 Rm** | **2005 %** | **2005 Rm** | 2004 Rm | 2003 Rm | **2005 Rm** | 2004 Rm | 2003 Rm |
| Zimbabwe | **113** | **26** | **—** | — | 39 | **—** | — | — |
| Namibia | **4** | **35** | **245** | 205 | 164 | **—** | — | — |
| South Africa | **—** | **55** | **—** | — | 7 | **—** | — | — |
| Isle of Man | **2** | **100** | **36** | 35 | 32 | **(28)** | (26) | (32) |
| South Africa | | **28** | **9** | — | — | **1** | | |
| South Africa | **46** | **25** | **—** | 5 | 8 | **—** | — | — |
| South Africa | **—** | **50** | **153** | 143 | 119 | **2 871** | 3 868 | 1 492 |
| South Africa | **4** | **21** | **125** | 150 | — | **—** | — | — |
| United Kingdom | **—** | **50** | **—** | 71 | 61 | **—** | — | 8 |
| South Africa | **37** | **50** | **11** | — | — | **—** | — | — |
| South Africa | **—** | **50** | **20** | 14 | 3 | **904** | 802 | 384 |
| South Africa | **—** | **35** | **3** | 1 | — | **16** | 130 | 380 |
| | | | **90** | 85 | 67 | | | |
| | | | **(14)** | — | — | | | |

# Absa Group Limited Share Incentive Trust

In terms of the rules of the Absa Group Limited Share Incentive Trust (the trust) the maximum number of shares of the Company which may be issued or transferred and/or in respect of which options may be granted to the participants, shall be limited to shares representing 10% (ten per cent) of the total number of issued shares from time to time, excluding shares repurchased by the trustees, in respect of which options have been exercised, cancelled or have lapsed, and trust shares released to participants.

| | Number of shares | | |
|---|---|---|---|
| | **2005** | 2004 | 2003 |
| **Shares and options subject to the trust at the beginning of the year** | **34 812 591** | 39 107 663 | 33 258 059 |
| Shares issued to participants | **847 702** | 1 168 620 | 1 209 492 |
| Options granted | **33 964 889** | 37 939 043 | 32 048 567 |
| Shares issued and options granted during the year | **7 090 603** | 5 905 310 | 8 729 746 |
| | **41 903 194** | 45 012 973 | 41 987 805 |
| Options exercised and implemented, options cancelled and shares released or repurchased by the trustees in terms of the rules of the trust | **(10 765 275)** | (10 200 382) | (2 880 142) |
| **Shares and options subject to the trust at the end of the year** | **31 137 919** | 34 812 591 | 39 107 663 |
| Shares issued to participants | **432 741** | 847 702 | 1 168 620 |
| Options granted and unexercised | **30 705 178** | 33 964 889 | 37 939 043 |

| | **2005** | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | **% of total issued shares** | **Number of shares** | % of total issued shares | Number of shares | % of total issued shares | Number of shares |
| Maximum shares and options available | **10,0** | **65 505 507** | 10,0 | 65 105 507 | 10,0 | 65 154 675 |
| Shares and options subject to the trust | **(4,8)** | **(31 137 919)** | (5,3) | (34 812 591) | (6,0) | (39 107 663) |
| **Balance of shares and options available** | **5,2** | **34 367 588** | 4,7 | 30 292 916 | 4,0 | 26 047 012 |

Details regarding the options granted and still outstanding at 31 March 2005 are as follows:

| **Issue date** | **Expiry date*** | **Number of options** | **Average option price R** |
|---|---|---|---|
| Year to 31 March 1996 | Year to 31 March 2006 | 68 450 | 14,78 |
| Year to 31 March 1997 | Year to 31 March 2007 | 277 213 | 20,77 |
| Year to 31 March 1998 | Year to 31 March 2008 | 569 725 | 30,57 |
| Year to 31 March 1999 | Year to 31 March 2009 | 598 706 | 19,17 |
| Year to 31 March 2000 | Year to 31 March 2010 | 1 881 753 | 27,48 |
| Year to 31 March 2001 | Year to 31 March 2011 | 2 111 555 | 26,60 |
| Year to 31 March 2002 | Year to 31 March 2012 | 6 309 849 | 36,74 |
| Year to 31 March 2003 | Year to 31 March 2013 | 7 409 965 | 33,64 |
| Year to 31 March 2004 | Year to 31 March 2014 | 4 626 030 | 35,29 |
| Year to 31 March 2005 | Year to 31 March 2015 | 6 851 932 | 49,65 |
| | | **30 705 178** | **36,74** |

As required by the JSE Securities Exchange South Africa, the trust was consolidated into the Group annual financial statements for the first time during the 2004 financial year. A summarised balance sheet of the trust is presented on page 363.

**Options are implementable at least five years before expiry date.*

| | 2005 Rm | 2004 Rm |
|---|---|---|
| **Assets** | | |
| Shares in Absa Group Limited at cost* | **13** | 215 |
| Loans to participants | **12** | 23 |
| Cash at bank | **—** | 1 |
| | **25** | 239 |
| **Liabilities** | | |
| Loan from Absa Bank Limited | **23** | 237 |
| Other liabilities | **2** | 2 |
| | **25** | 239 |

**As at 31 March 2005, the trust held 446 073 (2004: 5 375 693) shares in Absa Group Limited.*

**Absa Group Limited Share Ownership Trust**

The Absa Share Ownership Trust is a separate and distinct trust and is in no way connected to the Absa Group Limited Share Incentive Trust currently in place. All employees (as of the implementation date) of South African wholly-owned subsidiaries, including South African employees on secondment elsewhere in the Absa Group (excluding executive directors of Absa Group and Absa Bank) were eligible to participate in this one-off offer. Each employee who elected to participate was issued and allotted, via the trust, 200 redeemable cumulative option-holding preference shares (preference shares) against a receipt of the R400,00 subscription price.

A maximum number of 7 315 200 preference shares were available for allocation to the Absa Share Ownership Trust. On 1 July 2004 a total of 6 085 200 preference shares were issued. The trust, as the sole registered shareholder of the preference shares, administers the redeemable preference shares as nominee for the employees, who are the beneficial owners. The preference shares receive a dividend calculated on the par value of the preference shares at a rate of 72% of the prime overdraft rate. These dividends are compounded and payable semi-annually in arrear on 30 September and 31 March each year.

Absa Group Limited will redeem the preference shares on exercise of the options by the employee or on lapse of the options on the final option exercise date. Options can be exercised on 1 March, 1 June, 1 September or 1 December each year during the option period, which commences on and including the first business day immediately following the third anniversary of the date of issue of the preference shares and ends on the fifth anniversary of the date of issue. Exercise may occur in lots of 100 only and on payment of the option strike price, which will vary between R48,00 and R69,00 dependent on the 30-day volume weighted average trading price on the JSE Limited.

# Abridged financial performance of Absa Financial Services

| at 31 March | 2005 Rm | 2004 Rm | 2003 Rm |
|---|---|---|---|
| **Summarised balance sheet** | | | |
| **Funds employed** | | | |
| Shareholders' funds | **3 262** | 2 586 | 2 203 |
| Insurance funds | **5 964** | 4 115 | 1 396 |
| Other liabilities and taxation | **4 053** | 3 145 | 1 040 |
| | **13 279** | 9 846 | 4 639 |
| **Employment of funds** | | | |
| Equity, money market assets and investments | **11 178** | 7 775 | 4 095 |
| Mortgage bond participation stock | **122** | 54 | 87 |
| Other assets | **1 979** | 2 017 | 457 |
| | **13 279** | 9 846 | 4 639 |
| **Funds under management** | | | |
| Estates | **1 327** | 1 188 | 1 039 |
| Portfolio management | **1 908** | 1 141 | 1 082 |
| Trust activities | **3 898** | 3 075 | 2 803 |
| Participation bond schemes | **1 328** | 1 242 | 1 128 |
| Unit trusts | **42 003** | 35 014 | 22 642 |
| Other | **7 640** | 4 648 | 5 896 |
| | **58 104** | 46 308 | 34 590 |
| for the year ended 31 March | | | |
| **Summarised income statement** | | | |
| Net broking commission | **253** | 236 | 216 |
| Net profit on realisation of investments | **30** | 55 | 176 |
| Net insurance underwriting surplus | **410** | 229 | 115 |
| Net life surplus | **407** | 283 | 178 |
| Trust and estate income | **164** | 146 | 128 |
| Unrealised gain on investments | **273** | 262 | — |
| Other income | **570** | 533 | 438 |
| **Operating income** | **2 107** | 1 744 | 1 251 |
| Operating expenses | **(715)** | (620) | (578) |
| **Net income before taxation** | **1 392** | 1 124 | 673 |
| Taxation and other | **(268)** | (234) | (66) |
| **Attributable income** | **1 124** | 890 | 607 |
| **Net insurance underwriting surplus** | | | |
| Gross premiums | **1 581** | 1 278 | 860 |
| Net reinsurance premiums | **(252)** | (185) | (124) |
| Premiums net of reinsurance | **1 329** | 1 093 | 736 |
| Provision for unexpired risk | **(51)** | (75) | (45) |
| Net premiums for expired risk | **1 278** | 1 018 | 691 |
| Commission | **(187)** | (188) | (104) |
| Claims incurred | **(681)** | (601) | (472) |
| | **410** | 229 | 115 |

| | 2005 Rm | 2004 Rm | 2003 Rm |
|---|---|---|---|
| **Absa Life Limited – summarised income statement** | | | |
| **Income** | **1 749** | 1 455 | 826 |
| Net premiums | **756** | 657 | 992 |
| Net investment income | **955** | 775 | (168) |
| Other income | **38** | 23 | 2 |
| **Expenses** | **1 218** | 1 085 | 631 |
| Policyholder benefits under insurance contracts | **186** | 178 | 196 |
| Proportionate refund of single premiums | **48** | 40 | 37 |
| Management expenses and indirect taxes | **86** | 68 | 61 |
| Sales remuneration | **162** | 148 | 109 |
| Fair value adjustment on policyholder liabilities under investment contracts | **468** | 330 | — |
| Transfer to policyholder liabilities under insurance contracts | **236** | 298 | 218 |
| Tax on policyholder funds | **32** | 23 | 10 |
| **Net profit before taxation** | **531** | 370 | 195 |
| **Taxation on profit** | **150** | 87 | 17 |
| Total taxation | **182** | 110 | 27 |
| Tax on policyholder funds included above | **(32)** | (23) | (10) |
| **Net life surplus** | **381** | 283 | 178 |

# Embedded value report of Absa Life Limited

## Scope of the embedded value report

This report deals with the embedded value of Absa Life Limited and the value of new business written during the financial year.

## Definitions

**Embedded value:**

The embedded value of the life business is the discounted present value of the projected stream of future after-tax shareholder profits from business in force at the valuation date, as well as the shareholders' net assets. No allowance has been made for STC on future dividends as full credit is obtained by the shareholder.

Shareholders' net assets are the excess of the assets of the life business, less current liabilities, over the actuarial value of policy liabilities, as determined using the financial soundness valuation method.

**Value of new business:**

This is a measure of the value added to a company as a result of writing new business. This is calculated as the discounted value, at the date of sale, of projected after-tax shareholder profit from new business written during the 12-month period, net of the opportunity cost of the solvency capital requirements for new business.

## Embedded value and value of new business

| | **2005 Rm** | 2004 Rm | 2003 Rm |
|---|---|---|---|
| Shareholders' net assets | **1 101** | 860 | 626 |
| Cost of solvency capital | **(15)** | (9) | (12) |
| Value of business in force | **857** | 721 | 509 |
| **Total embedded value** | **1 943** | 1 572 | 1 123 |
| **Value of new business** | **117** | 88 | 71 |

Shareholders' net assets of R1 101 million (2004: R860 million; 2003: R626 million) represent the excess of assets over liabilities with assets at market value and liabilities on the financial soundness valuation method. The shareholders' net assets covered the capital adequacy requirement (CAR), 5,4 times as at 31 March 2005 (2004: 3,8 times; 2003: 3,2 times).

## Assumptions

The embedded value and value of new business was determined using the same best estimate assumptions regarding future mortality, discontinuance rate and expenses used in the financial soundness valuation.

The discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that the actual experience in future years may differ from that assumed.

The main economic assumptions that were used for the embedded value calculations are set out in the following table:

| | **2005 %** | 2004 % | 2003 % |
|---|---|---|---|
| Risk-free rate of return | **8,5** | 9,8 | 10,5 |
| Equity return | **10,5** | 11,8 | 12,5 |
| Cash return | **6,5** | 7,8 | 8,5 |
| Overall investment return | **9,2** | 10,8 | 11,5 |
| Risk discount rate | **11,5** | 12,8 | 13,5 |
| Unit cost inflation | **5,0** | 6,3 | 7,0 |

## Sensitivities

To indicate the sensitivity of the values to varying risk discount rates, an increase/(decrease) in the risk discount rate of 1% would reduce/(increase) the value of existing business by R37 million and the value of new business by R9 million, should all the other assumptions remain unchanged.

The development of the embedded value can be analysed as follows:

| | **2005 Rm** | 2004 Rm | 2003 Rm |
|---|---|---|---|
| Embedded value at the end of the year | **1 943** | 1 572 | 1 123 |
| *Less:* Embedded value at the beginning of the year | **1 572** | 1 123 | 1 187 |
| *Plus:* Dividends declared and paid (including STC) | **151** | 40 | 93 |
| **Embedded value earnings** | **522** | 489 | 29 |
| *Consisting of:* | | | |
| Investment return on shareholders' net assets | **174** | 178 | (61) |
| Unwinding of risk discount rate | **94** | 73 | 113 |
| Value of new business written | **117** | 88 | 71 |
| Changes in assumptions and methodology | **21** | 45 | 56 |
| Investment variation on assets backing liabilities | **61** | 62 | (214) |
| Experience better than assumptions | **55** | 43 | 64 |
| | **522** | 489 | 29 |
| **Return on embedded value*** | **33,2%** | 43,5% | 2,4% |

## Review by the independent actuaries

The embedded value of Absa Life Limited and the value of new business written during the year have been reviewed and agreed by the independent consulting actuaries, B & W Deloitte.

**Embedded value earnings expressed as a percentage of the embedded value at the beginning of the year.*

# Balance sheet

at 31 March

| | Note | Company 2005 Rm | 2004 Rm | 2003 Rm |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and short-term assets | 2 | **22** | 46 | 19 |
| Other assets | 3 | **70** | 48 | 37 |
| Investments | 4 | **—** | — | 155 |
| Associated companies | 5 | **370** | 360 | 199 |
| Subsidiary companies | 6 | **4 158** | 3 489 | 3 534 |
| **Total assets** | | **4 620** | 3 943 | 3 944 |
| **Shareholders' equity and liabilities** | | | | |
| Share capital | 7.1 | **1 310** | 1,302 | 1 303 |
| Share premium | 7.2 | **1 624** | 1 513 | 1 532 |
| Reserves | 8 | **1 408** | 1 023 | 958 |
| **Total shareholders' equity** | | **4 342** | 3 838 | 3 793 |
| **Liabilities** | | | | |
| Other liabilities and provisions | 9 | **78** | 85 | 81 |
| Deferred taxation | 10.1 | **16** | 9 | 34 |
| Taxation | 10.5 | **26** | 11 | 36 |
| Other borrowed funds | 11 | **158** | — | — |
| **Total liabilities** | | **278** | 105 | 151 |
| **Total shareholders' equity and liabilities** | | **4 620** | 3 943 | 3 944 |

# Income statement

for the year ended 31 March

| | | Company | | |
|---|---|---|---|---|
| | Note | **2005 Rm** | 2004 Rm | 2003 Rm |
| Interest income | 12.2 | **101** | 157 | 198 |
| Interest expense | 12.3 | **(11)** | — | — |
| **Net interest income** | | **90** | 157 | 198 |
| Non-interest income | 12.4 | **1 731** | 1 091 | 743 |
| **Operating income** | | **1 821** | 1 248 | 941 |
| Operating expenditure | 12.5 | **(8)** | (11) | (11) |
| Indirect taxation | 10.3 | **(3)** | (2) | — |
| Impairment charge | 12.6 | **(19)** | — | — |
| **Net income before exceptional items** | | **1 791** | 1 235 | 930 |
| Impairment of investment in subsidiary | 13 | **—** | — | (31) |
| **Net income from operations** | | **1 791** | 1 235 | 899 |
| Share of associated companies' income | 5 | **53** | 90 | 35 |
| **Net income after taxation** | | **1 844** | 1 325 | 934 |
| Taxation | 10.2 | **(102)** | (143) | (141) |
| **Net income attributable to shareholders** | | **1 742** | 1 182 | 793 |
| **Headline earnings** | 14 | **1 759** | 1 233 | 852 |

# Cash flow statement

for the year ended 31 March

| | Note | Company 2005 Rm | 2004 Rm | 2003 Rm |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash receipts from customers | 18 | **1 822** | 1 148 | 772 |
| Cash paid to customers, employees and suppliers | 19 | **(19)** | (11) | (11) |
| Cash inflow from operating activities | 17 | **1 803** | 1 137 | 761 |
| Taxation paid | 20 | **(64)** | (147) | (104) |
| Cash flows from operating activities before changes in operating assets and liabilities | | **1 739** | 990 | 657 |
| **Net decrease in operating funds** | | **(29)** | (7) | (48) |
| Increase in income-earning funds and other debtors | 21 | **(22)** | (11) | (17) |
| (Decrease)/increase in other creditors and provisions | 22 | **(7)** | 4 | (31) |
| **Net cash inflow from operating activities** | | **1 710** | 983 | 609 |
| **Cash flows from investing activities** | | **(673)** | 99 | 197 |
| (Investment in)/disposal of subsidiary companies | 23 | **(669)** | 193 | 196 |
| (Investment in)/disposal of associated companies | | **(14)** | (7) | (4) |
| Investment in shares | | **—** | (90) | (3) |
| Proceeds on disposal of investments | | **2** | — | 3 |
| Dividends received from associated companies | | **8** | 3 | 5 |
| **Cash flows from financing activities** | | **(1 061)** | (1 043) | (801) |
| Issue of share capital | | **119** | (20) | — |
| Proceeds on issue of preference shares | | **158** | — | — |
| Dividends paid | | **(1 338)** | (1 023) | (801) |
| **Net increase in cash and short-term assets** | | **(24)** | 39 | 5 |
| **Cash and short-term assets at the beginning of the year** | | **46** | 19 | 18 |
| **Other movements** | | **—** | (12) | (4) |
| **Cash and short-term assets at the end of the year** | 2 | **22** | 46 | 19 |

# Statement of changes in equity

for the year ended 31 March

| Company | Note | Number of ordinary shares '000 | Share capital Rm | Share premium Rm | Available-for-sale reserve Rm | Translation (deficit)/ reserve Rm | Associated companies' retained earnings Rm | Distributable reserves Rm | Total Rm |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2002** | | 651 547 | 1 303 | 1 532 | — | 5 | 111 | 854 | 3 805 |
| Foreign currency translation effects | | | — | — | — | (4) | — | — | (4) |
| Share of associated companies' retained earnings | 5 | | — | — | — | — | 22 | (22) | — |
| Attributable income | | | — | — | — | — | — | 793 | 793 |
| Dividends paid | 15 | | — | — | — | — | — | (801) | (801) |
| **Balance at 31 March 2003** | | 651 547 | 1 303 | 1 532 | — | 1 | 133 | 824 | 3 793 |
| AC 133 opening balance adjustment | | | — | — | (97) | — | — | — | (97) |
| Foreign currency translation effects | | — | — | — | — | (12) | — | — | (12) |
| Net shares repurchased and issued in terms of odd-lot offer | 7.1 | (492) | (1) | (19) | — | — | — | — | (20) |
| Fair value gain on available-for-sale assets | | | — | — | 15 | — | — | — | 15 |
| Share of associated companies' retained earnings | 5 | | — | — | — | — | 71 | (71) | — |
| Attributable income | | | — | — | — | — | — | 1 182 | 1 182 |
| Dividends paid | 15 | | — | — | — | — | — | (1 023) | (1 023) |
| **Balance at 31 March 2004** | | 651 055 | 1 302 | 1 513 | (82) | (11) | 204 | 912 | 3 838 |
| Shares issued | 7.1 | **4 000** | **8** | **111** | **—** | **—** | **—** | **—** | **119** |
| Fair value gain on available-for-sale assets | | | **—** | **—** | **(19)** | **—** | **—** | **—** | **(19)** |
| Share of associated companies' retained earnings | 5 | | **—** | **—** | **—** | **—** | **34** | **(34)** | **—** |
| Attributable income | | | **—** | **—** | **—** | **—** | **—** | **1 742** | **1 742** |
| Dividends paid | 15 | | **—** | **—** | **—** | **—** | **—** | **(1 338)** | **(1 338)** |
| **Balance at 31 March 2005** | | **655 055** | **1 310** | **1 624** | **(101)** | **(11)** | **238** | **1 282** | **4 342** |

# Notes to the financial statements

for the year ended 31 March

| | | Company | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **1.** | **Accounting policies** | | | |
| | The annual financial statements of Absa Group Limited Company are prepared according to the same accounting principles used in preparing the consolidated annual financial statements of Absa Group Limited. For detailed accounting policies please refer to pages 288 to 295 of this annual report. | | | |
| **2.** | **Cash and short-term assets** | | | |
| | Money on call | **22** | 46 | 19 |
| **3.** | **Other assets** | | | |
| | Accounts receivable and prepayments | **57** | 1 | 9 |
| | Accrued interest and dividends | **13** | 47 | 28 |
| | | **70** | 48 | 37 |
| **4.** | **Investments** | | | |
| | At carrying value | | | |
| | *Listed* | | | |
| | Ordinary and preference shares | **—** | — | 155 |
| | *Unlisted* | | | |
| | Total carrying value | **—** | — | 155 |
| | Market value of listed investments | **—** | — | 37 |
| | Total market value and directors' valuation | **—** | — | 37 |

Details regarding investments required in terms of the Companies Act of South Africa are kept at the Company's registered office. This information will be made available to shareholders on written request.

| | Company | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **5. Associated companies** | | | |
| Shares at book value | **132** | 156 | 66 |
| Opening balances | **156** | 66 | 66 |
| Net (disposals)/acquisitions | **(5)** | 138 | — |
| Impairment charge | **(19)** | (48) | — |
| Share of post-acquisition reserves | **238** | 204 | 133 |
| Share of current year's income before taxation | **61** | 93 | 40 |
| Dividends received | **(8)** | (3) | (5) |
| Amount as per income statement | **53** | 90 | 35 |
| Taxation | **(19)** | (19) | (13) |
| Transfer to non-distributable reserves | **34** | 71 | 22 |
| Share of reserves at the beginning of the year | **204** | 133 | 111 |
| Carrying value | **370** | 360 | 199 |
| Market value of listed shares | **144** | 154 | 39 |
| Directors' valuation of unlisted shares | **249** | 223 | 200 |
| Total market value and directors' valuation | **393** | 377 | 239 |
| **6. Subsidiary companies** | | | |
| Shares at cost less amounts written off | **6 430** | 6 049 | 5 220 |
| Indebtedness by the Company | | | |
| Loans | **(2 272)** | (2 560) | (1 686) |
| | **4 158** | 3 489 | 3 534 |
| **7. Share capital and premium** | | | |
| **7.1 Share capital** | | | |
| *Authorised* | | | |
| **800 000 000** (2004: 800 000 000, 2003: 700 000 000) ordinary shares of R2 each | **1 600** | 1 600 | 1 400 |
| *Issued* | | | |
| **655 055 074** (2004: 651 055 074, 2003: 651 546 749) ordinary shares of R2 each | **1 310** | 1 302 | 1 303 |

*Unissued shares*

All the unissued shares are under the control of the directors in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit.

This authority expires at the forthcoming annual general meeting of the Company.

| | | Company | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **7.** | **Share capital and premium** *(continued)* | | | |
| **7.2** | **Share premium** | | | |
| | Balance at the beginning of the year | **1 513** | 1 532 | 1 532 |
| | Net shares repurchased and issued in terms of odd-lot offer | **—** | (19) | — |
| | Arising during the year | **112** | — | — |
| | Expenses written off | **(1)** | — | — |
| | Balance at the end of the year | **1 624** | 1 513 | 1 532 |
| **7.3** | **Preference share capital** | | | |
| | *Authorised* | | | |
| | **80 467 500** (2004 and 2003: nil) redeemable preference shares of R2 each | **161** | — | — |
| | *Issued* | | | |
| | **79 237 500** (2004 and 2003: nil) redeemable preference shares of R2 each* | **158** | — | — |
| | **Disclosed under other borrowed funds (refer to note 11.1).* | | | |
| **8.** | **Reserves** | | | |
| **8.1** | **Non-distributable reserves** | | | |
| | Balance at the beginning of the year | **111** | 134 | 116 |
| | AC 133 opening balance adjustment | **—** | (97) | — |
| | Movements for the year | **(19)** | 3 | (4) |
| | Foreign currency translation reserve | **—** | (12) | (4) |
| | Fair value gains in respect of available-for-sale assets | **(19)** | 15 | — |
| | Transfer from retained income | | | |
| | Share of associated companies' retained income | **34** | 71 | 22 |
| | Balance at the end of the year | **126** | 111 | 134 |
| | *Comprising* | | | |
| | Foreign currency translation reserve | **(11)** | (11) | 1 |
| | Available-for-sale assets reserve | **(101)** | (82) | — |
| | Share of post-acquisition reserves of associated companies | **238** | 204 | 133 |
| | | **126** | 111 | 134 |
| **8.2** | **Distributable reserves** | | | |
| | Retained income | **1 282** | 912 | 824 |
| | **Total reserves** | **1 408** | 1 023 | 958 |

| | | Company | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **9.** | **Other liabilities and provisions** | | | |
| | Other creditors | **78** | 85 | 81 |
| **10.** | **Taxation** | | | |
| **10.1** | **Deferred taxation** | | | |
| | Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 29% (2004: 30%, 2003: 30%). | | | |
| | The movement on the deferred income tax account is as follows: | | | |
| | Balance at the beginning of the year | **9** | 34 | 33 |
| | AC 133 opening balance adjustment | **—** | (22) | — |
| | Deferred taxation raised on STC credits | **6** | (6) | — |
| | Income statement charge | **(18)** | — | 1 |
| | Tax effect of other differences | **19** | 3 | — |
| | Balance at the end of the year | **16** | 9 | 34 |
| **10.2** | **Taxation – income statement charge** | | | |
| | South African normal – current year | **69** | 74 | 62 |
| | South African normal – prior year | **—** | 1 | 9 |
| | Deferred | **(18)** | — | 1 |
| | Secondary tax on companies | **30** | 46 | 25 |
| | Foreign taxation | **2** | 3 | 31 |
| | Share of taxation of associated companies (refer to note 5) | **19** | 19 | 13 |
| | | **102** | 143 | 141 |
| **10.3** | **Indirect taxation – income statement charge** | | | |
| | Regional Services Council levies | **3** | 2 | — |
| | | **%** | % | % |
| **10.4** | **Rate of taxation** | **30** | 30 | 30 |
| | The rate of taxation has been reduced as a consequence of: | | | |
| | Dividend income | **(28)** | (26) | (23) |
| | Other permanent differences | **2** | 4 | 5 |
| | Secondary taxation on companies | **2** | 3 | 3 |
| | Effective rate – taxation on income | **6** | 11 | 15 |
| **10.5** | **Taxation liability** | **Rm** | Rm | Rm |
| | Normal taxation | **26** | 11 | 36 |

| | | Company | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **11.** | **Other borrowed funds** | | | |
| **11.1** | **Redeemable cumulative option-holding preference shares** | | | |
| | *Preference dividend rate* / *Option exercise dates* / *Number* | | | |
| | 72% of the prime overdraft rate / 1 July 2007 to 1 July 2009 / 79 237 500 | | | |
| | 1 March, 1 June, 1 September or 1 December of each year | **158** | — | — |

The dividends are compounded and payable semi-annually in arrear on 30 September and 31 March of each year. The shares were issued by Absa Group Limited on 1 July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and end on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1 March, 1 June, 1 September or 1 December of each year. The shares are convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.

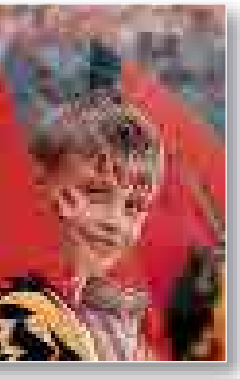
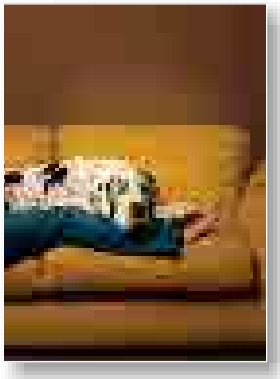
| | | | | |
|---|---|---|---|---|
| **12.** | **Income and expenditure** | | | |
| **12.1** | **Turnover** | | | |
| | Turnover is a concept not relevant to the business of banking. The Company's revenue consists of net interest income, investment income and other income. | | | |
| **12.2** | **Interest income** | | | |
| | Cash and short-term assets | **2** | — | — |
| | Loans to subsidiary companies | **99** | 157 | 198 |
| | | **101** | 157 | 198 |
| **12.3** | **Interest expense** | | | |
| | Indirect interest costs | **11** | — | — |
| **12.4** | **Non-interest income** | | | |
| | Net trading income/(loss) | **6** | (1) | 26 |
| | Net profit/(loss) on realisation of investments | **2** | (51) | (34) |
| | Dividend income | **1 723** | 1 141 | 750 |
| | Other banking income | **—** | 2 | 1 |
| | | **1 731** | 1 091 | 743 |

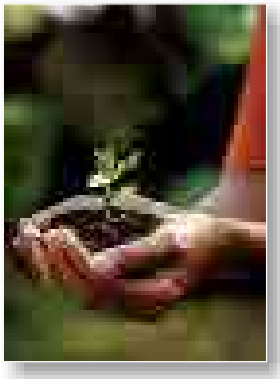
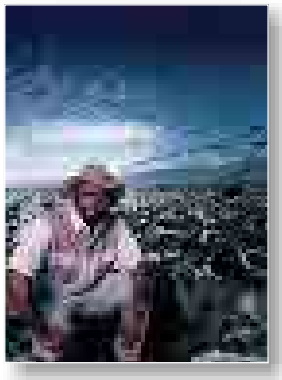
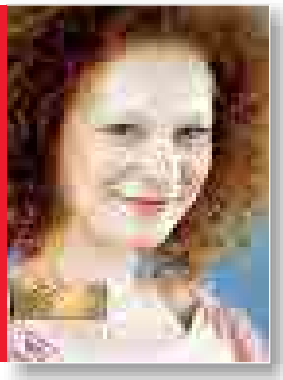
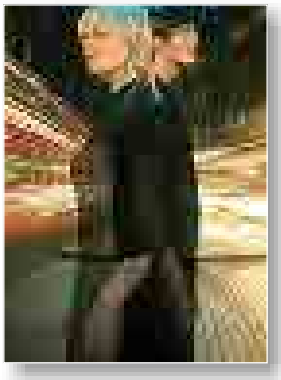
| | | Company | | |
|---|---|---|---|---|
| | | **2005 Rm** | 2004 Rm | 2003 Rm |
| **12.** | **Income and expenditure** *(continued)* | | | |
| **12.5** | **Operating expenditure** | | | |
| | Other professional fees | **1** | 1 | 1 |
| | Other expenses | **7** | 10 | 10 |
| | | **8** | 11 | 11 |
| **12.6** | **Impairment charge** | | | |
| | Associated companies | **19** | — | — |
| **13.** | **Exceptional items** | | | |
| | Impairment of investment in UniFer | **—** | — | 31 |
| **14.** | **Headline earnings** | | | |
| | Headline earnings is determined as follows: | | | |
| | Net income attributable to shareholders | **1 742** | 1 182 | 793 |
| | (Profit)/loss on disposal of strategic investments and subsidiary companies | **(2)** | 3 | — |
| | Adjustment for impairments of long-term investments | **19** | 48 | 34 |
| | Adjustment for impairment of subsidiary | **—** | — | 31 |
| | Foreign currency translation gain on long-term loan to subsidiary | **—** | — | (6) |
| | | **1 759** | 1 233 | 852 |
| **15.** | **Dividends** | | | |
| | Final dividend number 35 of 110 cents per ordinary share (2004: 85 cents, 2003: 63 cents) | **716** | 554 | 410 |
| | Interim dividend number 36 of 95 cents per ordinary share (2004: 72 cents, 2003: 60 cents) | **622** | 469 | 391 |
| | Total dividends paid during the year | **1 338** | 1 023 | 801 |
| | Interim dividend number 36 of 95 cents per ordinary share (2004: 72 cents, 2003: 60 cents) | **622** | 469 | 391 |
| | Final dividend number 37 of 200 cents per ordinary share (2004: 110 cents, 2003: 85 cents) | **1 334** | 716 | 554 |
| | Total dividends relating to income for the year | **1 956** | 1 185 | 945 |

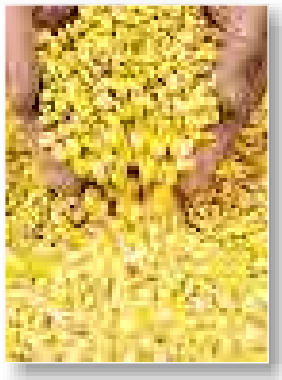
A final dividend of 200 cents per ordinary share was declared by the board on 9 May 2005. The total dividends amount to R1 334 million and the STC payable by the Company in respect of the dividend approved and declared subsequent to 31 March 2005 amounts to R167 million. No provision has been made for this dividend and the related STC in the financial statements for the year ended 31 March 2005.

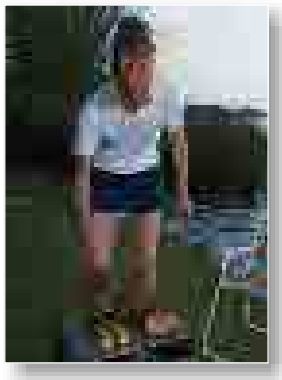
| | Company | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **16. Related party transactions** | | | |
| Refer to note 32 of Absa Group Limited and its subsidiaries' annual financial statements on page 336 of this annual report for the full disclosure of related party transactions. | | | |
| **17. Reconciliation of operating profit to cash flows from operating activities** | | | |
| Operating profit | **1 791** | 1 235 | 899 |
| Adjusted for: | | | |
| (Profit)/loss on realisation of investments | **(2)** | 51 | 34 |
| Impairment of investment in subsidiary | **—** | — | 31 |
| Impairment of investment in associates | **19** | — | — |
| Foreign currency translation gain on long-term loan to subsidiary | **—** | — | (6) |
| Write-up of dated securities | **—** | (148) | (192) |
| Indirect taxation | **3** | 2 | — |
| Dividends received from associated companies | **(8)** | (3) | (5) |
| Cash inflow from operating activities | **1 803** | 1 137 | 761 |
| **18. Cash receipts from customers** | | | |
| Interest income | **101** | 157 | 198 |
| Write-up of dated securities | **—** | (148) | (192) |
| Trading and other income | **1 721** | 1 139 | 766 |
| | **1 822** | 1 148 | 772 |
| **19. Cash paid to customers, employees and suppliers** | | | |
| Interest expense | **11** | — | — |
| Other payments | **8** | 11 | 11 |
| | **19** | 11 | 11 |

| | Company | | |
|---|---|---|---|
| | **2005 Rm** | 2004 Rm | 2003 Rm |
| **20. Taxation paid** | | | |
| Amounts unpaid at the beginning of the year | **20** | 70 | 46 |
| Deferred taxation | **9** | 34 | 33 |
| Other taxation | **11** | 36 | 13 |
| Income statement charge | **102** | 143 | 141 |
| Indirect taxation | **(3)** | (2) | — |
| Taxation on associated companies | **(19)** | (19) | (13) |
| Other non-cash flow movements | **6** | (25) | — |
| Amounts unpaid at the end of the year | **(42)** | (20) | (70) |
| Deferred taxation | **(16)** | (9) | (34) |
| Other taxation | **(26)** | (11) | (36) |
| | **64** | 147 | 104 |
| **21. Increase in income-earning funds and other debtors** | | | |
| Other assets | **(22)** | (11) | (17 ) |
| **22. (Decrease)/increase in other creditors and provisions** | | | |
| Creditors and other liabilities | **(7)** | 4 | (31) |
| **23. (Investment in)/disposal of subsidiary companies** | | | |
| Net increase/decrease in shares and loan accounts | **(669)** | 193 | 196 |





# Corporate citizenship and sustainability

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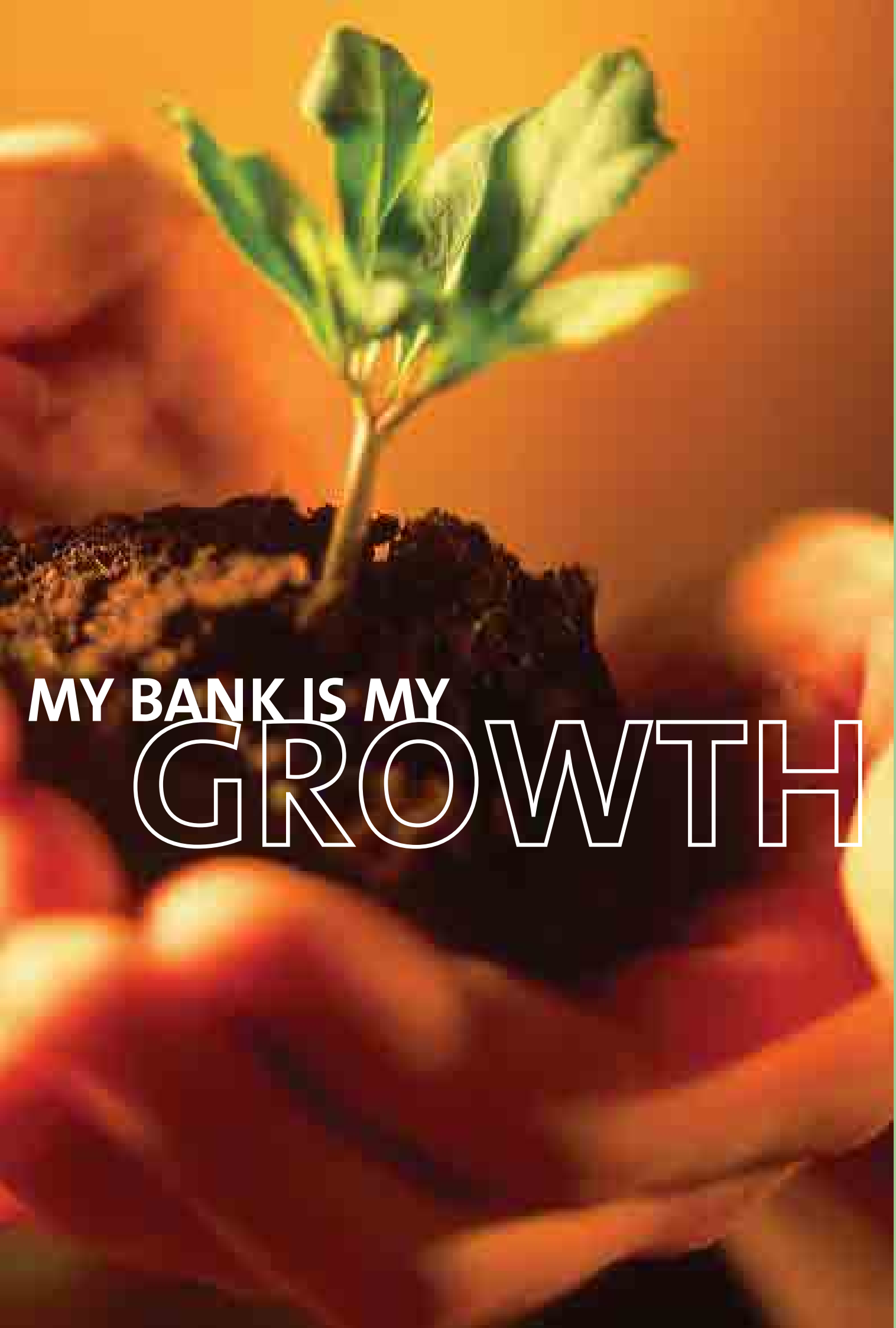
Absa is one of South Africa's largest financial institutions. Such a market position brings a certain amount of responsibility. This means that the Group has a duty to create value not only for its current stakeholders, but also for future generations. Absa aims to achieve this by being a good corporate citizen.


MY BANK IS MY
GROWTH

# Absa's commitment to corporate citizenship and sustainability

Absa is one of South Africa's largest financial institutions. Such a market position brings a certain amount of responsibility. This means that the Group has a duty to create value not only for its current stakeholders, but also for future generations. Absa aims to achieve this by being a good corporate citizen.

Corporate citizenship, as defined by the World Economic Forum, is the contribution a company makes to society through its business activities, its social investment and philanthropy programmes and its engagement in public policy.

Absa fully subscribes to this view. The Group is focused on the effective management of its economic, social and environmental relationships through an integrated sustainability approach that encompasses all the Group's stakeholders:

- Shareholders;
- Customers;
- Employees;
- The communities in which Absa operates; and
- Governments and regulators.

Absa has identified a number of specific commitments to its respective stakeholders. These commitments are core determinants in ensuring that Absa remains relevant for decades to come.

## Absa's commitment to its stakeholders

| | |
|---|---|
| **Shareholders** | • Delivering sustainable earnings growth. |
| **Customers** | • Creating lasting and mutually beneficial relationships. |
| **Employees** | • Creating a positive, supportive, healthy and diversity-friendly working environment. |
| **The community** | • To be a partner in growing South Africa's prosperity through responsible corporate citizenship. |
| **Governments and regulators** | • Building a better South Africa and Africa by supporting transformation and the development of financial services markets. |

Absa's respective commitments to its stakeholders are cascaded into strategies for each stakeholder group. These strategies are once again aligned with the Group's strategy, facilitating the achievement of our vision, purpose and mission.

In addition, a process of engagement is undertaken for each of the Group's stakeholders to determine their respective needs and how Absa can create value for them. Please refer to the section titled "Stakeholder engagement" on page 390 of this annual report.

It must also be noted that an organisation cannot grow if the environment in which it operates in is not thriving. For this reason, the Group has a very specific objective of being a responsible and caring organisation that is committed to ensuring the ongoing existence of conservation and wildlife enclaves in Africa. The Group also aims to reduce its direct impact on the environment by monitoring and continually improving processes.

Absa has adopted the Global Reporting Initiative (GRI) reporting guidelines on economic, environmental and social performance (collectively referred to as the triple bottom line) as a benchmark for reporting on sustainability, including corporate citizenship. The GRI guidelines represent the most advanced international standards for sustainability reporting and Absa seeks to align its reporting with these standards. However, it is recognised that sustainability reporting is an ongoing journey requiring an incremental approach.

## Absa's respective commitments to its stakeholders are cascaded into strategies for each stakeholder group. These strategies are once again aligned with the Group's strategy, facilitating the achievement of our vision, purpose and mission.



Absa incorporated the GRI guidelines in its reporting for the first time in 2003. The 2005 annual report continues on the journey of integrated sustainability reporting, focusing on continuous improvement in disclosure and transparency.

This section of the report aims to paint a detailed picture of Absa's approach and commitment to sustainable development and to provide an indication of who the Group's stakeholders are and the value that the organisation creates for these stakeholders. This section of the report also provides an overview of the key developments, achievements against objectives as well as a detailed commentary about activities, policies and processes per stakeholder group.

Absa has also defined its objectives with regard to the three cornerstones of triple bottom line reporting. The section titled "Measuring performance – Achievement against objectives" on page 386 of this report provides an indication of these objectives and the Group's achievements in this regard.

**Steve Booysen**
*Group chief executive*

# External verification

An external audit on Absa's sustainability reporting was not undertaken. Investigations into the issue have been conducted. The decision is to obtain external verification of Absa's sustainability reporting in due course.

# Measuring performance – Achievement against objectives

The following table indicates Absa's objectives with reference to the GRI's economic, social and environmental categories as well as Absa's achievements.

| Triple bottom line category | Triple bottom line aspects | Absa's objectives | Achievement against objectives for the year ended 31 March 2005 |
|---|---|---|---|
| **Economic** | Customers | • Retention and acquisition of market share. | • Absa gained market share in a number of the core counters. |
| | Suppliers | • Achievement of the FSC targets relating to procurement. | • Absa exceeded its FSC interim target with regard to procurement. |
| | Employees | • Leveraging human capital as an investment. | • Conditional pay and individual incentive schemes are tailor-made to optimise return on investment. |
| | Shareholders | • Achieving real earnings growth of 10%. | • Headline earnings grew by 23,3% for the year under review. |
| | Governments | • Compliance with legislation. | • Absa's effective tax rate for the period was 27%. |
| **Environmental** | Materials | • Reduction in paper consumption. | • Increased focus on reducing the Group's paper consumption and on paper recycling. |
| | Energy | • Reduction of energy use. | • A number of measures are being undertaken to reduce the Group's energy use. |
| | Water | • Reduction of water use. | • A project is in progress to further reduce water and effluent costs. |
| | Biodiversity | • Not material, therefore no objective has been set. | • Not applicable. |
| | Emissions, effluents and waste | • Not material, therefore no objective has been set. | • Not applicable. |
| | Suppliers | • Effective mitigation of environmental risks. | • Environmental risks are appropriately mitigated by including provisions and control mechanisms in supplier contracts. |
| | Products and services | • Not material, therefore no objective has been set. | • Not applicable. |
| | Compliance | • Ensuring compliance with the relevant environmental regulations. | • General environmental implications are considered for credit proposals. |
| | Transport | • Not material, therefore no objective has been set. | • Not applicable. |

| Triple bottom line category | Triple bottom line aspects | Absa's objectives | Achievement against objectives for the year ended 31 March 2005 |
|---|---|---|---|
| **Social** | Employment | • The creation of a positive, supportive, health and diversity-friendly working environment. | • Absa was rated as the banking sector's Best Company to Work For (Deloitte Human Capital Corporation) for the third year in a row. In addition, Absa succeeded in sustaining the positive trend in new economy leadership practices throughout the Group, and continued the steady upward climb in respect of the Group's climate and morale. |
| | Labour/ management relations | • Ensuring an interactive process between employer and employees based on principles of fairness, equity and industrial democracy. | • The appropriate policies are in place and adhered to. |
| | Health and safety | • Compliance with the Occupational, Health and Safety Act. | • Full compliance. In addition, the number of injuries on duty declined by 18%. |
| | Training and education | • Offering each employee the opportunity to achieve his or her potential in pursuit of organisational objectives. | • R133,4 million was spent on training employees during the period under review. |
| | Diversity and opportunity | • Promotion of equal opportunities and fair treatment in employment. | • Absa's employment equity ratio increased to 47,8%. |
| | Human rights | • Recognising and observing human rights. | • Human rights are recognised and observed. |
| | The community | • To be a partner in growing South Africa's prosperity through responsible corporate citizenship. | • The Absa Foundation disbursed R18,4 million to communities in which Absa operates. |
| | Bribery and corruption | • To ensure that employees adhere to Absa's code of ethics. | • Employees are encouraged to live the Absa values. Trans-gressions against the code of ethics are dealt with through the enforcement of disciplinary procedures. |
| | Product responsibility | • Enhancing customer education. | • A consumer education drive was launched. |

# Measuring performance – Absa's value added statement

## Group value added statement

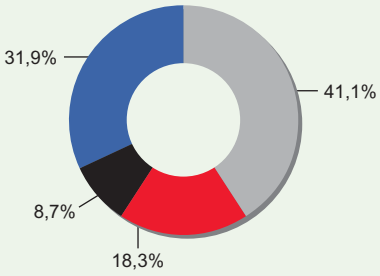
for the year ended 31 March

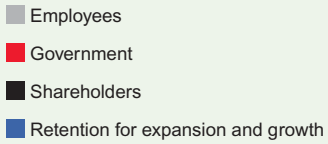
Absa strives to create sustainable value for all its stakeholders, as is evidenced in the Group's value added statement.

| | 2005 Rm | 2004 Rm | 2003 Rm | 2002 Rm | 2001 Rm |
|---|---|---|---|---|---|
| **Value added** | | | | | |
| Net interest income | **10 564** | 9 718 | 8 832 | 8 384 | 7 863 |
| Other income | **11 914** | 10 753 | 9 127 | 7 694 | 6 421 |
| Other operating expenditure | **(7 044)** | (7 141) | (6 663) | (8 240) | (5 305) |
| | **15 434** | 13 330 | 11 296 | 7 838 | 8 979 |
| **Value allocated** | | | | | |
| *To employees* | | | | | |
| • Staff costs | **6 340** | 5 708 | 5 338 | 4 872 | 4 491 |
| *To government* | **2 829** | 2 299 | 1 799 | 986 | 1 251 |
| • Direct taxation | **2 048** | 1 627 | 1 104 | 337 | 717 |
| • Indirect taxation | **780** | 672 | 695 | 649 | 534 |
| *To shareholders* | | | | | |
| • Cash dividends | **1 338** | 1 023 | 801 | 810 | 668 |
| *To retention for expansion and growth* | **4 926** | 4 300 | 3 358 | 1 170 | 2 569 |
| • Depreciation | **680** | 727 | 698 | 674 | 694 |
| • Retained income for the year | **4 247** | 3 573 | 2 660 | 496 | 1 875 |
| | **15 434** | 13 330 | 11 296 | 7 838 | 8 979 |

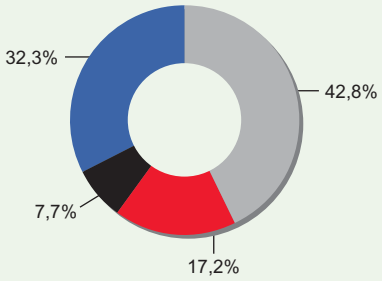
| | 2005 % | 2004 % | 2003 % | 2002 % | 2001 % |
|---|---|---|---|---|---|
| **Value added** | | | | | |
| Net interest income | **68,4** | 72,9 | 78,2 | 107,0 | 87,6 |
| Other income | **77,2** | 80,7 | 80,8 | 98,2 | 71,5 |
| Other operating expenditure | **(45,6)** | (53,6) | (59,0) | (105,1) | (59,1) |
| | **100,0** | 100,0 | 100,0 | 100,0 | 100,0 |
| **Value allocated** | | | | | |
| *To employees* | | | | | |
| • Staff costs | **41,1** | 42,8 | 47,3 | 62,2 | 50,0 |
| *To government* | **18,3** | 17,2 | 15,9 | 12,6 | 13,9 |
| • Direct taxation | **13,3** | 12,2 | 9,7 | 4,3 | 8,0 |
| • Indirect taxation | **5,1** | 5,0 | 6,2 | 8,3 | 5,9 |
| *To shareholders* | | | | | |
| • Cash dividends | **8,7** | 7,7 | 7,1 | 10,3 | 7,4 |
| *To retention for expansion and growth* | **31,9** | 32,3 | 29,7 | 14,9 | 28,6 |
| • Depreciation | **4,4** | 5,5 | 6,2 | 8,6 | 7,7 |
| • Retained income for the year | **27,5** | 26,8 | 23,5 | 6,3 | 20,9 |
| | **100,0** | 100,0 | 100,0 | 100,0 | 100,0 |

**2005**




**2004**



# Measuring performance – Absa's accolades

| Source of awards | Absa's ranking and performance |
|---|---|
| Lafferty Group | • Africa retail bank of the year. |
| Deloitte Human Capital Corporation | • Retention of the title of the Best Company to Work For in the banking sector. |
| The Data Warehousing Institute (TDWI) best practices awards | • The best practice winner in data warehousing in the predictive analytics category. |
| Ernst & Young | • The Group's 2004 annual report was judged to be the second best annual report among South Africa's top 100 listed companies. |
| Investment Analysts Society of Southern Africa | • Adjudged the listed company with the overall best communication and reporting in South Africa. |
| Corporate Care Check | • Rated as the fifth most caring company in South Africa.<br>• Ranked as the most caring financial institution in South Africa. |
| Business Social Monitor | • Ranked as the most caring company according to decision-makers. |
| PMR.Africa | • Ranked first in the banking sector and awarded diamond status regarding the Group's BEE strategy, corporate governance, environmental care and social upliftment. |
| Trialogue | • Rated as the financial sector company that makes the strongest contribution to development.<br>• Nominated as having the most hands-on approach to CSI.<br>• Nominated as the corporate that most strongly involves its employees in CSI. |
| Ask Africa/Call Centre Networking Group | • Rated as having the best large call centre.<br>• Obtained the service excellence award in the banking category. |

# Stakeholder reporting – Stakeholder engagement

Absa's ultimate objective is to create value not only for its shareholders, but for all its stakeholders. To achieve this, continuous dialogue and engagement with the Group's stakeholders is imperative. The Group has a number of mechanisms and defined processes that facilitate communication between the Group and its various stakeholders. The following table provides an indication of the various engagement mechanisms and processes used by Absa in communicating with its respective stakeholders.



| Stakeholders | Mechanisms and processes for engagement and dialogue |
|---|---|
| **Shareholders** | General communication with shareholders is undertaken via:<br>• the Group's annual report;<br>• Absa's website (www.absa.co.za);<br>• the annual general meeting; and<br>• the JSE's news service (SENS).<br>Shareholder queries are dealt with one-on-one by senior management in the Group, Group Secretariat and Group Investor Relations.<br>Additional information for the investor community is provided through:<br>• one-on-one meetings and conference calls with executive management;<br>• roadshows and investor conferences; and<br>• financial and subject-specific presentations.<br>Feedback from the market is obtained through:<br>• broker reports;<br>• perception studies; and<br>• one-on-one contact. |
| **Customers** | Normal business interaction mechanisms include:<br>• Outlets;<br>• Relationship managers;<br>• Self-service centres and ATMs;<br>• Customer call centres;<br>• Marketing and advertising; and<br>• Absa's internet site (www.absa.co.za).<br>In addition, to understand the dynamics of the market in terms of actual and potential size, growth, trends, developments, threats, opportunities and key success factors, the Group undertakes regular market research including surveys and customer focus groups. Absa has access to various databases, enabling this analysis.<br>The Group also undertakes customer analysis to continuously evaluate the effect of Absa's marketing activities and those of competitors. This is done to understand customer behaviour and perceptions. Various projects have been undertaken in specific market segments to understand existing customer behaviour, purchase decisions, drivers and detractors and unmet needs. |

| Stakeholders | Mechanisms and processes for engagement and dialogue |
|---|---|
| **Employees** | The Group uses a number of surveys to gauge employee morale and satisfaction in terms of employment practices. All of these have shown a positive trend over time. These surveys include:<br>• A beehive survey, which measures workplace practices underpinning Absa's leadership and cultural transformation;<br>• The Corporate Development Programme, which measures employee morale and satisfaction; and<br>• The Best Company to Work For survey, which measures employee satisfaction and perceptions regarding people practices.<br><br>Absa has an extensive communication system in place to ensure that meaningful, transparent information reaches employees in a timely fashion. On average, each employee uses more than four different sources/channels to obtain information. Communication mechanisms include:<br>• Absa's intranet site, providing employees with online access to information;<br>• The People Management Contact Centre, providing an e-mail and telephonic contact point for employee issues and face-to-face representation per business unit; and<br>• A variety of broad-based communication media are used, including television broadcasts, an employee newsletter, e-mail, the mainframe system, a communication champion network and face-to-face contact. |
| **The community** | An understanding of the socio-economic needs and expectations of the South African community is obtained through a two-way communication process in which the community is provided with funding information. Absa obtains feedback from the community with regard to funding needs and the potential impact of funding.<br><br>Absa strongly believes in partnerships to engage with the communities in which it operates. Through a provincial network of CSI consultants, Absa engages directly with community members through formal and informal meetings on national developmental priorities and local community needs. Identification of these needs makes it possible for grant funding to impact on the area identified.<br><br>Communication media include:<br>• Specialised publications;<br>• Community newspapers;<br>• Absa's annual and social reports;<br>• Exhibitions; and<br>• The Absa website (www.absa.co.za). |

| Stakeholders | Mechanisms and processes for engagement and dialogue |
|---|---|
| **Suppliers** | Communication with suppliers is undertaken through a number of interactions:<br>● The supplier accreditation and engagement process;<br>● Supplier briefing sessions;<br>● Performance reviews; and<br>● Feedback at forums such as trade associations. |
| **Governments and regulators** | **Governments**<br>***At a business level***<br>● The Absa process consists of a multi-business-unit delivery matrix, enabling networking structures at various levels in the Group.<br>● Supporting this process is a dedicated provincial and local banking presence as well as access to Absa's provincial leadership and decision-making structures.<br>***At a community level***<br>● Through a provincial network of CSI consultants, Absa engages directly with the government through formal and informal meetings on national developmental priorities and local community needs.<br>**Regulators**<br>● Dialogue with regulators takes the form of briefing sessions and one-on-one interactions with the relevant management and executive management in the Group. |

It must be noted that a feedback form is not included in the Absa Group annual report because the Group's annual report, despite its focus on integrated sustainability reporting and being available on the Absa internet site, is generally accessed by a small segment of the market. In particular, it is accessed by the investor community and Absa's shareholders. Therefore, the Group prefers to rely on its dialogue processes as indicated in this section to assimilate the needs and requirements of Absa's respective stakeholders more comprehensively.

# Stakeholder reporting – Shareholders

## The Group's broad-based black economic empowerment and employee transactions create value for all Absa stakeholders by providing a platform for meaningful wealth creation to as many previously disadvantaged individuals as possible, enhancing employee loyalty and commitment, expanding the Group's customer base and improving customer loyalty.



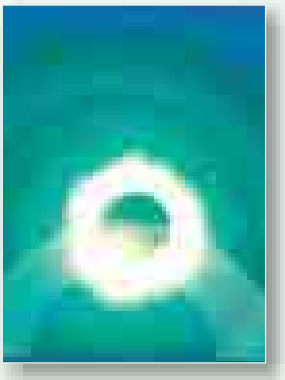
### Introduction

Significant value was created for Absa shareholders during the past two years, with the appreciation in the Group's share price by 61,7% and 58,6% respectively for the years ended 31 March 2005 and 2004.

Dividends paid to shareholders increased by 62,1% to 295 cents per share for the 2005 financial year. The value created for shareholders (share price appreciation and dividends received) for the 2005 financial year amounted to R31,71 – 68,0% of the closing share price on 31 March 2004.

### Key developments

- The Group undertook a broad-based black economic empowerment transaction.
- Barclays announced its intention of acquiring a majority stake of up to 60% in Absa. Subsequent to year-end, on 27 July 2005, Barclays acquired 53,96% of the Absa Group.



## Achievement against objectives

**Objectives set for the 2005 financial year**

- Achieving real earnings growth of 10%.

**Performance against objectives**

- Absa achieved headline earnings growth of 23,3% from R4 447 million to R5 484 million for the year ended 31 March 2005.



## Absa's broad-based black economic empowerment transaction

On 1 July 2004, Absa's black economic empowerment (BEE) partner, the Batho Bonke consortium, became an Absa shareholder (through Batho Bonke Capital (Proprietary) Limited). An allocation of 73 152 300 redeemable cumulative option-holding preference shares was made to the consortium. An additional allocation of 6 085 200 shares was made to the Absa Share Ownership Trust, whereby Absa employees received an allocation of 200 shares each.

The Group's broad-based black economic empowerment and employee transactions create value for all Absa stakeholders by providing a platform for meaningful wealth creation to as many previously disadvantaged individuals as possible, enhancing employee loyalty and commitment, expanding the Group's customer base and improving customer loyalty.

Please refer to page 152 of this annual report for further information on Absa's broad-based BEE and employee transactions.

## Approach by Barclays Bank PLC

On 20 May 2005, Barclays Bank PLC (Barclays), a leading international financial services institution, launched its offer to Absa shareholders to acquire a majority stake of up to 60% in the Group. On 13 June 2005, shareholders approved the transaction, following which Barclays acquired 53,96% of the Group's shareholding for R29,7 million on 27 July 2005.

Absa views partnering with a significant global player as key to the creation of long-term shareholder value and to the delivery of its strategic vision of becoming the leading financial services business in South Africa and the pre-eminent bank on the African continent. Barclays is an ideal partner and shares Absa's vision.

Barclays views South Africa as an attractive market with good growth prospects and a sophisticated economic and financial services infrastructure. The acquisition accelerates the strategic objective of Barclays – to build its retail and commercial banking, investment banking and credit card presence in selected international markets.

As one of South Africa's big four banks and the leading retail bank, Absa is an excellent partner for Barclays in expanding its interests in South Africa, given Absa's strong market position across major market and product segments, distribution capabilities in South Africa and its operations and footprint in Africa.

To achieve this vision of creating the leading financial services business in South Africa and the pre-eminent bank on the African continent, Absa and Barclays have committed in principle to the future integration of their African businesses on an arm's length basis. No terms have been agreed and regulatory approvals have not yet been sought. It is anticipated that this process, which is subject to regulatory and other approvals, will be embarked upon as soon as practicably possible.

The acquisition is expected to enhance Absa's earnings growth potential. This will be achieved by deploying operational best practices and capitalising on the enhanced cross-selling potential, as well as by offering access to a broader range of products and services tailored to the specific needs of Absa's existing and potential customers.

## Increase in the number of issued shares

On 17 November 2004, 4 000 000 ordinary shares were issued to the Absa Group Limited Share Incentive Trust to provide sufficient stock for vested options.

## Shareholders' information

as at 31 March

**Ordinary shareholders**

| | 2005 | | 2004 | 2003 |
|---|---|---|---|---|
| | **Number of shares held** | **%** | % | % |
| **Major ordinary shareholders (owners) holding more than 5%** | | | | |
| Sanlam Limited and associates | **126 872 670** | **19,37** | 21,33 | 22,78 |
| Financial Securities Limited (Remgro) | **61 387 729** | **9,37** | 9,43 | 9,42 |
| Public Investment Corporation (PIC) | **52 636 031** | **8,04** | 8,74 | 8,46 |
| Allan Gray Limited | **51 897 264** | **7,92** | 5,46 | * |
| Old Mutual Asset Managers | **49 928 097** | **7,62** | * | * |
| Investec Asset Management | **32 754 550** | **5,00** | 5,03 | * |
| **Shareholder type** | | | | |
| Principal shareholders (Sanlam, Remgro and PIC) | **240 896 430** | **36,77** | 39,50 | 38,40 |
| Private investors | **36 617 579** | **5,59** | ** | ** |
| Other | **377 541 065** | **57,64** | ** | ** |
| **Total** | **655 055 074** | **100,00** | 100,00 | 100,00 |

**Shareholding of less than 5%.*
***Not previously disclosed in this manner.*

| | 2005 | | | 2004 | 2003 |
|---|---|---|---|---|---|
| | Number of shareholders | Number of shares held | % | % | % |
| **Public and non-public shareholders** | | | | | |
| Public | **42 714** | **465 995 781** | **71,14** | 68,30 | 59,23 |
| Non-public | **16** | **189 059 293** | **28,86** | 31,70 | 40,77 |
| • Directors and associates | **12** | **352 293** | **0,05** | 0,11 | 0,30 |
| • Trustees of the Absa Share Incentive Trust | **1** | **446 073** | **0,07** | 0,83 | 2,06 |
| • Sanlam Limited and associates | **2** | **126 872 670** | **19,37** | 21,33 | 22,78 |
| • Remgro | **1** | **61 387 729** | **9,37** | 9,43 | 9,42 |
| • Mines Pension Funds | | | | | 6,20 |
| **Total** | **42 730** | **655 055 074** | **100,0** | 100,00 | 100,00 |

**Preference shareholders**

Batho Bonke Capital (Proprietary) Limited and the Absa Share Ownership Trust hold redeemable cumulative option-holding preference shares as follows:

| | 2005 |
|---|---|
| | Number of shares held |
| Batho Bonke Capital (Proprietary) Limited | **73 152 300** |
| Absa Share Ownership Trust | **6 085 200** |
| **Total** | **79 237 500** |

## Geographical holding

as at 31 March 2005

| | 2005 | | 2004 | 2003 |
|---|---|---|---|---|
| | Number of shares held | % | % | % |
| South Africa | **528 367 423** | **80,66** | 79,66 | 81,66 |
| United States | **50 963 285** | **7,78** | 8,73 | 7,41 |
| England and Wales | **17 948 509** | **2,74** | 3,03 | 3,00 |
| Other countries | **34 259 380** | **5,23** | 4,65 | 3,32 |
| Below threshold | **23 516 477** | **3,59** | 3,93 | 4,61 |
| **Total** | **655 055 074** | **100,00** | 100,00 | 100,00 |

## Classification of shareholders

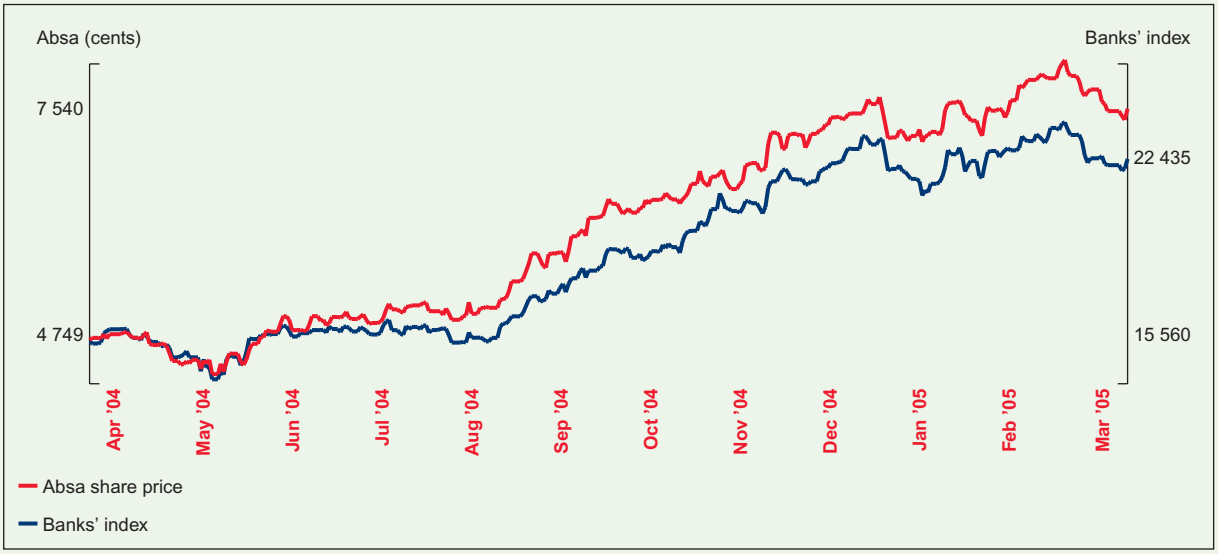
as at 31 March 2005

| | 2005 Number of shares held | 2005 % | 2004 % | 2003 % |
|---|---|---|---|---|
| Pension funds | **201 756 963** | **30,80** | 26,74 | 21,14 |
| Corporate holding | **189 965 971** | **29,00** | 11,37 | 20,01 |
| Unit trusts | **111 490 374** | **17,02** | 14,76 | 13,28 |
| Private investors | **36 617 579** | **5,59** | 6,28 | 6,27 |
| Insurance companies | **43 364 646** | **6,62** | 26,39 | 6,08 |
| Other funds | **18 603 564** | **2,84** | 1,00 | 2,03 |
| Other managed funds | **29 805 006** | **4,55** | 7,05 | 25,19 |
| Below threshold | **23 450 971** | **3,58** | 4,03 | 4,62 |
| Other | **—** | **—** | 2,38 | 1,38 |
| **Total** | **655 055 074** | **100,00** | 100,00 | 100,00 |

## Absa's performance on the JSE

as at 31 March

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Number of ordinary shares in issue | **655 055 074** | 651 055 074 | 651 546 749 |
| Market prices (cents per share) | | | |
| • Closing | **7 540** | 4 664 | 2 940 |
| • High | **8 150** | 4 700 | 3 600 |
| • Low | **4 320** | 3 000 | 2 650 |
| • Weighted average | **6 160** | 3 838 | 3 161 |
| Closing price/net asset value per share | **2,07** | 1,56 | 1,14 |
| Closing price/earnings | **9,0** | 6,8 | 5,6 |
| Volume of shares traded (R million) | **455,5** | 459,9 | 440,3 |
| Value of shares traded (R million) | **27 892,2** | 17 536,1 | 13 914,4 |
| Market capitalisation (R million) | **49 391,2** | 30 365,2 | 19 155,5 |




## Shareholders' diary

### Important events

| | |
|---|---|
| Current financial year-end | 31 March 2005 |
| Annual general meeting for 2005 | 19 August 2005 |
| Announcement of interim results for 2005 | 21 November 2005 |
| New year-end *(owing to the acquisition of a controlling stake in Absa by Barclays)* | 31 December |

### Dividends

| | Declaration date | Last day to trade | Ex-dividend date | Record date | Payment date |
|---|---|---|---|---|---|
| Final 2004/2005 | 30 May 2005 | 17 June 2005 | 20 June 2005 | 24 June 2005 | 27 June 2005 |
| Interim 2005/2006 | 21 November 2005 | 15 December 2005 | 19 December 2005 | 23 December 2005 | 27 December 2005 |

# Stakeholder reporting – Customers

## As at 31 March, Absa had 7,0 million customers, ranging from corporate customers to mass market individuals.

### Introduction

Enhancing the customer experience is a key focus area for Absa. It is exemplified in the Group's vision of being a customer-focused financial services group in targeted market segments. In living its vision, Absa has implemented a customer-centric business model and a customer-focused strategy.

### Key developments

- A service credo and service standards were developed and serve as a foundation for the way Absa interacts with its customers.
- Campaigns were launched to honour Absa employees living Absa's service credo and standards and the brand values, and to encourage Absa customers to tell Absa their service expectations.
- An extensive research programme was implemented to ensure that the organisation understands customer needs and expectations in depth and to measure Absa's success in meeting its customers' needs and expectations.
- A consumer education drive was launched.
- A new automated complaints and fraud handling process was developed to ensure that customers' complaints are treated seriously.

## Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| • To be a customer-focused financial services group in targeted market segments. | • Absa has an operating model that is based on the value propositions for the respective target markets. |
| • A focus on customer retention and acquisition. | • Absa increased its customer base by 14,4% for the 2005 financial year. |
| • Retention and acquisition of market share. | • Absa gained market share in a number of the core counters. |
| • Provision of customer experience solutions. | • Implementation of extensive research programmes to ensure that the organisation has an in-depth understanding of customer needs and expectations, the launch of a consumer education drive and the establishment of a department dedicated to enhancing the customer experience. |

## Absa's customer base

As at 31 March, Absa had 7,0 million customers, ranging from corporate customers to mass market individuals.

| | 31 March 2005 Million |
|---|---|
| • Affluent individuals | 0,2 |
| • Middle-market individuals | 3,2 |
| • Mass-market individuals | 3,1 |
| • Small businesses | 0,4 |
| Total retail customers | 6,9 |
| • Medium and large businesses | 0,1 |
| • Corporates | 2 thousand |
| **Total Absa** | 7,0 |

## Absa has identified the importance of going beyond customer service to promising to offer a unique customer experience.

Absa's customer profile is slightly different from that of the South African banked population. Absa tends to have more white customers, more customers in the higher categories of the Living Standard Measurement (LSM) and customers who are slightly older on average. The detailed statistics are reflected in the following table.

| Demographics | Absa customers % | Total South African banked population % |
|---|---|---|
| **Race** | | |
| Black | **41** | 56 |
| Coloured | **11** | 10 |
| Indian | **3** | 4 |
| White | **45** | 30 |
| **Age** | | |
| 16-24 years | **13** | 14 |
| 25-34 years | **24** | 27 |
| 35-49 years | **33** | 34 |
| 50+ years | **30** | 25 |
| **Gender** | | |
| Male | **46** | 44 |
| Female | **54** | 56 |
| **Living standards measure** | | |
| LSM 1 | **—** | 2 |
| LSM 2 | **2** | 4 |
| LSM 3 | **3** | 7 |
| LSM 4 | **6** | 11 |
| LSM 5 | **10** | 12 |
| LSM 6 | **18** | 19 |
| LSM 7 | **12** | 11 |
| LSM 8 | **13** | 9 |
| LSM 9 | **18** | 13 |
| LSM 10 | **18** | 12 |

## Enhancing the customer experience

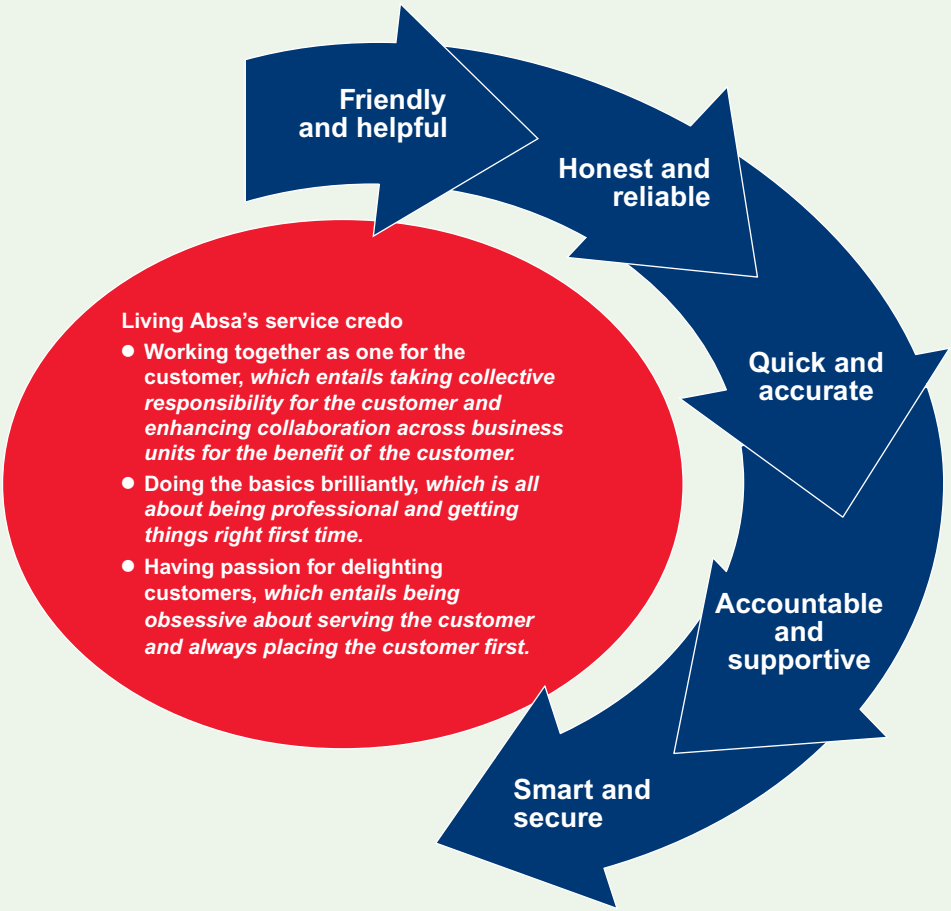
Absa has identified the importance of going beyond customer service to promising to offer a unique customer experience. The move to deliver a total customer experience is driven by the belief that a customer's heart, soul, body and mind must be touched when engaging with Absa.

Enhancing the customer experience involves more than just providing good service. It includes all elements of Absa's value offering – product, price, service, relationship and brand.

To achieve this, an initiative known as "enhancing the customer experience" was launched. This programme has an internal and an external perspective.

The internal perspective includes:

- Developing a service credo and service standards to provide the foundation for the way Absa's employees interact with customers. This is coupled with a service measurement framework that assists in gauging customer perceptions. The service credo and standards have been communicated to all Absa employees. The following graphic depicts Absa's service credo and standards.



To further support customer experience actions, Absa also implemented extensive research programmes to ensure that the organisation understands customer needs and expectations in depth and to measure how successful Absa is in meeting these needs and expectations.



- Recognising those employees who already provide a superior customer experience by living the Absa brand and service credo.
- Establishing a customer experience leadership council, which guides the strategic aspects of customer service in the Group. The council consists of business unit heads. It meets regularly to assess progress, engage in strategic conversations and guide the way forward with regard to enhancing the customer experience.
- Creating leadership platforms that reach all management levels and are used to focus managers' attention on supporting employees in living the brand and instilling a passion for delighting customers. Coaching and mentoring programmes are used to support leadership enablement.
- Streamlining people management processes to ensure that employees are willing and able participants in enhancing the customer experience. Performance and consequence management measures have also been aligned.
- Enhancing training. The content of training materials has been supported by an additional service training curriculum at all levels to make sure that employees are equipped with the right skills to enhance the customer experience.

In addition to the internally focused activities, an external service campaign was launched in November 2004. Its emphasis was on encouraging customers to tell Absa what they expect in terms of service.

To further support customer experience actions, Absa also implemented extensive research programmes to ensure that the organisation understands customer needs and expectations in depth and to measure how successful Absa is in meeting these needs and expectations.

This included obtaining customer feedback using a tool known as the Integrated Service Metric (ISM). This metric is used in partnership with Markinor. It is an extensive measurement that includes customer experience feedback from customer interactions through physical and electronic channels. The ISM is designed to provide specific impact versus performance indicators and is based on an internationally accepted loyalty model. The first quarter of 2005's results indicate that 77% of Absa's customers are truly loyal, compared with the industry average of 54%.

## Customer education

Customer education continues to be a focal point, especially for consumers in the mass market. During the year under review, a consumer education drive was launched. This drive includes programmes aimed at empowering consumers with knowledge to enable them to make more informed decisions about their finances and lifestyles. The programmes are mainly in the following categories:

- Financial literacy, including managing debt and investment decisions.
- Education about products and services, covering attributes like suitability and access to products.
- Education about the use and function of channels in accessing banking products.
- Vocational training, which also targets small, medium and microenterprise (SMME) owners.

Specific initiatives included the establishment of a customer education unit by Flexi Banking Services (FBS). This unit focuses on improving and delivering customer education to the FBS target market. A number of interventions took place nationally. In addition, a major radio and television customer education campaign will be launched in the new financial year.

With regard to the small business market, Absa Small Business has developed a Business Toolbox to help budding entrepreneurs and SMMEs plan and manage their businesses more effectively. It contains 13 booklets written by experts. These address relevant business topics, such as “considering your own business”, “guidelines to compiling a business plan”, “labour law”, “legal issues”, “tendering”, ”franchising” and “international trade”. This business tool is available on Absa’s website.

## Customer satisfaction and complaints

Internal escalation to the proper mandated official to resolve a complaint can minimise the irate customer’s inconvenience and distress and enforce or prompt customer-centricity. Business participation and willingness to resolve complaints increases the opportunity value and the lifetime of the business relationship. Customer complaints not resolved or not handled satisfactorily are reported to Action Line, a telephonic system for dealing with comments or complaints.

Action Line receives 1 200 complaints on average per month. The top three types of complaints concern turnaround time, policies and procedures and instructions not being adhered to. In order to provide a more comprehensive view of all the complaints Absa deals with, a customer care login system is being piloted.

Absa measures complaint satisfaction levels through the pulse survey. The scope and content of this measurement is currently being reviewed and redesigned by all the participating banks to provide better complaint segmentation, detail and knowledge for reporting purposes. The 2004 report indicates that complainers:

- will still continue to use Absa (60%);
- will recommend Absa (51%); and
- are committed to Absa (57%).

Almost half of all the Absa queries noted in the report are perceived by customers as being the result of a lack of communication from Absa (46%), with errors or mistakes regarding their accounts following closely (34%). The banking industry mirrors Absa’s percentages almost exactly, at 45% and 36% respectively.

Absa is well positioned to create lasting relationships with customers through added value. To ensure that this is achieved, it is important that the Absa brand should have an approachable, progressive and aspirational personality.



Three out of five complaining customers felt they were extremely or very satisfied with the outcome of the process, whereas one in ten was still unhappy.

Dissatisfied customers can submit complaints to the Ombudsman for Banking Services. For the period from 1 April 2004 to 31 March 2005, 696 Absa-related complaints were forwarded to the banking ombudsman.

A new automated complaints and fraud handling process has been developed to enhance successful complaint resolution.

## Absa's products and services and the Absa brand

With reference to Absa's customers, the core focus is brand dominance, customer excellence and enhancing customer experiences, with the total customer experience being the differentiator to ensure sustainable growth. The implications of this for the Absa brand are that:

- Absa is more than just a financial institution;
- relationships are built on trust, understanding and excellent service; and
- having a real understanding of customer needs means that Absa has an innovative range of products and services designed to exceed customer expectations through added value.

Absa is well positioned to create lasting relationships with customers through added value. To ensure that this is achieved, it is important that the Absa brand should have an approachable, progressive and aspirational personality.

All product developments and enhancements are focused on enhancing the customer experience, ensuring that they meet the needs and expectations of customers.

Research and product development is integral to Absa's strategy of enhancing the customer experience and is informed by the Group's marketing and customer strategies.

Absa aims to be transparent about pricing. Absa's customers are provided with pricing information in brochures available at branches and on the Group's internet site. This information and the assistance provided by Absa employees can help customers to minimise their bank charges by optimally selecting products and delivery mechanisms.

Product information is also clearly explained to customers, which helps them to make informed decisions about products and services.

## Customer privacy

Absa subscribes to the Code of Banking Practice, which requires that all personal information be treated as private and confidential. Employees are required to safeguard the confidential information of Absa's business and may only disclose information to those with a legitimate right to know. This forms an integral component of the Group's code of ethics. Non-compliance is dealt with through disciplinary procedures.



## Compliance

Absa subscribes to and abides by the regulations of the Financial Intelligence Centre (FIC) Act and the Financial Advisory and Intermediary Services (FAIS) Act in obtaining customer information and providing customers with fit and proper financial advice.

Absa has a policy and follows the relevant procedures relating to product information. All product information and the applicable product communication is aligned with requirements and is signed off by the Group's compliance officer. During the year, no material instances of non-compliance regarding product information were recorded.

The Group does not have a policy for preserving customer health and safety during the use of products and services as this type of policy is not applicable in the financial services industry.

Absa is committed to adhering to all the standards and voluntary codes related to advertising. A compliance officer has been appointed in Group Marketing and Communication to ensure that all communication adheres to the required standards. During the year under review, there were no breaches of advertising and marketing regulations.

## Additional information

Please refer to the operational review on page 161 of this report for additional information pertaining to Absa's products and services as well as the divisions that provide these products and services.

# Stakeholder reporting – Employees

## Introduction

Absa believes that the key to the future lies in fully empowered, innovative and proactive employees, who, as stakeholders of the Group, assist in shaping and honing the future of Absa in a sustainable way.

Absa aims to ensure a conducive and transparent culture that values diversity and enables the optimisation of the individual and collective human capital in the Group. Leadership is seen as key in making the culture of the Group come alive.

Culture and leadership transformation is supported by world-class people management processes, which are benchmarked internationally, to ensure that the required talent is attracted, recruited, developed, managed and retained in an integrated way. The core of this integrated approach lies in Absa's employee value proposition, "we value our people". The Absa culture and all Absa's human capital policies, practices and actions bear testimony to this single statement.

## Key developments

- Absa was rated as the banking sector's Best Company to Work For (Deloitte Human Capital Corporation) for the third year in a row.
- Absa succeeded in sustaining the positive trend in new economy leadership practices throughout the Group, and continued the steady upward climb in respect of the Group's climate and morale by attaining Top Company status.
- The representation of historically disadvantaged employees in Absa's workforce increased from 42,3% in the previous year to 47,8% for this reporting period.

## Achievement against objectives

**Strategic focus areas set for the 2005 financial year**

- Leveraging human capital as an investment.
- Establishing and leveraging the required human capital to support Absa's core capabilities.
- Leveraging the employment brand to build human capital.
- Growing the Group's leadership capability.
- Enhancing people's ability to transform and change.

**In achieving the strategic focus areas, a number of critical success factors played a role**

- Effectively positioning and leveraging of Absa's employment brand through a proactive partnership with Group Marketing and Communication.
- Obtaining shared meaning, understanding and ownership of the Group's human capital strategy by sharing and dialoguing the strategy with the various business unit management teams and ensuring that these teams are fully enabled to take up their accountability in the process.
- Entrenching a culture that values human capital, as shaped and refined through the Group's transformation programme – Leading the Absa Way.
- Enhancing the transformation capacity of the Absa system through consistent interventions to increase the understanding and valuing of diversity and through effective change enablement for major restructuring programmes.
- Employing a flexible, long-term human capital strategy, which supports a variety of possible future business scenarios.
- Applying creative people solutions based on various talent segments, through constant international and local benchmarking, operational efficiency improvements and tailor-made offerings to different employee groupings.

## Absa's human capital strategy

Absa's human capital strategy is derived from the Group's overarching business strategy and is tailor-made to support business units, making provision for unique and different approaches. In deriving Absa's people management strategy, there is fair representation of the various business stakeholders as well as the different levels and areas in People Management. The strategy, once derived, is checked back with line partners and management structures in the Group, such as the Group Operating Council and the Group Executive Committee, to ensure complete alignment between human capital and other capital (structural and customer capital) contributions.

## Absa aims to ensure a conducive and transparent culture that values diversity and enables the optimisation of the individual and collective human capital in the Group.

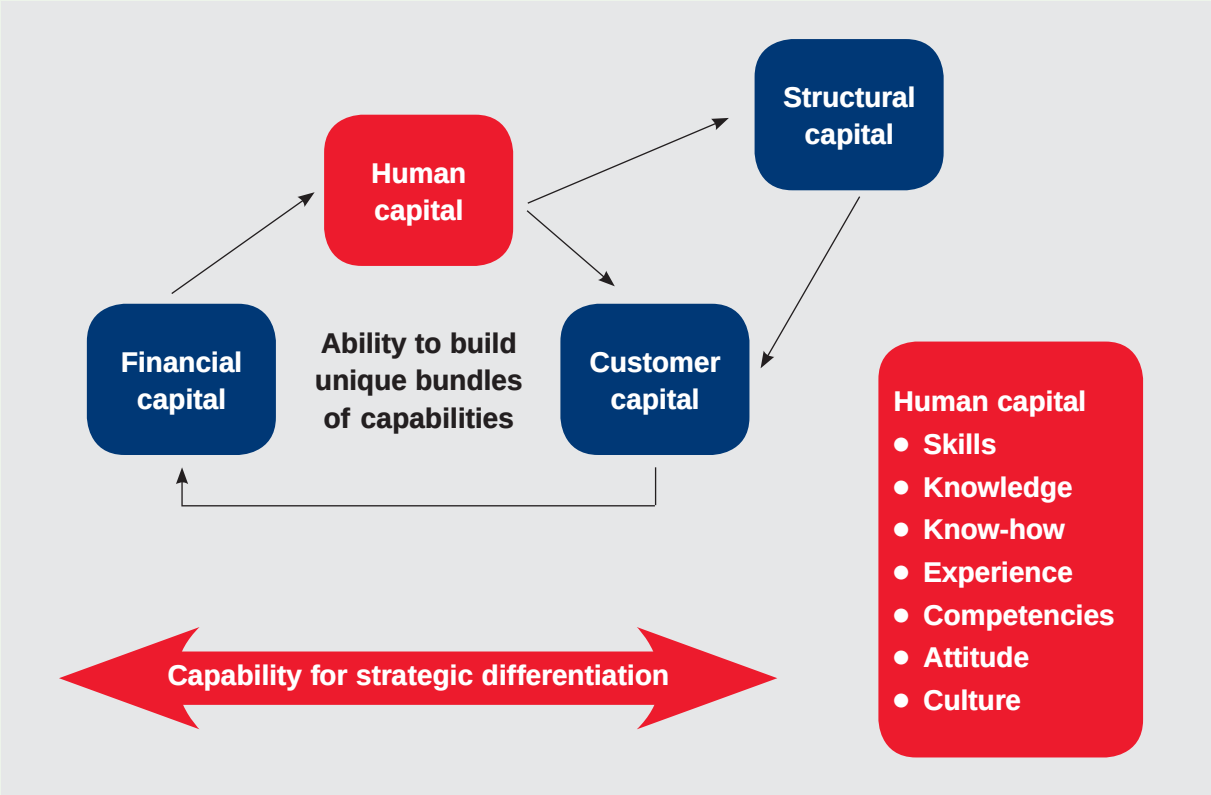
The alignment between the Group's human capital strategy (and the supporting people management processes) and the business strategy (and needs) is validated by an external survey conducted annually. This survey, the Strategic Alignment survey, is used to identify areas of misalignment so that action can be taken to rectify them.

As investment in human capital is a long-term effort; the strategic focus areas for the next reporting period will be to further entrench and leverage the focus areas as indicated in the section titled "Achievement against objectives", on the previous page.

### Entrenching intellectual capital in Absa

A process to focus on the development of intellectual capital was initiated in 2001 to enhance capacity in the organisation and to manage intangible assets in an integrated way. Human capital forms a core part of intellectual capital, as indicated in the following diagram:

**The content of intellectual capital**



Twelve core capabilities were identified as drivers of intellectual capital. During the year under review, these core capabilities attained a satisfactory level of entrenchment through dedicated project teams, working under the auspices of specific Group Operating Council members. These champions for change ensured crystalisation of the capabilities, from defining shared meaning to driving particular initiatives, to embedding specific core capabilities in target audiences. As part of this entrenchment, a process was instituted to translate the core capabilities into the required employee competences (observable behaviour) in the Group's business units.

Progress on the entrenchment of the core capabilities is measured through a Group-wide survey. The most recent survey shows that some of the core capabilities are well entrenched. There are plans to ensure that the necessary targets are attained in those core capabilities that are lagging and need further development. The results are included in the following table:

### Core capability measurement results

| | Absa's status | Entrenchment of core capabilities |
|---|---|---|
| Diversity management | 64,47 | Not entrenched |
| Complexity management | 63,91 | Development required |
| Business performance management | 66,73 | Development required |
| Brand management | 72,84 | Entrenched |
| Information management | 71,66 | Entrenched |
| Channel management | 68,63 | Development required |
| Innovation management | 63,38 | Not entrenched |
| Knowledge management | 63,88 | Development required |
| Creative alliance management | 64,03 | Not entrenched |
| Process optimisation | 61,57 | Not entrenched |
| Risk management | 74,84 | Entrenched |
| Unique solutioning | 64,37 | Development required |

## Leadership and cultural transformation

Absa has a leadership programme known as Leading the Absa Way. The programme aims to achieve ongoing leadership and culture change and transformation, thereby influencing and challenging Absa's leadership mental models.

The five drivers for the programme are:

- talent management;
- performance and consequence management;
- levels of work;
- high performance leadership competencies; and
- new-economy leadership practices.

This initiative enjoys full executive management sponsorship and participation. Leadership councils have been established to reinforce cross-boundary collaboration and to eliminate internal competition; these are strongly supported and are managed self-sufficiently.

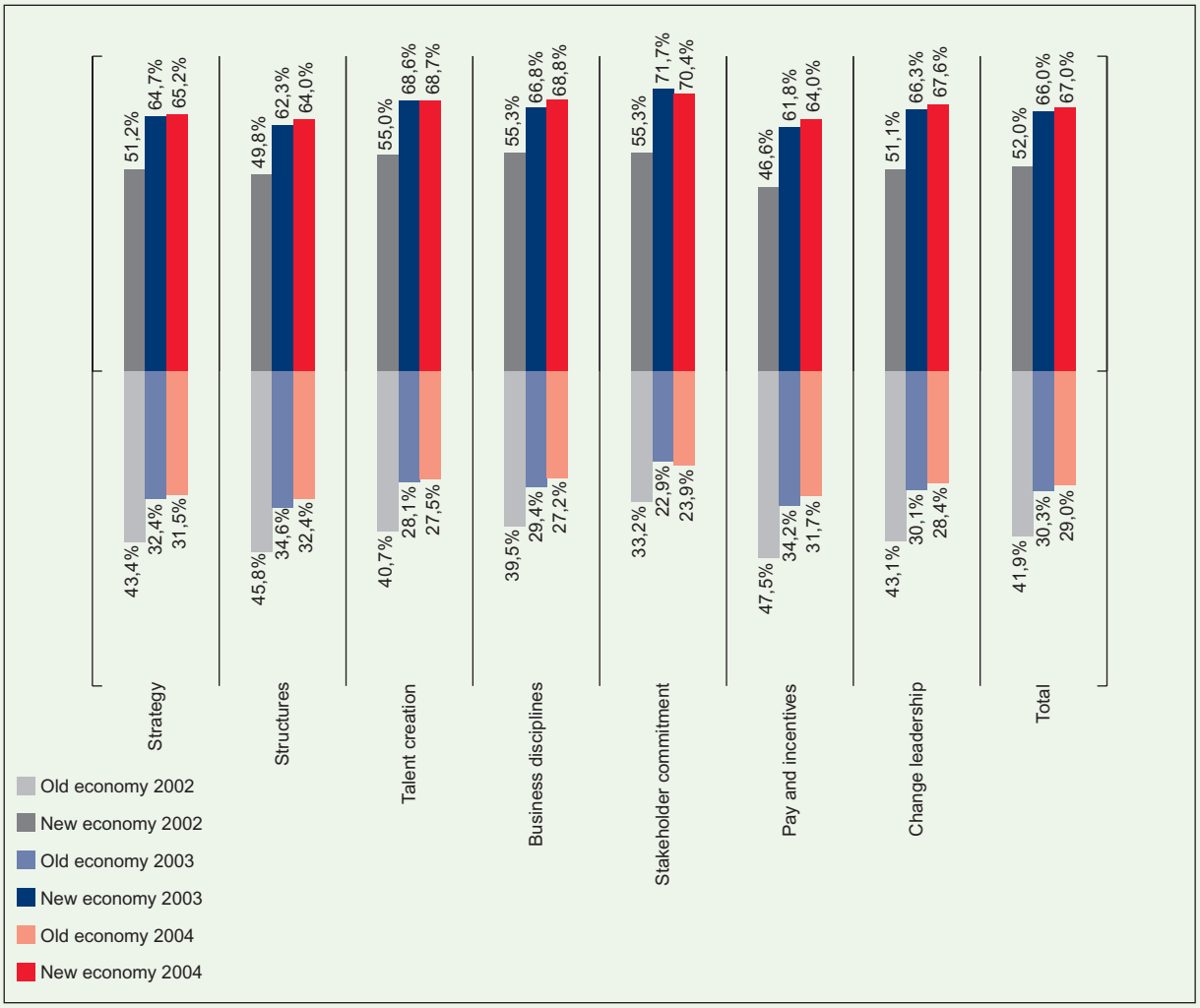
## Absa has a leadership programme known as Leading the Absa Way. The programme aims to achieve ongoing leadership and culture change and transformation, thereby influencing and challenging Absa's leadership mental models.



During the period under review, specialised Leading the Absa Way workshops were hosted nationally for business unit heads and teams, change leaders and people management consultants. More than 450 change driver entrenchment workshops were completed from 1 April 2004 to 31 March 2005.

New-economy leadership practices in the Group show a continuous positive trend, as measured by a survey developed by the University of Stellenbosch Business School. The comparative results for 2002 and 2003 are indicated on the graph below.

**New-economy leadership practices**



The focus for the new financial year is to further embed all five drivers of Leading the Absa Way, with a special emphasis on performance and consequence management and levels of work.

In addition to the Leading the Absa Way initiative, the Group also accelerates the leadership development of talented individuals through the Absa Development Initiative (ADI). The ADI programme exposes young leaders with potential to a series of growth and development opportunities to help them deal with the complexities of the current and the future world of work.

A total of 18 candidates completed their three-year cycle during November 2004 and 32 candidates from all race groups were selected for the new intake, which commenced in February 2005.



## Talent management

### Talent sourcing and selection

Talent sourcing and selection remains a crucial element of Absa's human capital development strategy. The process used ensures that the best talent is sourced, attracted and selected to support the Group's strategy. Well-researched psychometrics and assessment methodologies are used in the process. The process is continually reviewed and refined.

Absa's online careers@absa internet web page remains a valuable medium through which potential candidates are recruited for positions advertised. During the reporting period, 11 559 online applications were received. In addition, there is a constant emphasis on automation, standardisation, education, skills development and efficiency improvement in the process.

Absa's talent sourcing and selection policy is available on Absa's intranet and is periodically reviewed by Group People Management to ensure optimisation and alignment with legislative requirements.

The talent sourcing and selection process is a medium through which Absa strives to attain its equity targets, as contracted in the FSC and with the Department of Labour.

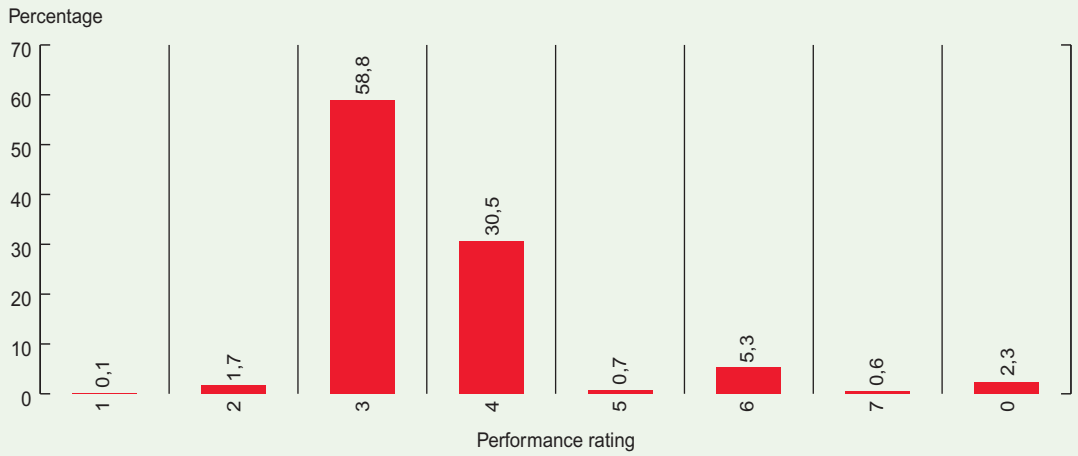
### Performance management

Performance management in Absa is used to translate business strategy and objectives into personal measurable targets for employees. Every employee has a set of these personalised targets and objectives that are regularly reviewed. Employees are given regular feedback.

Business plans are made visible in the minds of employees by basing incentive and conditional remuneration payouts on individual performance. Constant line of sight is provided to employees by printing monthly summaries of expected payouts (based on performance levels at the time) on employee payslips. This increases awareness and stimulates employees' desire to improve their personal performance ratings.

Performance management in Absa is used to translate business strategy and objectives into personal measurable targets for employees.

**Distribution of performance ratings**




Performance rating 1: Did not meet the requirements at all

Performance rating 2: Met requirements to limited extent only

Performance rating 3: Met agreed requirements

Performance rating 4: Exceeded requirements to some extent

Performance rating 5: Exceeded requirements to a large extent

Performance rating 6: Too new to rate

Performance rating 7: Not appraised

Performance rating 0: No rating

***Succession management***

Succession management plans are in place for all critical positions. The succession management process focuses on identifying, developing and retaining highly talented individuals. This process is referred to as the Development Forum and is practised at all levels in the Group. Each employee in Absa is afforded a personal development discussion, supported by a personal development plan, twice a year.

Strategic development initiatives, such as employment equity are incorporated in this process at Group and business unit level. In the period under review, special attention was paid to the promotion and retention of individuals from previously disadvantaged groups.

## Human capital development

Learning and development is a core part of Absa's human capital strategy, as it directly supports all of Absa's strategic focus areas.

Absa's employee value proposition, "we value our people", has two learning and development objectives:

- Giving each employee the opportunity to achieve his or her potential in pursuit of organisational objectives; and
- Providing a challenging work environment and opportunities for personal growth.

In support of this, the Absa growth charter gives recognition to individual needs and creates the context for a learning organisation. In particular, the charter affords everyone the right to seek and participate in learning opportunities, and assigns them the responsibility to ensure their own growth and to apply their new knowledge in the interest of Absa.

### Governance and philosophy

Absa's learning and development strategy and resulting activities are governed by a training committee, consisting of various Absa Executive Committee and Group Operating Council members. Decisions by the training committee are effected by a fully-fledged Learning and Development department in Group People Management. This department includes regulatory officers as required by the relevant legislative and industry bodies, including a skills development facilitator.

The philosophy, governance and policy pertaining to learning and development are reviewed annually, with the last review date being December 2004. Ownership for the policy resides with the learning and development function in Group People Management.

The Group's commitment to human capital development also applies to African and offshore operations.

### Training interventions

A total of 621 learning and development programmes are available to Absa employees and are categorised into nine specific areas. For the year under review, 30 048 employees were included in such programmes and R133,4 million was spent on training employees, amounting to 2,38% of the Group's payroll. During the period under review, 0,7% of the Group's payroll was spent on training black employees. The breakdown of training per ethnic group and job level is as follows:

## Absa's learning and development strategy and resulting activities are governed by a training committee, consisting of various Absa Executive Committee and Group Operating Council members.



**Analysis of Absa employees trained in the period 1 April to 31 March**

| Job level | Africans | | Coloureds | | Indians | | Whites | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female |
| Senior officials and management | 39 | 13 | 27 | 17 | 19 | 11 | 435 | 177 | 520 | 218 |
| Professionals | 54 | 32 | 33 | 38 | 62 | 58 | 564 | 346 | 713 | 474 |
| Service workers | 32 | 40 | 6 | 4 | 2 | 1 | 2 | 0 | 42 | 45 |
| Technicians and associates | 39 | 74 | 45 | 124 | 21 | 67 | 126 | 650 | 231 | 915 |
| Clerks | 1 292 | 2 946 | 949 | 2 543 | 288 | 841 | 932 | 5 158 | 3 461 | 11 488 |
| Unknown | 909 | 1 261 | 735 | 1 301 | 411 | 604 | 2 439 | 4 281 | 4 494 | 7 447 |
| **Total – 2005** | **2 365** | **4 366** | **1 795** | **4 027** | **803** | **1 582** | **4 498** | **10 612** | **9 461** | **20 587** |
| Total – 2004 | 1 972 | 3 341 | 1 509 | 3 529 | 747 | 1 496 | 5 510 | 12 072 | 9 738 | 20 438 |

### Coaching and mentoring

Absa actively supports the concept of coaching and mentoring, and regards this practice as an important management tool to aid informal learning and development. Formal support to enable managers to use this tool is available in the form of a Mentoring in Absa workshop.

### Learnerships

During the period under review, Absa implemented eight internal learnership programmes, with a total of 206 learners. Absa also participated in and supported the banking sector learnership initiative (Letsema) by providing workplace exposure to a further 202 external learners.

### Skills development rebate

Absa received a skills development rebate of R26,3 million from Bankseta for the 2005 financial year.

### Further education

Absa fully supports the attainment of further educational qualifications in support of employees' careers. Financial assistance is offered to individuals who register for these attainments through a variety of tertiary education institutions. In the period under review, R5,3 million was spent on such bursaries.

In addition to this assistance, Absa maintains a number of strategic partnerships with major educational bodies and institutions, such as the University of Johannesburg, the Gordon Institute of Business Science (Gibs), the Institute of Bankers and Damelin School of Banking.

### International exposure

International exposure is also offered to talented employees at senior level. This exposure varies from attending modules at recognised international education institutions to pre-arranged site visits.

## Employment equity and diversity management

### Diversity management

Diversity management is a crucial employment equity building block to achieve Absa's strategic intent, to develop intellectual capital and to transform the culture to meet the challenges of the new economy.

Absa's diversity strategy revolves around creating a culture of inclusion that leverages all forms of diversity.

## Diversity management is a crucial employment equity building block to achieve Absa's strategic intent, to develop intellectual capital and to transform the culture to meet the challenges of the new economy.



It aims to create an organisational culture that:

- values and embraces diversity;
- harnesses and optimises contributions based on different ideas, mental models, cultures, viewpoints, beliefs, experiences and exposures to increase intellectual capital stock and flow;
- leverages differences to optimally serve all market segments, contributing to the organisation's bottom line; and
- addresses current disparities in respect of race, gender and background to promote equal opportunity and diversity.

During the period under review, the divisional employment equity forums have been further enhanced to become diversity forums. These forums act as proactive partners with line management by consulting and influencing the process of implementing Absa's employment equity strategy and action plans. Diversity forum meetings are held regularly, varying from monthly to quarterly.

Governance in respect of these forums resides with business unit management. A dedicated employee, the Group consultant: Employment Equity, monitors all forum activities with respect to adherence to legislation and optimisation.

Surveys are conducted annually to measure the organisational climate and the progress being made in respect of valuing diversity. These surveys show a continuously improving trend, with cultural tolerance specifically showing a noticeable improvement over the past few years. This suggests that there is a high level of acceptance of cultural differences and that there is an increasing understanding of and insight into the value of diversity in general.

### Employment equity

Absa is committed to transformation to meet the challenges of competing in a changing market and actively addressing the inequities of the past, while ensuring sustainable competitiveness, market growth and profitability.

Employment equity at Absa is both a strategic focus area and a business imperative. Absa strives not only to meet, but to exceed stakeholder expectations in respect of transformation. Absa's long-term employment equity strategy is supported by annual targets and objectives to which reasonable and justifiable resources are allocated.

Absa aims to achieve two sets of employment equity targets. Those that are set for the Department of Labour and which are based on employee representation mirroring the composition of the Group's customer base, and the employment equity targets of the Financial Sector Charter, which are set within the parameters of the charter.

Absa's employment equity approach provides for the promotion of equal opportunities and fair treatment in employment. This is achieved by eliminating unfair discrimination and implementing affirmative action measures to redress designated groups' historical disadvantage in employment experiences and to ensure they are equitably represented in all occupational categories and levels in the workforce.

Absa's employment equity policy is guided by the provisions of statute and includes a process of consultation with all relevant role-players, including employees, to set objectives, targets and periodic reviews.

The primary components of Absa's employment equity programme are to provide for affirmative action, to understand and manage diversity, and to value and optimise differences.

In achieving the Group's desired employment equity position, emphasis is placed on:

- creating an enabling environment to facilitate awareness of and commitment to the need for employment equity through communication and stakeholder training and consultation;
- constantly revising Absa's employment equity plan, which assesses all employment policies, practices and the working environment, thus identifying any barriers to entry or under-representation and allowing for a reasonable time to make the required progress towards achieving employment equity targets;
- making a meaningful contribution to skills development in the South African community through targeted development and learnerships; and
- monitoring implementation progress monthly to ensure that plans are fully realised.

Progress in respect of the Group's employment equity targets has been satisfactory, with the total percentage of historically disadvantaged employees in the Group increasing from 42,3% for the previous financial year to 47,8% for this reporting period.

### *Employment equity statistics*

## Ethnic split per gender and job level

| | Year | Male | | | | | Female | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | African | Coloured | Indian | White | Total | African | Coloured | Indian | White | Total | |
| Group executive directors | 2003 | 1 | 0 | 0 | 9 | 10 | 0 | 0 | 0 | 1 | 1 | 11 |
| | 2004 | 2 | 0 | 0 | 8 | 10 | 0 | 0 | 0 | 1 | 1 | 11 |
| | **2005** | **2** | **0** | **0** | **8** | **10** | **0** | **0** | **0** | **1** | **1** | **11** |
| Divisional heads and managing directors | 2003 | 2 | 0 | 1 | 16 | 19 | 0 | 1 | 2 | 1 | 4 | 23 |
| | 2004 | 3 | 0 | 1 | 14 | 18 | 0 | 1 | 2 | 1 | 4 | 22 |
| | **2005** | **3** | **1** | **1** | **14** | **19** | **0** | **3** | **1** | **0** | **4** | **23** |
| Executive management | 2003 | 13 | 5 | 3 | 178 | 199 | 0 | 2 | 2 | 18 | 22 | 221 |
| | 2004 | 16 | 7 | 5 | 165 | 193 | 2 | 1 | 1 | 20 | 24 | 217 |
| | **2005** | **20** | **6** | **10** | **153** | **189** | **2** | **1** | **1** | **18** | **22** | **211** |
| Senior specialists | 2003 | 6 | 3 | 5 | 119 | 133 | 0 | 0 | 0 | 22 | 22 | 155 |
| | 2004 | 8 | 3 | 7 | 126 | 144 | 2 | 0 | 1 | 22 | 25 | 169 |
| | **2005** | **7** | **5** | **8** | **127** | **147** | **2** | **3** | **0** | **22** | **27** | **174** |
| Middle management | 2003 | 40 | 39 | 33 | 1 134 | 1 246 | 11 | 22 | 25 | 463 | 521 | 1 767 |
| | 2004 | 56 | 56 | 46 | 1 028 | 1 186 | 18 | 32 | 31 | 504 | 585 | 1 771 |
| | **2005** | **84** | **63** | **55** | **961** | **1 163** | **30** | **54** | **47** | **503** | **634** | **1 797** |
| Specialists | 2003 | 152 | 64 | 146 | 2 270 | 2 632 | 76 | 56 | 114 | 1 071 | 1 317 | 3 949 |
| | 2004 | 213 | 91 | 188 | 2 296 | 2 788 | 110 | 89 | 163 | 1 172 | 1 534 | 4 322 |
| | **2005** | **279** | **134** | **251** | **2 263** | **2 927** | **158** | **123** | **217** | **1 243** | **1 741** | **4 668** |
| Supervisors and administrators | 2003 | 72 | 79 | 56 | 512 | 719 | 67 | 187 | 102 | 1 747 | 2 103 | 2 822 |
| | 2004 | 92 | 81 | 42 | 342 | 557 | 77 | 175 | 85 | 1 294 | 1 631 | 2 188 |
| | **2005** | **95** | **102** | **57** | **274** | **528** | **125** | **226** | **111** | **1 247** | **1 709** | **2 237** |
| Technical specialists | 2003 | 456 | 325 | 168 | 1 167 | 2 116 | 337 | 444 | 296 | 3 459 | 4 536 | 6 652 |
| | 2004 | 586 | 435 | 250 | 1 102 | 2 373 | 633 | 712 | 441 | 3 675 | 5 461 | 7 834 |
| | **2005** | **752** | **519** | **302** | **1 042** | **2 615** | **944** | **996** | **532** | **3 751** | **6 223** | **8 838** |
| Clerical | 2003 | 1 185 | 787 | 276 | 726 | 2 974 | 2 052 | 2 297 | 826 | 5 621 | 10 796 | 13 770 |
| | 2004 | 1 158 | 754 | 248 | 568 | 2 728 | 2 253 | 2 309 | 747 | 4 736 | 10 045 | 12 773 |
| | **2005** | **1 253** | **837** | **237** | **463** | **2 790** | **2 598** | **2 384** | **701** | **3 869** | **9 552** | **12 342** |
| Non-clerical | 2003 | 94 | 15 | 3 | 0 | 112 | 191 | 39 | 2 | 0 | 232 | 344 |
| | 2004 | 77 | 16 | 4 | 0 | 97 | 170 | 37 | 3 | 1 | 211 | 308 |
| | **2005** | **63** | **12** | **2** | **0** | **77** | **149** | **31** | **3** | **0** | **183** | **260** |
| **Total** | 2003 | 2 021 | 1 317 | 691 | 6 131 | 10 160 | 2 734 | 3 048 | 1 369 | 12 403 | 19 554 | 29 714 |
| | 2004 | 2 211 | 1 443 | 791 | 5 649 | 10 094 | 3 265 | 3 356 | 1 474 | 11 426 | 19 521 | 29 615 |
| | **2005** | **2 558** | **1 679** | **923** | **5 305** | **10 465** | **4 008** | **3 821** | **1 613** | **10 654** | **20 096** | **30 561** |

## Race distribution as per the Financial Sector Charter definition

| Management levels | FSC target (for 2008) % | Absa's status 31 March 2005 % |
|---|---|---|
| **Executive management** | | |
| • Black people as a % of executive management | 25 | **25,5** |
| • Black women as a % of executive management | 4 | **8,5** |
| **Senior management** | | |
| • Black people as a % of senior management | 20-25 | **16,9** |
| • Black women as a % of senior management | 4 | **3,4** |
| **Middle management** | | |
| • Black people as a % of middle management | 30 | **20,1** |
| • Black women as a % of middle management | 10 | **7,1** |
| **Junior management** | | |
| • Black people as a % of junior management | 40-50 | **25,2** |
| • Black women as a % of junior management | 15 | **12,1** |

## Appointments per ethnic group

as at 31 March

| | **2005 %** | 2004 % | 2003 % |
|---|---|---|---|
| African | **42,3** | 37,0 | 33,5 |
| Coloured | **29,0** | 28,5 | 25,8 |
| Indian | **13,0** | 14,5 | 16,4 |
| White | **15,7** | 20,0 | 24,3 |

## Promotions per ethnic group

as at 31 March

| | **2005 %** | 2004 % | 2003 % |
|---|---|---|---|
| African | **25,0** | 22,0 | 16,7 |
| Coloured | **22,8** | 17,7 | 17,0 |
| Indian | **11,9** | 9,9 | 10,1 |
| White | **40,3** | 50,4 | 56,2 |

Absa's remuneration offering includes fixed, variable and intangible elements that can be bundled in unique ways to ensure that the aims of the remuneration strategy are achieved.



**Resignations per ethnic group**

as at 31 March

| | **2005 %** | 2004 % | 2003 % |
|---|---|---|---|
| African | **22,0** | 17,2 | 15,9 |
| Coloured | **16,5** | 15,7 | 14,7 |
| Indian | **8,5** | 6,7 | 5,8 |
| White | **53,0** | 60,4 | 63,6 |

## Remuneration

Absa's approach to remuneration is soundly embedded in its integrated approach to human capital. The Group's remuneration philosophy focuses on:

- providing maximum flexibility and choice for individuals;
- differentiating appropriately between employees on the basis of contribution and potential contribution;
- accountability and ownership resting with line managers; and
- alignment with governance and values.

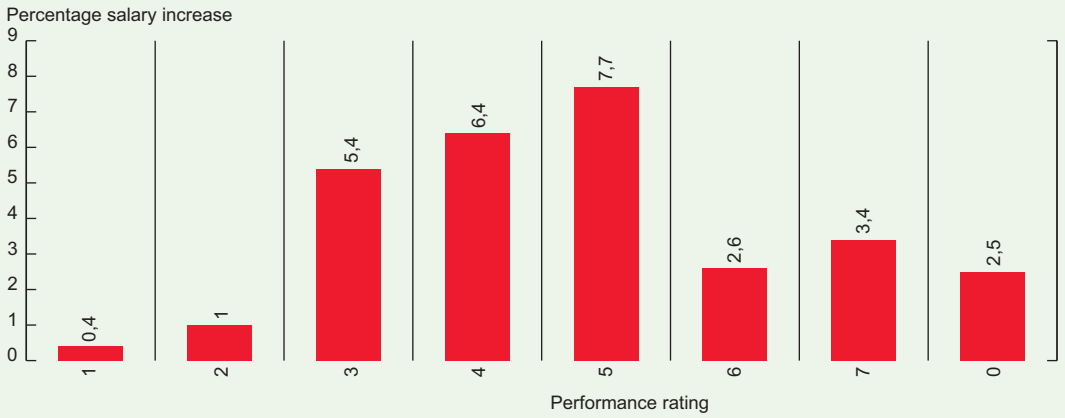
This philosophy is included in the Group's remuneration strategy, which is approved by the Group Remuneration Committee. The Group's remuneration strategy is customised for each business unit to enhance the unit's ability to attract, retain and motivate employees while ensuring the productivity of remuneration rands spent. The benefit of this approach is an enhanced ability to compete in the "war for talent" while ensuring that remuneration translates the business strategy in a way that employees understand.

Absa's remuneration offering includes fixed, variable and intangible elements that can be bundled in unique ways to ensure that the aims of the remuneration strategy are achieved.

A renewed focus on fixed pay is ensuring that Absa's remuneration offering is competitive. Absa uses individual total cost to company (total package including cost of company contributions) as a basis for determining market competitiveness. The employees' guaranteed package quantum is determined by their current position relative to the market and their individual performance and potential as defined by the criteria established in the Leading the Absa Way process. Remuneration packages are reviewed annually.

The annual remuneration review (package adjustments) for 2005 was completed successfully within the approved mandate. The average increase for the Group was 5,5%. The graph below indicates the distribution of increases relative to performance. There was a satisfactory differentiation between the average increases afforded per performance rating.

**Remuneration increases in relation to performance**




Performance rating 1: Did not meet the requirements at all

Performance rating 2: Met requirements to limited extent only

Performance rating 3: Met agreed requirements

Performance rating 4: Exceeded requirements to some extent

Performance rating 5: Exceeded requirements to a large extent

Performance rating 6: Too new to rate

Performance rating 7: Not appraised

Performance rating 0: No rating

The impact of the annual review exercise was such that the overall average monthly remuneration increased from R10 745 in the previous reporting period to R11 445 in the period under review.

**Average monthly remuneration per employee**

as at 31 March

| | Rand |
|---|---|
| **2005** | **11 445** |
| 2004 | 10 745 |
| 2003 | 9 681 |

## Absa provides a range of flexible employment conditions supported by a selection of employment benefits that have contributed to Absa being a sought after employer.

The average guaranteed package per gender and job level is reflected below.

| Job level | Average guaranteed package 31 March 2005 | | |
|---|---|---|---|
| | Group-wide | Male | Female |
| Semi/unskilled | 45 791 | 48 516 | 44 680 |
| Clerical | 66 168 | 64 319 | 66 679 |
| Technical specialist | 104 101 | 109 125 | 101 870 |
| Supervisory/administration | 120 804 | 127 020 | 118 898 |
| Middle management | 296 416 | 319 610 | 255 468 |
| Specialist | 288 106 | 308 318 | 254 862 |
| Senior specialist | 678 459 | 684 094 | 650 687 |
| Executive management | 661 243 | 659 435 | 646 896 |

Employees also obtain conditional remuneration, whereby they are rewarded based on their performance and the Group's performance. Allocations are made to employees twice a year, coinciding with the release of the Group's interim and annual financial results.

Employees are also eligible for variable remuneration, which includes short- to medium-term performance-related incentive schemes.

Absa applies a consistent approach to designing short-term incentive schemes that ensures adherence to governance principles. Incentive schemes are reviewed continuously as the business evolves. The allocation of incentive awards is closely aligned with the performance management process in each business unit. There is an effective differentiation between poor, acceptable and exceptional performance.

Absa's long-term incentive scheme is a share option scheme in which approximately 2% of Absa's key employees participate. The scheme is being refined to take into account changes in taxation and to include performance criteria.

The intangible element of remuneration includes recognition. Recognition schemes such as management awards celebrate the achievement of employees.

### Employment conditions and employee benefits

Absa provides a range of flexible employment conditions supported by a selection of employment benefits that have contributed to Absa being a sought after employer. Employment conditions are based on the principles of fairness, non-discrimination and maximum managerial discretion, taking into account the requirements of all relevant legislation.

Absa recognises differing employee needs and therefore offers a range of employment contracts including full-time, half-day, part-time and teleworking arrangements. The Absa contact centre offers a 24 hours a day, seven days a week service and contracts must accommodate these business requirements.

In addition to traditional employee benefits such as pension fund, medical aid and group life benefits, Absa offers a range of optional insurance products, including funeral cover as well as vehicle and household cover, at competitive prices. The full range of financial products is offered to employees, with mortgage advances and vehicle finance being offered at fringe benefit rates.

Absa's leave policy allows employees the flexibility of accumulating or encashing days that are granted in excess of statutory leave. Paid maternity leave is also offered, subject to certain qualifying criteria.

As part of Absa's flexible employment offering, employees can choose how they construct their remuneration packages. Arrangements are in place to ensure that vehicle allowances are adapted to suit individual use.

Pension fund options allow members to choose portfolios that suit their individual risk profiles and also support employees in planning a well-balanced retirement funding approach. Employees can elect to make additional pension fund contributions and whether or not they would like an annual bonus (13th cheque).

The medical aid offering supplied by Bankmed (the banking industry's medical aid provider) is also flexible.
A number of plans and options are available to employees. This enables them to choose a plan that is affordable and that suits their particular life stage. A special feature of Bankmed is the range of disease management programmes offered to members. The programme for HIV/Aids is an integral part of Absa's HIV/Aids approach.

Specific accountabilities and checks and balances are in place to ensure that employees are institutionally entitled to fair employment practices. There are effective dispute resolution mechanisms to address situations where these principles are not observed.



The total benefit offering to employees, inclusive of all features, is constantly benchmarked and reviewed to ensure competitiveness.

Information pertaining to all employment conditions and benefits is accessible to Absa employees on the Group's intranet and is also covered during the orientation of new employees.

## Labour relations and employee representation

### Human rights and prevention of discrimination

The Group's commitment to observe all the constitutional rights of employees is confirmed and articulated in various policy documents and statements. These include Absa's industrial relations policy statement and policies in general, the Absa values, the Absa growth charter, and the Absa ethics policy and code of ethics. Sasbo (the formally recognised trade union) plays an important "gate keeper" role, enforcing accountability and compliance.

The interactive process between employer and employees in Absa is well developed on principles of fairness, equity and industrial democracy. Specific accountabilities and checks and balances are in place to ensure that employees are institutionally entitled to fair employment practices. There are effective dispute resolution mechanisms to address situations where these principles are not observed.

Absa's industrial relations policy is available on Absa's intranet site and is periodically reviewed by Group People Management to ensure optimisation and alignment with legislative requirements.

### Freedom of association

The principle of freedom of association is formally endorsed in Absa's industrial relations policy statement and in Absa's industrial relations manual on trade unions, which is accessible on the Absa intranet site. These policy documents are reviewed when necessary.

### Child, forced and compulsory labour

The prohibition of child, forced and compulsory labour is dealt with in the Group's talent-sourcing and selection policy, which is reviewed periodically.

### Appeal practices

Absa's disciplinary policy provides for a review process by which any disciplinary decision can be reviewed through a paper-based submission to a hierarchically higher organisational level.

### Dealing with dishonesty, corruption and unethical behaviour

Dishonesty, corruption and unethical behaviour, as recognised offences, are catered for in Absa's disciplinary code.

### Reassignment and retrenchment

Absa has a reassignment and retrenchment policy designed to deal with redundancy in the organisation owing to restructuring exercises. Redundant employees are afforded three consecutive months on full remuneration after being declared redundant to explore the possibility of alternative employment in the Group.

### Trade union relationships and worker participation

Absa has a formal recognition agreement with Sasbo, the financial services industry trade union, which operates within the bargaining unit.

#### *Sasbo membership*

Within the bargaining unit, 60% of non-managerial employees belong to Sasbo. At managerial level, 37% of employees belong to Sasbo.

#### *Dialogue with the trade union*

The negotiation and consultation forum (NCF) meets four times per year. One of these meetings deals with the annual remuneration review, with provision for one extra sitting of the NCF, should negotiations in respect of the annual remuneration review not be completed during the session scheduled in November each year. The other three sessions are used for negotiation and consultation relating to people policies and procedures. Apart from this formalised interaction between Absa and Sasbo, additional ad hoc consultation or negotiation sessions take place when necessary to consult in respect of restructuring exercises or to negotiate changes in conditions of employment or review policies.

#### *Worker participation in decision-making*

Worker participation in decision-making takes place mainly through the recognised trade union.

#### *Policy and procedures for consultation and negotiation*

Group Industrial Relations, in conjunction with the relevant people management role-players, meet:

- on an ad hoc basis in consultation with Sasbo, when changes necessitated by operational requirements are taking place; and
- on either an ad hoc basis (localised changes), or through the scheduled negotiation and consultation forum sessions (general changes) when any changes to conditions of employment are negotiated.

### Employee grievance mechanisms

There is an official grievance procedure comprising three progressive stages in Absa. In the period under review, the mechanisms provided by the current grievance procedure and, in particular, its ability to facilitate the effective handling of equity and diversity-related grievances, were reviewed. The result of this review was an amendment of the procedure so that special and expeditious attention is granted to such grievances at a central organisational level.

Absa's wellness programme aims to be holistic in its approach and the focus areas include six wellness dimensions: physical, social, occupational, emotional, intellectual and spiritual.

***Recorded grievances by employees***

Grievance-related queries received at the people management contact centre amounted to 491 for the period under review (1,6% of employees), or an average of 41 queries per month.

These queries display a pattern, with noticeable peaks in the months of February, March, April and May. These months are normally associated with performance appraisals and subsequent remuneration increases.

It must be noted that the actual grievances lodged are decidedly fewer than the number of queries received.

The Absa grievance policy specifically makes mention of the fact that no employee may be victimised or prejudiced solely because of having lodged a grievance.

***Grievance procedure communication and training***

The full disciplinary and grievance code and procedures are available on Absa's intranet site. This communication is further supported by dedicated resources at the people management contact centre. Regular communication sessions accessible to employees are broadcast on internal television broadcasts, supported by material published on the Group's intranet site.

Training is regularly provided to main role-players in the process. This ensures skills updates as well as alignment with new case findings and legislation pertaining to the codes. This is supported by publishing regular updates and articles pertaining to general industrial relations issues on the Group's intranet site.

**Compliance**

No contraventions of any labour legislation occurred in the period under review. In addition, no litigation pertaining to discrimination, anti-union practices or alleged human rights violations occurred during the period under review.

## Employee wellness

Wellness is a dynamic process of awareness, making conscious choices and striving toward a more balanced lifestyle. Work wellness involves the absence of illness as well as the existence of a positive work-related state of mind.

Absa's wellness programme aims to be holistic in its approach and the focus areas include six wellness dimensions: physical, social, occupational, emotional, intellectual and spiritual.

The objectives of Absa's wellness programme are to:

- raise the awareness of employees with regard to the concept and practices of wellness and health;
- create opportunities for the adoption of healthier lifestyle choices; and
- facilitate advancement in lifelong learning and lifelong application of wellness lifestyles.

Awareness is created by communicating via Absa's communication media, conducting "wellness days" in all the main centres, training peer wellness champions in all the provinces, posting wellness articles and providing access to Red Ribbon (an internet site dedicated to HIV and Aids) on the Absa intranet site and addressing queries through the people management contact centre.

Wellness interventions include conducting coaching sessions through the "health cells" concept from Bankmed as well as conducting introductory courses available from Absa's Learning and Development department.

A number of assessments are provided, resulting in the mentoring and upskilling of employees, changing their lifestyles through wellness support.



### Wellness services and programmes in Absa

The main goal of wellness programmes is to provide high quality, cost-effective services and programmes in the wellness area. Services include:

- **Trauma counselling** – counselling provided to employees traumatised by incidents such as robberies, rapes and hijackings.
- **Psychological counselling** – telephonic counselling in terms of relationships, stress, addiction and other issues. Employees are referred to local specialised counsellors, if necessary, after the telephonic interaction.
- **Injuries on duty** – assistance to injured employees as well as management and reporting of injuries on duty, as prescribed by legislation.
- **HIV/Aids** – awareness, education and risk assessment of people in Absa affected by this pandemic.
- **Physical activity and ergonomics** – providing bio-kinetic services to support employees in physical activity programmes as well as advice in respect of ergonomics. This service includes a fully equipped gymnasium at the Absa campus.
- **Health promotion and support** – healthcare centres in Johannesburg, Pretoria, Kempton Park, Florida, Cape Town, Port Elizabeth and Durban to support employees in respect of physical health. Services provided are preventative as well as curative.
- **Top management programme** – assessment of the health risk of top management members and recommending lifestyle changes where required, as well as assistance in making such changes.
- **Disability management** – assistance in the management of long-term absence owing to injury, accidents or ill health, with a focus on the end-to-end handling of disability to incapacity.
- **Retirement planning** – Absa also has a number of courses available to assist employees with financial planning at retirement age.

### Wellness expenditure

The expenditure on occupational diseases (excluding HIV/Aids) amounted to R1 million for the year under review. This includes the cost of operating the healthcare centres in Absa, as well as support provided to Cansa through Absa's corporate social investment programmes.

An additional R160 000 was spent on related research and development, which includes research in terms of trauma counselling, stress and burnout.

The Absa Group is committed to creating and maintaining a safe working environment for all employees, and undertakes to deal with HIV-infected employees and/or employees with Aids in the same way as with employees suffering from any other life threatening disease.



## HIV/Aids policies/programmes

Absa recognises that the scope of the HIV/Aids pandemic in South and Southern Africa is such that it is likely to have a significant impact on the national economy.

The Group has a HIV/Aids programme, the primary objective of which is to minimise the potential impact of HIV/Aids and other life-threatening diseases on the Group and all its stakeholders.

Absa has a number of established HIV/Aids programme structures. These include an HIV/Aids steering committee which consists of various Executive Committee and Group Operational Committee members. The aim of the committee is to drive Absa's HIV/Aids process centrally. This committee consists of five focus teams with specific roles and responsibilities. The roles of the focus teams are:

- **Communication** – focusing on stakeholder engagement.
- **External pandemic impact containment** – focusing on community initiatives such as social support and environmental inputs.
- **Internal pandemic impact containment** – focusing on the prevention of infection and providing support to employees including awareness, education and counselling.
- **Internal economic impact containment** – focusing on containing related costs in respect of policies and benefits.
- **External economic impact containment** – focusing on product review, such as the evaluation of external risk and adjusting business plans and products accordingly.

The Group executive responsible for People Management oversees the programme.

Absa's Executive Committee is well informed of the activities in the programme through formal quarterly reports, presentations as well as personal involvement in various projects.

### A summary of Absa's HIV/Aids policy

The Absa Group is committed to creating and maintaining a safe working environment for all employees, and undertakes to deal with HIV-infected employees and/or employees with Aids in the same way as with employees suffering from any other life-threatening disease. This is done with due consideration for all stakeholders, while addressing the issue in a positive, supportive and non-discriminatory manner.

At the same time, it is recognised that the HIV/Aids pandemic poses certain unique challenges and thus requires a specific focus. The company recognises that HIV/Aids and life-threatening diseases are a serious threat to the company and its employees, and that such diseases have the potential to negatively impact on both the company and individual employees.

Absa's objectives of addressing HIV/Aids are to:

- provide guidelines on the management of HIV/Aids and other life-threatening diseases in the workplace;
- protect the health and legal rights of employees at work who have a life-threatening disease, or who are HIV positive, or have Aids, including confidentiality;
- minimise, as far as possible, the spread of the disease and its impact in the organisation and on all stakeholders;
- with compassion, dignity, respect and, in a way that is free of discrimination, encourage those employees who are affected to seek counselling and other support services to improve their overall health status;
- ensure that the company continues to provide a safe, healthy and productive working environment for all employees and stakeholders by creating awareness, providing preventative programmes and supporting appropriate changes in behaviour; and
- ensure adherence to formal legal requirements and labour legislation.

The core principles of Absa's HIV/Aids policy are such that an individual's HIV status shall not constitute a reason to preclude any person from employment during recruitment or in respect of continued employment or termination of services. Every employee has a right to privacy, therefore an employee who contracts HIV/Aids shall not be obliged to inform management of his/her condition.

Confidentiality regarding the HIV or health status of any member of staff will be maintained at all times, and will not be divulged to any other person without the prior written consent of the employee with the disease.

Absa's HIV/Aids policy is revised every two years by the Group's People Management division and approved by the Group Executive Committee and the recognised trade union. Ultimate accountability for the policy resides with the executive director responsible for People Management. The policy is available to all employees on the Group's intranet site.

Absa's HIV/Aids policy and strategy was determined using a consultative approach between employees, the People Management division and senior management in the Group. Inputs to the process were also obtained from internal and external experts.

### Benefits provided to affected employees

Medical assistance is provided for employees with HIV/Aids in accordance with the rules of the medical aid scheme to which they belong. All benefits are applied equally to all employees, and employees with HIV/Aids are handled in the same way as a person with any other life-threatening or medical condition, as outlined in the company policy and rules.

When an employee is no longer able to continue employment as a result of the impact of HIV/Aids or any other life-threatening disease on that employee's health, the company applies its rules regarding retirement owing to ill health and incapacity.

Specific benefits provided to HIV/Aids employees include sick leave (additional if disabled), disability benefits that amount to two times an individual's annual salary, continued medical aid membership, as well as capital and pension benefit payments to the spouse and children should the employee perish.

All benefits are reviewed regularly and strategies are implemented to protect the long-term rights and interests of all stakeholders fairly and equitably.

HIV-positive Absa employees and their dependants can participate in a specialised disease management programme. This programme is based on a treatment protocol designed by HIV clinical experts and is delivered by the bank's medical aid scheme (Bankmed).



### Management of infected employees

The Occupational Health and Safety Act requires employers, as far as it is reasonably practicable, to create a safe working environment, and the company will ensure compliance with this Act.

Management of the disease (and affected individuals) is focused on the provision of healthcare and counselling support to employees with HIV/Aids and other life-threatening diseases, with specific reference to the following services:

- Information, education and communication activities;
- Providing and distributing condoms at appropriate and convenient sites;
- Counselling support for affected employees in an anonymous and non-discriminatory fashion; and
- Personal protective equipment and training of all employees who may be potentially exposed to blood or blood products.

The company is committed to encouraging affected employees to use the available counselling and related services and encourages them to establish appropriate support and networking groups. These services are provided as part of the company's employee assistance and support programme and may be provided via referral to suitable community-based service providers.

HIV-positive Absa employees and their dependants can participate in a specialised disease management programme. This programme is based on a treatment protocol designed by HIV clinical experts and is delivered by the bank's medical aid scheme (Bankmed). Treatment includes medication (such as anti-retrovirals and prophylaxis), drugs for preventing mother to child infection, preventing infection after rape or needle stick injury, treatment to prevent secondary infections as well as ongoing support via a dedicated helpline.

### HIV/Aids initiatives

During the period under review, Absa focused a significant amount of effort on various HIV/Aids initiatives, which included the following:

- Gaining an understanding of the progression of the HIV/Aids pandemic in Absa's workforce through a demographic analysis. According to this survey, the level of infection in the Group is low (below 4%) when compared with that of the general South African population.
- Conducting a prevalence survey to understand the risk levels of the pandemic in the organisation. This survey was done anonymously and voluntarily. As the banking industry worked together to commission the survey, the prevalence result of 3,4% reported is a banking industry result.

- Gaining an understanding of the factors that both increase and decrease the vulnerability of Absa's employees to HIV/Aids, through conducting a knowledge, attitudes and practices (KAP) study. The study was based on both qualitative and quantitative data and was conducted among all levels of employees. The study revealed that Absa's employees have a high level of awareness of HIV/Aids.
- Training and accrediting a group of lay counsellors to do pre- and post-test counselling as well as to assist employees with crisis intervention.
- Developing and executing a versatile education and information programme to meet the specific requirements and needs of various target audiences, using a number of available communication media, such as internal television, face-to-face information sessions with members of management, the Group's newsletter, frequently asked questions and answers, other HIV/Aids-related articles and information on the Group's intranet site.
- Developing and executing a condom distribution programme.
- Planning a health risk assessment programme offering all employees the opportunity to participate in a health risk assessment that will also include voluntary HIV/Aids counselling and testing. The outcome of this is to support employees in making the required lifestyle changes.

**Estimated impact associated with HIV/Aids**

Assuming a 3,4% prevalence (as per the banking industry), the impact on Absa is an estimated R1,3 million per annum. This amount includes absenteeism costs, replacement costs, training and retraining costs, time off to attend funerals, and time off to look after immediate family members. This potential impact has been minimised by a review of all the related policies with amendments made with regard to the benefits of infected and non-infected employees.

The top five health and safety risks to Absa are mainly soft tissue injuries caused by slipping and tripping, falling from stairs, moving, opening, lifting and handling of objects, vehicle accidents and finger injuries owing to closing and opening doors and drawers.



Direct impact on business operations is expected to be minimal owing to normal business risk management practices.

### HIV/Aids expenditure

A total of R6,3 million was spent on HIV/Aids. Of this, R1,1 million was internal in nature, and includes research, awareness campaigns, communication, surveys (such as prevalence surveys) and other assessments. The amount does not include the referral of HIV-positive employees to Bankmed, whose services include pathology tests, medical care and the provision of anti-retroviral medicines.

The external component of HIV/Aids costs amounted to R5,2 million and includes corporate social investment initiatives such as supporting families through home-based care, training volunteers, orphan support, HIV/Aids education and awareness. All of this is done through non-profit organisations (NPOs) and community-based organisations (CBOs).

## Occupational health and safety

### Absa's occupational health and safety policy

Absa has an occupational health and safety policy. This policy covers employer and employee responsibilities in terms of the Act, as well as the nomination and election of the environmental health and safety teams (first aiders, fire co-ordinators and health and safety representatives), and the forming of committees. The handling of injuries on duty, incident investigations, conducting risk assessments, contractors on Absa's premises and emergency evacuations is also outlined in the policy.

The policy is communicated by an orientation programme for all new employees and a compulsory general awareness programme, which includes a test that has to be completed by employees. The policy is available on Absa's mainframe and the intranet, so all employees have access to it. General health and safety issues are communicated through internal television programmes, the employee newsletter and a monthly report to regional business units.

### Absa's top five health and safety risks

The top five health and safety risks to Absa are mainly soft tissue injuries caused by slipping and tripping, falling from stairs, moving, opening, lifting and handling of objects, vehicle accidents and finger injuries owing to closing and opening doors and drawers.

The majority of these injuries are caused as a result of employees' negligence. Employees are made aware of how to take care of themselves and be more cautious and observant in their activities through training done by health and safety representatives, a general awareness programme and placing articles in the employee newsletter.

### Governance

Absa has environmental, health and safety committees. The mandate of these committees is to:

- choose a chairperson and to formulate the committee's procedures (including dates and times of meetings, training requirements and co-opting people with particular knowledge of health or safety matters as advisory members of the committee);
- conduct inspections and incident investigations;
- make recommendations to management regarding their findings;
- keep records of each recommendation made to employers;
- accompany inspectors from the Department of Labour, Absa's internal auditors or health and safety auditors during an inspection; and
- identify risks by means of monthly reports received from the external consultant, Corporate Investment Risk Consultants (Circ), which attends to the Group's injury on duty reporting and liaises between all stakeholders.

### Compliance

Health and safety audits are carried out three-yearly at low-risk workplaces and annually at high-risk workplaces. These audits are undertaken by the Group's Environmental, Health and Safety department. The National Occupational Safety Association (NOSA) system is used to conduct the audits. Absa's internal auditors also conduct environmental health and safety audits as per their audit programme, focusing on adherence to policies and procedures. Results are communicated to the respective business units audited.

Monthly reports regarding general trends and findings are submitted to the general manager: Group Security, Safety and Continuity for escalation.

Circ, an external consultant, was appointed to liaise with the Compensation Commissioner on behalf of the Group. The main aim of this appointment is that all injuries should be reported to Circ, which assists the relevant parties with completing documentation and concluding claims.

No directives have been issued from the Health and Safety Commissioner during the year under review.

#### *Compliance with the ILO guidelines for occupational health management systems*

Corporate Risk Management (CRM), a consulting company specialising in occupational health and safety, has developed a system for the Group. The ISO 18000 (international occupational health and safety standards) guidelines have been studied and the Absa system compares favourably with these guidelines.

### Trade union agreements

No agreement has yet been concluded with Sasbo with regard to the appointment of safety representatives. However, Absa's policy in this regard has been revised and forwarded to Sasbo for approval.

The Absa Group board is the custodian of the revision of the policy and code of ethics in the workplace. The policy and code are regularly reviewed, with the input of the various interested parties and stakeholders.



### Health and safety statistics

for the year ended 31 March

#### Injuries and days lost

| | Injuries | Days lost |
|---|---|---|
| **2005** | **268** | **1 292** |
| 2004 | 328 | Not recorded |
| 2003 | 303 | Not recorded |

Note: No separations have been made between incidents, accidents and diseases.

***Absentee rates and days lost to strikes, other industrial action and disciplinary procedures***

During the period under review, no days were lost to strikes, other industrial action or disciplinary action.

***New illnesses***

No new illnesses were reported for the year under review.

### Health and safety expenditure

During the period under review, R4,5 million was spent on health and safety. Included in the costs are retainers paid to external service providers, services provided in Absa health carecentres and gymnasium facilities, as well as environmental health and safety departmental costs related to employee training, auditing workplaces and risk assessments. Retainers are also paid to external service providers to attend to first-aid and fire warden training and to conduct specialised tests for noise, dust and air quality. The installation of first-aid equipment at all workplaces is also included.

## Absa's policy and code of ethics in the workplace

Absa has a policy and a code of ethics in the workplace that applies to all employees.

### Purpose

Absa aspires to achieve and maintain a commitment to the highest levels of honesty, integrity and diligence in all its business dealings. The purpose of the policy and code of ethics is to establish guidelines for ethical business conduct to help employees live up to this commitment.

### Focus areas

The focus areas include:

- Transparent interaction between business associates and customers;
- Managing conflicts of interest with Absa's customers and its suppliers;
- Confidentiality, including sourcing and safeguarding of information;
- Transparent communication, advertising and business proposals;
- The use of Group funds, property and resources;
- Contributions to outside organisations, including political support;
- The payment of commissions and broker fees; and
- The use of software, including prohibiting the use of illegal software.

### Scope

The policy and code aim to provide guidelines for business conduct that the Group considers as acceptable. Compliance with the policy and code of ethics in the workplace is compulsory and is monitored by a dedicated official in the Group Compliance department. Disciplinary procedures, criminal and civil charges are instigated for unethical or dishonest behaviour. If employees are found guilty of dishonesty during internal procedures, they are reported to the Banking Council for listing on the industry's register.

The Absa Group board is the custodian of the revision of the policy and code of ethics in the workplace. The policy and code are regularly reviewed, with the input of the various interested parties and stakeholders. The implementation of the policy and code of ethics in the workplace is the responsibility of Absa's executive directors, line managers and supervisors. Monitoring compliance with the code is the responsibility of the Group Compliance department.

The policy and code are communicated in a variety of ways, mainly by means of a booklet – The Absa Spirit. All current employees have received a booklet and every new employee receives one during the socialisation and orientation process. The policy is also permanently available on the Absa Group intranet site.

In Absa, through various risk control procedures, the effects of unethical behaviour are limited. Absa has appointed the Group executive: People Management as the ex officio ethics officer.

As part of the Group's risk management strategy, extensive effort is made with regard to talent selection to minimise the risk associated with dishonest and unethical behaviour. In the year under review, the process for integrity screening was reviewed.

Absa has a helpline to facilitate the reporting of possible fraudulent, corrupt and unethical behaviour in the Group. The line is available for employee use 24 hours a day, seven days a week. Group Forensics has implemented a crime prevention award scheme to encourage reporting transgressions.

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

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

The board is satisfied that Absa's policy and code of ethics in the workplace is being adhered to in all respects.

Absa has a helpline to facilitate the reporting of possible fraudulent, corrupt and unethical behaviour in the Group. The line is available for employee use 24 hours a day, seven days a week.



## Employee statistics

The Group's total employee complement at 31 March 2005 was 32 515. This is 857 more than at 31 March 2004. These statistics include Absa's offshore operations and other entities that are consolidated into the Group's financial statements. Half-day employees are included and expressed as 0,5 of a full-time employee.

### Employee base

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Full-time employees (South African and international operations) | **30 841** | 29 895 | 29 968 |
| Employees in other entities consolidated into the Group's financial statements | **1 674** | 1 763 | 2 388 |
| | **32 515** | 31 658 | 32 356 |
| Temporary employees | **2 002** | 1 718 | 2 128 |

The remainder of the statistics in this section of the report exclude employees in overseas offices and employees in other entities consolidated into the Group's accounts. The statistics include all half-day employees. Absa's People Management division directly reports demographically on the Group's domestic operations. Employees in overseas offices are not reported demographically, nor are employees in other entities consolidated into the Group's financial statements.

### Full-time equivalent

The full-time equivalent of temporary employees for 31 March 2005 was 1 172.

The estimation of the permanent employees equivalent versus temporary employees converts the number of temporary and casual employees employed in a specific period to a permanent equivalent by means of the following formula:

*The sum of the remuneration cost of permanent employees on job levels up to and including technical employees is used to determine the average remuneration cost per employee in this group. The sum of the remuneration cost of temporary and casual employees is then divided by this estimate to determine how many permanent employees would have been employed.*

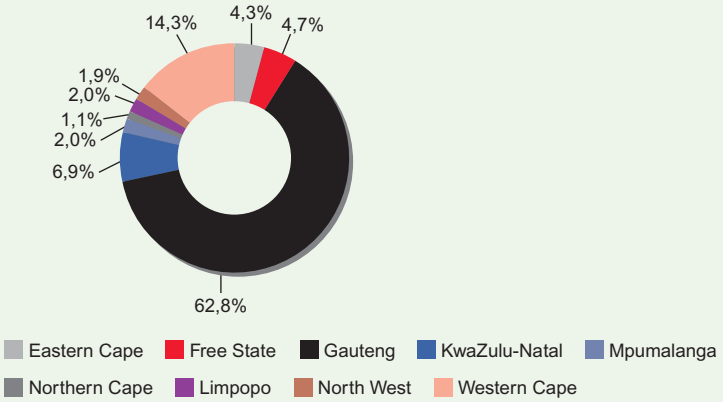
## Employee demographic analysis

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | **Number** | **%** | Number | % | Number | % |
| **Gender distribution** | | | | | | |
| Female | **20 096** | **65,76** | 19 521 | 65,92 | 19 554 | 65,81 |
| Male | **10 465** | **34,24** | 10 094 | 34,08 | 10 160 | 34,19 |
| Total | **30 561** | **100,00** | 29 615 | 100,00 | 29 714 | 100,00 |
| **Non-management level split by gender** | | | | | | |
| Female | **17 667** | **74,62** | 17 348 | 75,09 | 17 667 | 74,90 |
| Male | **6 010** | **25,38** | 5 755 | 24,91 | 5 921 | 25,10 |
| Total | **23 677** | **100,00** | 23 103 | 100,00 | 23 588 | 100,00 |
| **Management and senior specialist level split by gender** | | | | | | |
| Female | **2 429** | **35,28** | 2 173 | 33,37 | 1 887 | 30,80 |
| Male | **4 455** | **64,72** | 4 339 | 66,63 | 4 239 | 69,20 |
| Total | **6 884** | **100,00** | 6 512 | 100,00 | 6 126 | 100,00 |
| **Ethnic distribution** | | | | | | |
| African, Coloured and Indian | **14 602** | **47,78** | 12 541 | 42,35 | 11 180 | 37,63 |
| White | **15 959** | **52,22** | 17 074 | 57,65 | 18 534 | 62,37 |
| Total | **30 561** | **100,00** | 29 615 | 100,00 | 29 714 | 100,00 |
| **Non-management level split by ethnic group** | | | | | | |
| African, Coloured and Indian | **10 646** | **44,96** | 11 385 | 49,28 | 10 356 | 43,90 |
| White | **13 031** | **55,04** | 11 718 | 50,72 | 13 232 | 56,10 |
| Total | **23 677** | **100,00** | 23 103 | 100,00 | 23 588 | 100,00 |
| **Management and senior specialist level split by ethnic group** | | | | | | |
| African, Coloured and Indian | **1 571** | **22,82** | 1 156 | 17,75 | 824 | 13,45 |
| White | **5 313** | **77,18** | 5 356 | 82,25 | 5 302 | 86,55 |
| Total | **6 884** | **100,00** | 6 512 | 100,00 | 6 126 | 100,00 |

## The Group's total employee complement at 31 March 2005 was 32 515. This is 857 more than at 31 March 2004.

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | **Number** | **%** | Number | % | Number | % |
| **Age distribution** | | | | | | |
| Up to 25 years | **5 353** | **17,52** | 4 844 | 16,36 | 4 828 | 16,25 |
| 26-35 years | **11 651** | **38,12** | 11 356 | 38,35 | 11 323 | 38,11 |
| 36-45 years | **7 711** | **25,23** | 7 579 | 25,59 | 7 764 | 26,13 |
| 46-55 years | **4 636** | **15,17** | 4 594 | 15,51 | 4 598 | 15,47 |
| Over 55 years | **1 210** | **3,96** | 1 242 | 4,19 | 1 201 | 4,04 |
| Total | **30 561** | **100,00** | 29 615 | 100,00 | 29 714 | 100,00 |

**Employees split per geographical region**



## Length of service

| Average length of service | % |
|---|---|
| • 0-2 years | 22,3 |
| • 2-5 years | 17,8 |
| • 5-10 years | 24,3 |
| • 10-15 years | 12,6 |
| • 15-20 years | 12,1 |
| • 20-30 years | 9,2 |
| • 30 years plus | 1,7 |
| **Total** | **100,0** |

## Employees with disabilities

as at 31 March

| Number of employees | 2005 | 2004 | 2003 |
|---|---|---|---|
| African | **15** | 19 | 21 |
| Coloured | **25** | 30 | 29 |
| Indian | **10** | 12 | 11 |
| White | **256** | 276 | 264 |
| **Total** | **306** | 337 | 325 |

## Employee turnover

as at 31 March

| | 2005 % | 2004 % | 2003 % |
|---|---|---|---|
| African, Coloured and Indian | **10,7** | 11,6 | 16,4 |
| Overall | **10,9** | 12,5 | 16,2 |

## Absa's absenteeism rates are within the industry norm and are actively managed per business unit.

The reasons for terminations can be broadly grouped as follows:

| | For the year ended 31 March 2005 % |
|---|---|
| • Career prospects/own business | 42 |
| • Remuneration | 9 |
| • Retirement | 6 |
| • Misconduct/incapacity | 9 |
| • Retrenchment | 3 |
| • Family responsibilities/spouse transferred | 14 |
| • Function outsourced | 2 |
| • Health-related issues | 3 |
| • Deceased | 2 |
| • Other | 10 |
| **Total** | **100** |

### Absentee rates

The percentage of employees who used sick leave during the 2004 financial year was 68,7%. This increased slightly to 69,2% for the 2005 financial year. For the 2005 financial year, the average percentage of employees who used sick leave per month was 5,9%. Absa's absenteeism rates are within the industry norm and are actively managed per business unit.

# Stakeholder reporting – The community

## Introduction

Absa is committed to creating prosperity in the communities in which it operates. It is for this reason that corporate social investment (CSI) is such an integral part of Absa's business strategy. Absa's CSI programme is largely focused on developmental initiatives in the fields of education (specifically focused on training practitioners in the early childhood development arena and the development of mathematics, science and technology educators), entrepreneurship development/job creation and HIV/Aids.

Absa's involvement in these areas shows the Group's commitment to uplifting communities in which it operates, because when individuals are uplifted, communities flourish, the nation becomes stronger and development becomes sustainable.

## Key developments

- Corporate Care Check ranked Absa as the most caring financial institution, and the fifth most caring company in South Africa.
- Absa was also ranked as the most caring company according to decision-makers by the Business Social Monitor.
- Absa was rated as the financial sector company that makes the strongest contribution to development, as having the most hands-on approach to CSI, and the corporate that most strongly involves its employees in CSI by Trialogue in its 2004 corporate social investment handbook.

## Achievement against objectives

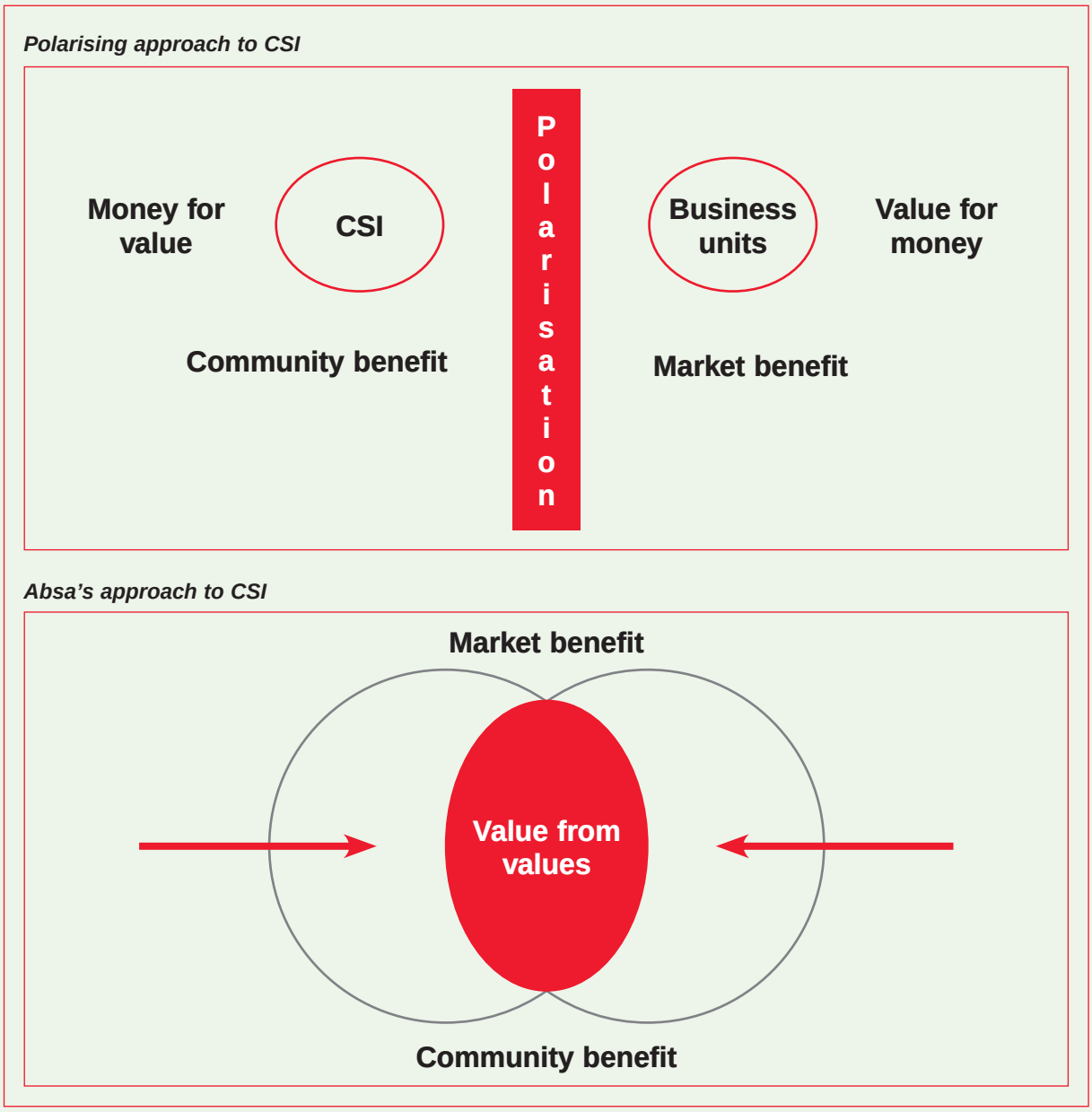
| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| • Absa seeks to enhance its contribution as a partner in growing South Africa's prosperity through responsible corporate citizenship. Key focus areas include:<br>– Education (early childhood development and a focus on mathematics, science and technology);<br>– Entrepreneurship/job creation; and<br>– Health, including HIV/Aids and cancer. | • The Absa Foundation disbursed R18,4 million to communities in which Absa operates over the financial year, with a specific focus on:<br>– Early childhood development = R1,5 million.<br>– Mathematics, science and technology = R3,9 million.<br>– Entrepreneurship = R4,4 million.<br>– HIV/Aids = R5,2 million. |
| • Increased employee involvement in community-related initiatives. | • Absa has a large employee community involvement programme that applies an integrated approach to involving its employees in the communities in which the Group operates.<br>• Business units in the Group are also involved in social investment initiatives, showing a spirit of corporate responsibility across the Group. |

## Absa CSI vision and strategic approach

Through involvement in the communities in which the Group operates, Absa seeks to enhance its contribution as a partner in growing South Africa's prosperity through responsible corporate citizenship.

Absa, in its role as caring organisation, partners with its stakeholders in community upliftment projects to contribute to the sustainable growth of communities and to ensure the strategic spread of CSI resources into targeted communities. CSI in Absa is more than a philanthropic exercise; it is seen as a business imperative and the CSI programme concentrates on supporting Absa's business objectives.

**Absa's approach to CSI**




CSI interventions in the Absa Group are primarily undertaken via the Absa Foundation, which is Absa's community development and social investment arm. In addition to interventions undertaken by the Absa Foundation, a number of divisions support the Group's CSI initiatives:

- through employee community involvement;
- by undertaking special projects such as Casual Day and World Aids Day;
- through sport sponsorship and development;

## Absa aims to align its CSI interventions with the government's national priorities and broader global developmental goals.

- by supporting the visual arts;
- by preserving the Group's heritage; and
- through entrepreneurial and other community-related investments.

Absa aims to align its CSI interventions with the government's national priorities and broader global developmental goals. These goals are as follows:

- The fight against HIV/Aids;
- Improving the quality of teaching and learning in the field of mathematics, science and technology;
- Making technology available to underdeveloped rural areas;
- Improving the state of corporate governance and building the capacity of development organisations;
- Improving the quality of life for women, the youth and the disabled;
- Ensuring environmental sustainability; and
- Working in strategic partnerships to maximise impact with the aim of improving living conditions for disadvantaged communities.

The focus for the future will be placed on:

- **ensuring business alignment** – Absa's CSI approach will continue to be informed by the Group's strategic business objectives and the government's national development priorities.
- **Financial Sector Charter (FSC) alignment** – for the forthcoming year, Absa will be adjusting its CSI allocation criteria to ensure compliance with the FSC scorecard indicators. In future, Absa will allocate 0,5% of post-tax operating profit to CSI spend.
- **national priorities alignment** – there is a clear intent on the part of Absa to work in partnership with the government, responding to key developmental challenges facing the country.
- **growing partnerships** – developing and maintaining CSI partnerships are critical to CSI delivery. It is Absa's strong partnering with community-based organisations (CBOs) and non-governmental organisations (NGOs) that has given credence to Absa's strong and visible CSI footprint nationally. Going forward, this focus will continue. In addition to this, emphasis will be placed on partnering with other corporates in the CSI environment, enhancing the impact of the projects undertaken.

## The Absa Foundation

### Governance

The Absa Foundation was established in 1994 and is the primary channel for the Group's social investment programme. The Absa Foundation is governed through a board of trustees, which has the ultimate deciding power regarding the allocation and distribution of CSI resources.

A dedicated team is appointed to execute Absa's CSI programme. The team is responsible for:

- prioritising and selecting CSI programmes;
- co-ordinating and managing social investment initiatives;
- reporting and accounting on all CSI programmes;
- stakeholder and partnership management for CSI purposes; and
- mobilising and facilitating employee community involvement and participation in corporate social investment initiatives.

### Absa Foundation's principles and key focus areas

The principles supporting the Absa Foundation's community development programme are:

- The Absa Foundation will enter into partnerships with not-for-profit organisations aimed at addressing social development needs.
- The Absa Foundation is committed to the development of mutually respectful and collaborative partnerships with grantees based on the principles of equality.
- The Absa Foundation is committed to practising fairness, openness and accountability in all its dealings with project applicants and partners in addition to being accessible to project partners and beneficiaries.
- All funding will be based on a thorough assessment of the programme/project to ensure that it is viable, sustainable and addresses a developmental need. Foundation representatives conduct on-site assessments of programmes/projects before entering into a funding partnership with organisations.
- The Absa Foundation is committed to multi-year funding relationships with organisations, which will be subject to the findings generated by the rigorous monitoring and evaluation of projects.

During the 2005 financial year, 347 projects were funded and managed by 15 project managers. Each project targeted specific communities and had a predetermined number of outcomes.

The Absa Foundation focuses on three key areas for its CSI initiatives:

- Education, with a specific focus on:
  - practitioner development in the field of early childhood development (ECD); and
  - educator development in mathematics, science and technology (MST);
- Entrepreneurship/job creation; and
- Health, including HIV/Aids and cancer.

Funding is guided by a coherent policy framework characterised by the following key principles and guidelines:

- A partnership approach, working through NGOs;
- Working with fewer partner organisations so as to increase reach; and
- Policy application through integrated approaches.



### Key metrics

#### *CSI spend by the Absa Foundation*

For the year under review, the Group invested 2% of declared dividends in the Absa Foundation for investment in community development projects. Through the R18,9 million allocated to the Absa Foundation by Absa during the 2004/05 financial year, Absa CSI initiatives impacted on the lives of many citizens in both the formal and informal sectors of the economy, society in general and state institutions. An additional R2,9 million was allocated for infrastructure and communication support for CSI initiatives.

One key performance metric of Absa's CSI programme is that there should be a 100% utilisation of allocated resources for each financial year. During the 2004/05 financial year, a 100% disbursement of the allocated funding was achieved.

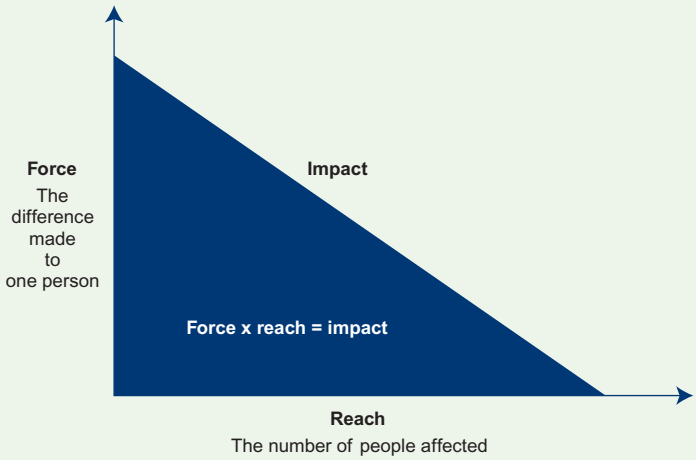
During the 2005 financial year, 347 projects were funded and managed by 15 project managers. Each project targeted specific communities and had a predetermined number of outcomes.

A more analytical approach has been adopted by Absa in terms of its reporting on CSI spend. This enables the Group to quantify spend against the spend impact. During the year under review, this process was refined and the working model improved. Through this, Absa was able to objectively analyse projects in each of the key focus areas and their impact, both in terms of beneficiaries and financial "returns" on the Group.

#### *Actual spend versus impact of spend*

The impact of each project funded by the Absa Foundation is calculated in rands. It is defined as "force" multiplied by "reach" (calculation of community spend impact). The rand impact of a project is measured by the difference the money granted has made to an individual either directly involved in the project or indirectly benefiting from the grant. Secondly, the rand impact is measured by the number of people that has been positively affected by the grant.

**Calculation of community spend impact**



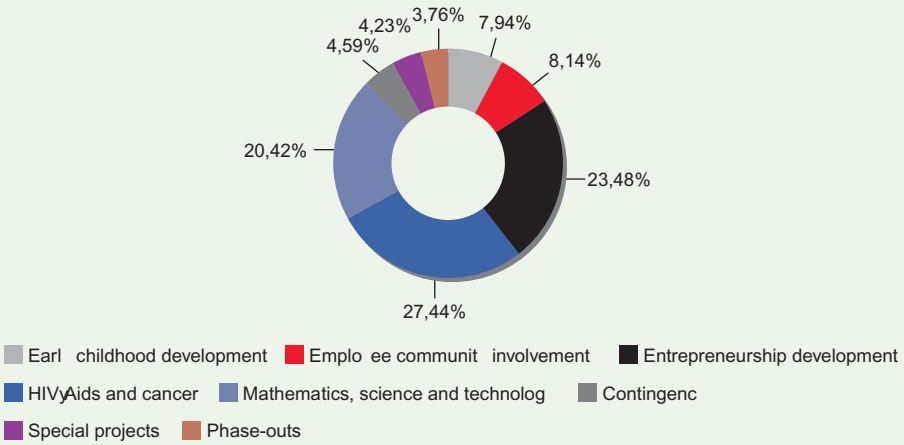

The key metrics in each programme look at the impact of spend in terms of:

- total impact of spend;
- impact of spend across programmes;
- impact of programme spend across provinces;
- impact of spend on national development priorities; and
- impact of spend in communities.

***Allocation of funds per key focus area***

Total spend across all programmes totalled R18,4 million, with the greatest spend on HIV/Aids (R0,5 million is for investment).

**Allocation of funds per key focus area**




**It must be noted that the percentages provided in the above graph are based on a statistic of R18,9 million. The rationale for this is that R18,4 million is provided for disbursement and R0,5 million for investment.*

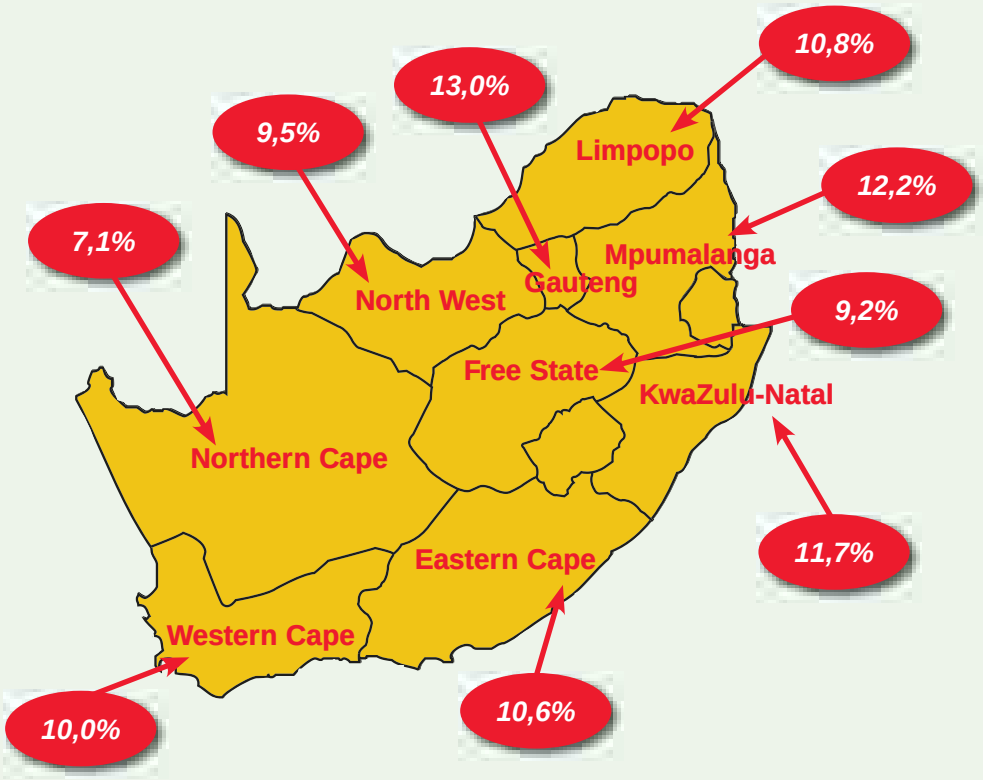
Funding for early childhood development (ECD) is channelled through NGOs, which assist Absa in the holistic education, care and development of young children from birth to six years of age.



***Allocation of funds per province***

The Absa Foundation allocates funds to projects throughout South Africa. The diagram below provides an indication of the allocation of funds per province.

**Geographical spread of funds**




Over and above the percentage spent per province, a further allocation of 5,91% was diverted towards national projects.

## Programme highlights

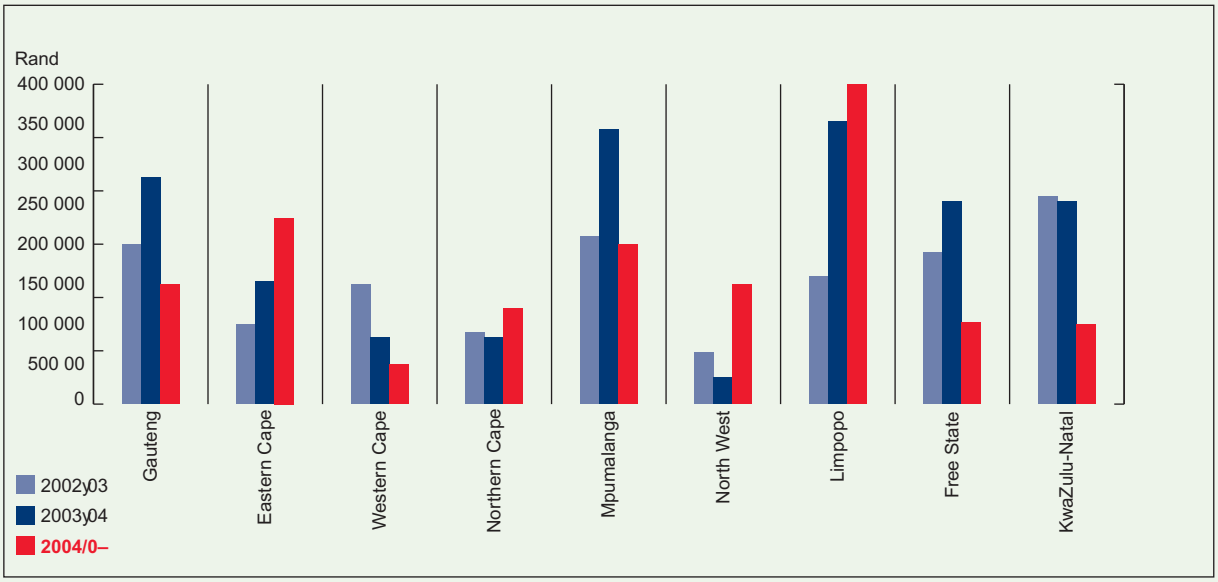
### *Education – Early childhood development*

Funding for early childhood development (ECD) is channelled through NGOs, which assist Absa in the holistic education, care and development of young children from birth to six years of age. Absa ensures the channelling of funds to project partners, enabling them to provide training modules incorporating approaches to children with special needs in early childhood development.

Absa's project partners also target under-resourced areas to provide toy libraries and educational kits. Absa's ECD programme further encourages the development of educational material for both practitioners and learners as well as the inclusion of business skills for the benefit of the practitioners.

The Absa Foundation spent R1,5 million on early childhood development programmes during the year under review.

**Early childhood development spend per province**



***Case study – Absa and the South African Congress for Early Childhood Development awards***

The ECD key focus area conveys the importance of an integrated approach to a child's development. It also stresses the importance of considering a child's health, nutrition, education, psychological and additional environmental factors in the context of the family and the community.

Through a partnership with the South African Congress for ECD, which is the national representative NGO for ECD representing the interests of over seven million young children (from birth to nine years old), ECD workers and the ECD sector in general, the ECD awards have been established. Through these awards, Absa recognises the good work that continues in the field of ECD.

The rationale behind the ECD awards is to recognise excellence in the ECD sector, innovations in ECD training methods and practice, best practice and also to encourage the pursuit of excellence in the ECD sector.

In line with the development approach that Absa takes, prizes awarded are to purchase training material in the category for ECD training organisations, educational equipment for the category for ECD home-based centre/playgroup, pre-school, and indoor or outdoor material, equipment and/or educational toys in the ECD centre category.

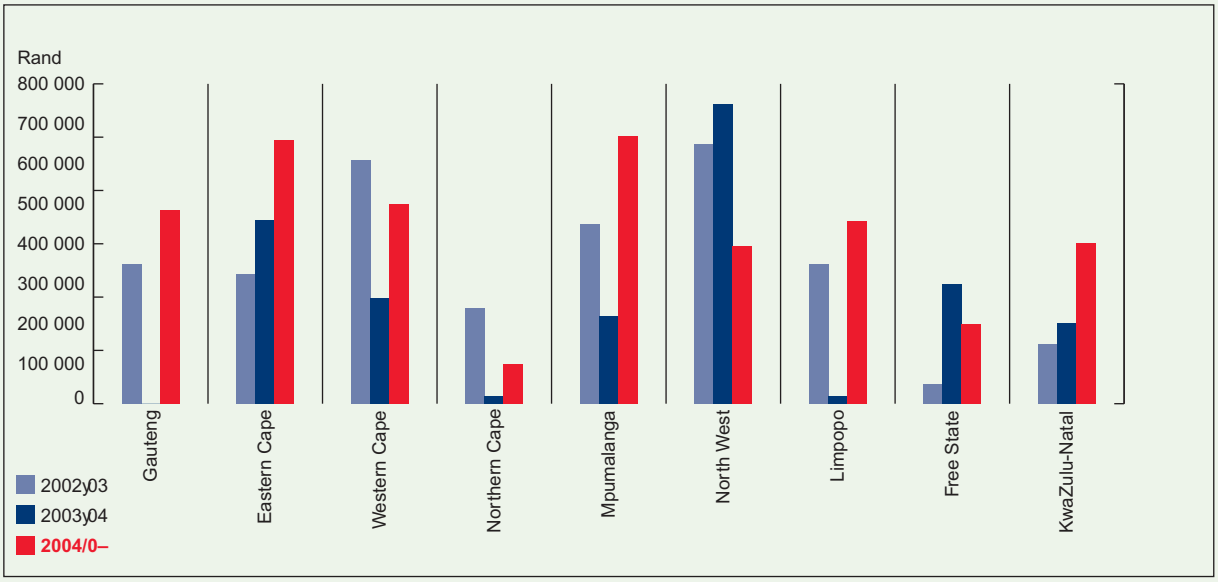
***Education – Mathematics, science and technology***

Absa engages with service providers in the non-profit sector who run in-service training on mathematics, science and technology (MST) for educators from grades 1-12, using a combination of classroom facilitation, workshops, material provision and the development of key teachers in identified school clusters (based on a train-the-trainer model).

Through support to these non-profit organisations, Absa aims to incorporate approaches for learners with special needs in MST. Absa also encourages its NGO partners to participate in the promotion of MST events for further exposure of teachers as well as the exposure of girl-child learners to career opportunities in mathematics, science and technology.

The Absa Foundation spent R3,9 million on MST for the year under review.

**Mathematics, science and technology spend per province**



***Case study – The Ort Tech Absa Advanced Certificate in Education (ACE) training***

The project operates in the urban and rural areas of Wellington, Stellenbosch, Elsies River and Belhar in the Boland and Cape Flats in the Western Cape Province. Ort Tech's vision is to empower the hearts, minds and hands of mathematics, science and technology teachers. The Ort Tech Absa Advanced Certificate in Education (ACE) training project improves a teacher's capacity to apply the new curriculum through training and development.

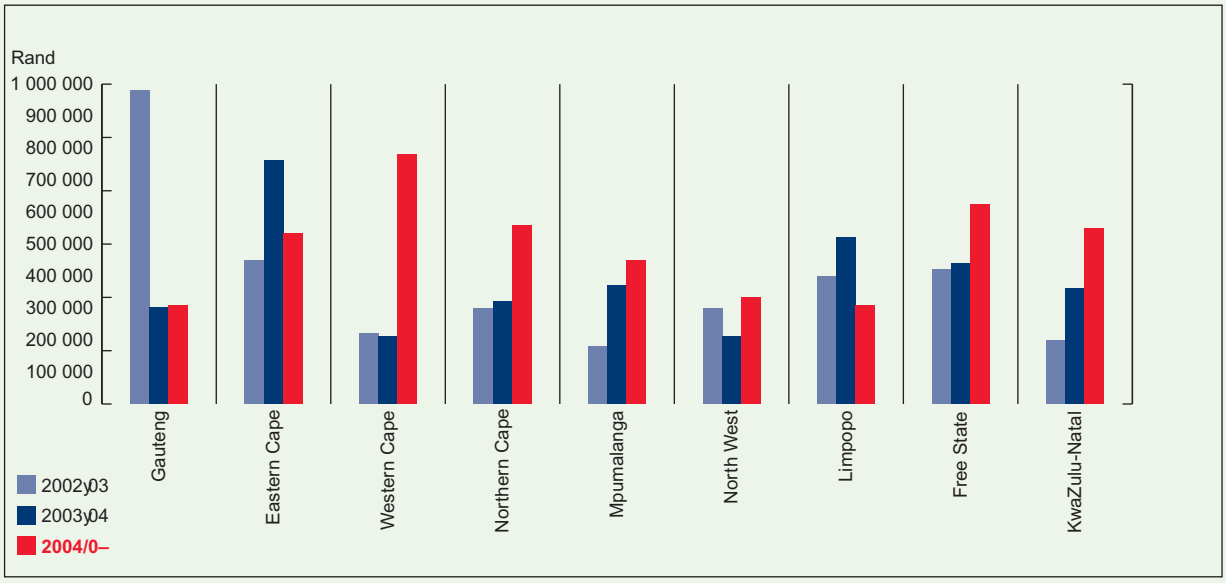
Participating teachers are better able to teach mathematics, science and technology, as well as being equipped to apply this through outcomes based education and fulfil the new curriculum needs. Most of the participating teachers are women. Through the MST programme, the Absa Foundation covers the training costs, costs involved in developing material/equipment, research and development, planning, administration and management, mentoring and support, rural transport and external evaluation. Ort Tech and Cape Technikon were able to accredit 150 teachers at the end of the training and development year.

### *Entrepreneurship*

Aimed at the unemployed and informal sector, Absa's entrepreneurship development and job creation programme places specific emphasis on community-driven initiatives based on business principles. Absa focuses on initiatives with groups that operate at the "survivalist" level. Through a number of job creation projects, Absa targets the unemployed, women, the youth and the disabled. A holistic approach is followed, ensuring that projects include elements of skills training, start-up capital, aftercare, support and school-based programmes.

For the 2005 financial year, R4,4 million was contributed towards job creation through the Absa Foundation. Of the funded projects, 80% benefited women and people with disabilities.

**Entrepreneurship spend per province**



***Case study – National Institute for Crime Prevention and Reintegration of Offenders (NICRO)***

During the year under review, the Absa Foundation supported NICRO in its economic opportunities project (EOP) implemented in the peri-urban and rural areas of KwaZulu-Natal, the Eastern Cape, the Northern Cape and Mpumalanga. This project targets women, youth at risk and young people in conflict with the law (ex-offenders) and is community based. Project trainers and beneficiaries drawn from the community drive the project. Its very nature is outreach and participation. The project offers business skills as well as non-financial and financial support services to communities to encourage micro-enterprise initiatives in the informal sector.

With the Absa Foundation's support, the viability of emerging and existing enterprises is achieved by providing aftercare support services. NICRO, through its economic opportunities project, is able to facilitate the establishment of new microenterprises, enhance small businesses and create new jobs that will enable the beneficiaries to access improved financial opportunities.

Through the Absa Foundation's support, the skills base of the beneficiaries is improved by providing business skills development workshops, entrepreneurial training programmes, business counselling, mentoring and aftercare support services. It is estimated that this initiative will reach 1 600 people.

***Health – HIV/Aids***

Absa is deeply committed to fighting the HIV/Aids pandemic and thereby ensuring that people infected and affected by the disease have a good quality of life. Absa is also committed to building the capacity of the community to care for the affected and infected.

Absa has a specific emphasis on community-based interventions supporting programmes that focus on education, awareness, counselling, home-based care, assistance to Aids orphans and income generation.

## The Absa Foundation spent R5,2 million during the year under review on various HIV/Aids initiatives aimed at improving the quality of life of the infected and affected and building the capacity of the community to care for those infected and affected by the disease.

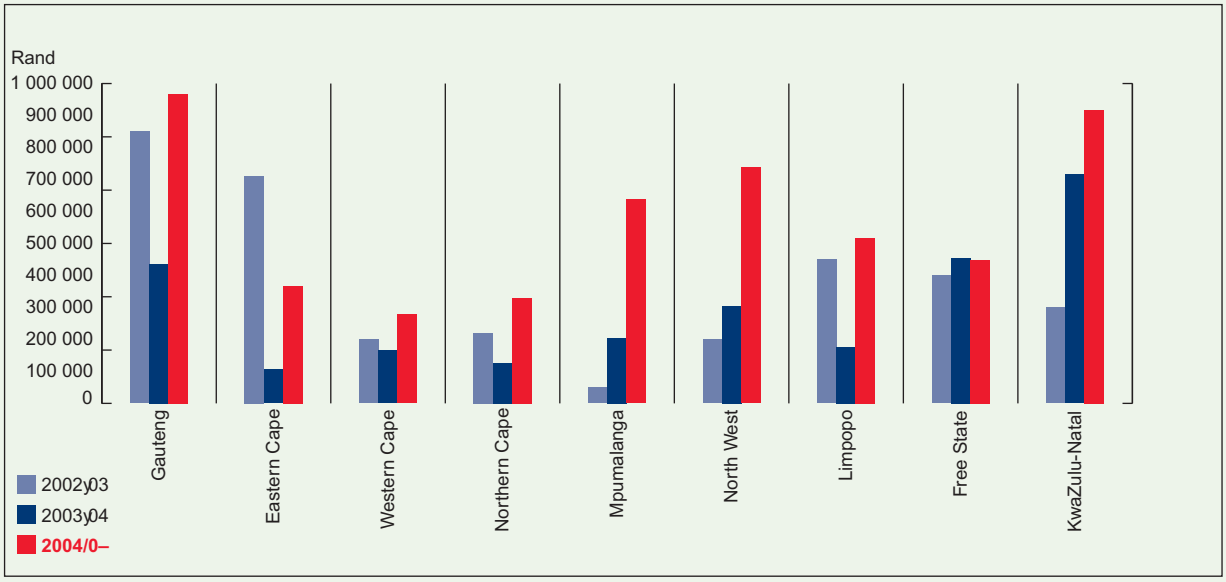


Funding for such programmes is directed to those provinces where the prevalence of HIV/Aids is higher than the national average. In the case of support for the terminally ill, support for home-based care programmes makes provision for volunteer stipends and medication or medical kits linked to government services.

Absa is also engaged in critical issues such as school access for orphans, the linking of terminally ill patients to clinics and ensuring that orphans are registered at birth so that they are able to access grants. Service providers are also encouraged to leverage on social services strategies to provide access to grants through the provincial registration processes, assisting orphans. Absa also supports programmes that facilitate foster parents as a means of dealing with the issue of orphans.

The Absa Foundation spent R5,2 million during the year under review on various HIV/Aids initiatives aimed at improving the quality of life of the infected and affected and building the capacity of the community to care for those infected and affected by the disease.

**HIV/Aids spend per province**



***Case study – Masoyi Orphan Care project***

The Masoyi Orphan Care project operates in Peebles Valley, White River, in Mpumalanga. Many of the people living in the Masoyi tribal area live in conditions of extreme poverty, with high unemployment and inadequate housing. The area is often inaccessible because of the terrain and poor roads. Most men leave the area to seek employment in the cities. This often results in extramarital relationships, which are commonly associated with migrant labour patterns. This inevitably leads to high rates of HIV/Aids infection and other sexually transmitted diseases. In the year under review, the Orphan Care project targeted 1 700 orphans, 320 foster parents and the training and development of staff.

The project has developed a model of psychological support for orphans and vulnerable children, introducing group therapy and equipping foster parents to care for orphans and vulnerable children with special needs. A leadership development programme has also been introduced for children selected by the community and school teachers. Through this project, the foster parents are taught how to start and maintain a vegetable garden for the orphans and vulnerable children to ensure a well-balanced diet and for income generation.

***Health – Cancer***

The Absa Foundation regards the Cancer Association of South Africa (CANSA) as a special project and maintains a partnership with CANSA to fund education and awareness programmes in previously disadvantaged and rural communities. No other projects are undertaken with CANSA.

***Case study – The National Cervical Health Community Outreach project***

CANSA has received funding from the Absa Foundation since 1997, which enabled the Association to run their National Cervical Health Community Outreach project. The project is multi-pronged, using innovative ways to raise awareness and educate. Over the past six years, the Absa Foundation's contribution enabled CANSA to train 1 810 volunteers (which subsequently impacted 166 000 people in rural and peri-urban areas).

Through the Absa Foundation's support, health promotion workshops and education programmes are run to encourage people to prevent and detect cancer in its early stages. As there are a growing number of cancer types that are HIV related, people are encouraged to check and talk about their status, receive treatment and support and thus tackle the silence/taboos surrounding HIV/Aids and cancer. This programme also provides home-based care to patients with chronic cancer, improving their quality of life.

Absa supports CANSA's goal to reach approximately 10% of the total female population in each targeted area and in the disadvantaged communities across South Africa.

## Absa employees and CSI

When people give freely of their time, skills, resources and finances, it is not because "it is the right thing to do", but because they have a passion for life, a love for people and a sense for the need of the well-being of society.

Through Absa's employees' volunteerism efforts, NPOs/CBOs are able to benefit from both skills and financial resources. Employees also benefit as a result of additional skills that are gained through their volunteerism, such as team building, leadership and communication skills.



### Programmes

Absa has a dedicated team overseeing the various initiatives that employees become involved in.

#### *Give As You Earn programme*

The Absa Give As You Earn (GAYE) employee community involvement initiative commenced in 2001. Absa employees voluntarily donate funds from their salaries. The Absa Foundation matches these contributions up to R1 million. Absa was the first company in South Africa to match employees' contributions up to R1 million. This is done in the hope that a difference will be made in the lives of fellow South Africans.

Funding raised through this initiative is donated towards initiatives and programmes through non-profit organisations dealing with HIV/Aids, the aged, the disabled and children. These four identified areas of need were selected by Absa employees, empowering them to be personally involved in the programme, from the personal decision to donate to the recipient phase.

During the year under review, R1 042 120 was raised and disbursed to 40 organisations countrywide. This includes R500 000 matched by the Absa Foundation.

### Trends in GAYE contributions

for the year ended 31 March

| | Average number of employees contributing per month | Average contributions per month<br>Rand | Average contribution per employee<br>Rand |
|---|---|---|---|
| **2005** | **5 187** | **48 291** | **9,43** |
| 2004 | 5 937 | 45 049 | 8,72 |
| 2003 | 5 869 | 40 207 | 7,70 |
| 2002 | 5 102 | 37 201 | 7,29 |

#### *Matching Fund*

Absa employees take socio-developmental issues very seriously. Absa employees have been empowered to become involved in humanitarian projects by initiating the Matching Fund . This programme involves employees giving freely and unselfishly of themselves in the fight against HIV/Aids and for the support of issues and initiatives related to the well-being of society. Absa supports employee community involvement by matching the efforts of Absa employees to NPOs/CBOs. This allows Absa employees to determine, to a degree, the direction of company contributions. It also enables funding from Absa to reach grassroots community organisations, which might ordinarily fall outside of the Absa CSI/Absa Foundation programme's strategic focus areas.

***Volunteerism Week***

This initiative was introduced for the first time this year. Absa took part, registering over 50 projects. This incorporated Group Exco's involvement in adopting community-based organisations through Project Reashoma. A database was developed to track all community-based volunteer initiatives.

***Casual Day***

Absa is proud to support this worthy project run in partnership with the National Council for Persons with Physical Disabilities. Through this initiative, Absa aims to make a difference in the lives of people with disabilities. The project was implemented in 1995 and Absa formally started support for the Casual Day Campaign in 1998 via the branch network.

Absa provides the infrastructure to the Casual Day programme to sell stickers. Absa also sponsors part of the printed promotional material for the project. The official stickers are distributed to all Absa branches and participating divisions and units, and are sold to the public. Over the past eight years, Absa employees have sold stickers to the value of R12,7 million.

***World Aids Day***

1 December marks World Aids Day, which represents an opportunity to make a difference by highlighting HIV/Aids as a social issue, and to generate awareness of HIV/Aids and the ongoing efforts in prevention, treatment and care.

In 2001, Absa and the Nelson Mandela Children's Fund (NMCF) worked together on this fund-raising campaign. Absa employees raised money by selling Aids badges. The proceeds were matched by the Absa Foundation and a donation of R1 million was made to the NMCF, with Absa becoming a lifetime founder of the NMCF.

Absa initiated the December 2002 World Aids Day fund-raising campaign, in collaboration with the SABC as media partner. The campaign highlighted the plight of South African children who are either infected or affected by the pandemic, with an additional focus on the role of caregivers.

The 2003 World Aids Day campaign was a cumulative effort between various Absa divisions and departments. This campaign supported the Absa HIV/Aids workplace programme in creating an increased awareness of HIV/Aids among Absa employees. It assists in the destigmatisation of people living with HIV/Aids.

In 2004, Absa once again participated in the World Aids Day fund-raising campaign. The campaign highlighted the plight of South African children who are either infected or affected by the pandemic with additional focus on the role caregivers play. In total, R50 000 was donated to the Carl Sithole Children's Centre in Klipspruit, Soweto.



***Funding***

A total of R1,5 million was spent on various employee community-based initiatives, which included the Casual Day fundraising campaign for people with disabilities, the World Aids Day fund-raising and HIV/Aids awareness campaign, Volunteerism Week, Project Reashoma, the Matching Fund and GAYE.

***Divisional, departmental and individual social initiatives***

A number of Absa's divisions, in addition to supporting social initiatives at a Group level, undertake specific initiatives aimed at the communities in which they operate. One such department is AllPay, the Group's distributor of social grants, which contributed R2,8 million to various community projects and a further R3,2 million towards the improvement of service points.

Other divisional initiatives include education-related initiatives, raising funds for HIV/Aids homes, the upliftment of women in business (including the NAFCOC Spaza drive and sponsoring the National African Women's association), sponsoring the development of a conference centre and the upliftment of an adult education centre in Alexandra township, the sponsorship of a bursary fund for previously disadvantaged individuals and women who want to start their own businesses or those that are already in business as well as the sponsorship of the Small Business Unit at the University of Port Elizabeth.

## Preserving the Group's heritage

The Absa Group museum is home to the largest collection of money formerly used in South Africa, as well as housing extensive historical records stretching back to the early origins of Johannesburg. As the only banking and money museum in South Africa, it is the custodian, not only of South Africa's banking history, but also of the economic, political and social changes that are often so dramatically reflected in these currencies.

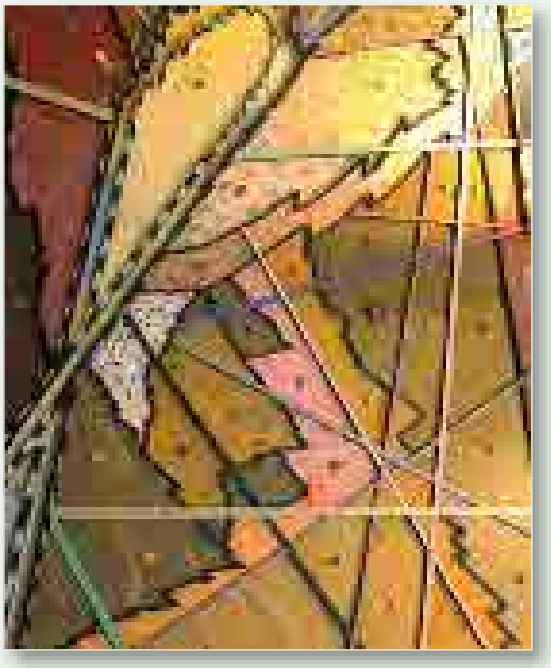
The museum houses displays of cowrie shells, Venetian glass beads, coins recovered as treasure from sunken ships, and even exhibitions on bank-related crime and how to use an ATM. It also has a collection of over 600 money boxes, some dating back to the early 1800s, reminding one of the days when young children were taught the wisdom of saving.

Absa has the largest private art collection in South Africa, valued at approximately R70 million. The collection includes examples of "classical" South African works of art from all cultural groups, thus recognising and conserving the South African heritage.

The 2005 financial year witnessed many achievements for the Absa museum with the most notable being the purchase of the 1926 SA proof set for the numismatic collection. Only four sets are known to exist. The museum now has a complete collection of all modern minted South African proof sets and the most complete collection of its kind in the world. An old warrant of arrest issued for former president Nelson Mandela in 1961 was bought and donated by Absa to the Arts and Culture Ministry's national archives.

## The visual arts

Absa has the largest private art collection in South Africa, valued at approximately R70 million. The collection includes examples of "classical" South African works of art from all cultural groups, thus recognising and conserving the South African heritage.



The Absa art collection also includes original works of young, unknown South African artists of all cultural groups.

During the year under review, 14 exhibitions took place in the Absa Art Gallery, Absa Towers North. These included the L'Atelier finalists, as well as a variety of other artists, to depict the diversity of South Africa. In so doing, a platform was created to showcase their work. During heritage month, 114 artworks of Jacob Hendrik Pierneef, which form part of the Absa collection, were exhibited in the Absa Gallery and toured to Oudtshoorn's KKNK festival as well as to Bloemfontein.

The Absa art strategy is to conserve, develop and support the visual arts in South Africa. The 20th L'Atelier Art Competition will take place in 2005 and support for young South African artists will continue.

## Marketing sponsorships with a developmental aspect

Absa's broad objective in terms of sponsorships is to enhance the image of Absa and to support the bottom-line business of the Group. Absa's preferred sponsorships are those that support the spirit of corporate social investment.

Absa's sport development programme strives to make sport relevant among historically disadvantaged groups in South Africa. One of the Group's qualifying criteria for participating in a sport sponsorship is the sporting code's approach to development and making sport accessible to all South Africans.

Absa continues to remain committed to sport in this country. Absa's core sport sponsorships are in athletics (the Absa Series, Absa South Africa senior track and field championships, and the Absa Relay), rugby (the Absa Currie Cup, Springbok sponsorship, sponsorship of the South African leg of the IRB World Sevens Series and the sponsorship of a number of rugby teams) and soccer (the Absa Cup).

All sport sponsored by Absa has strong development aspects. These range from grassroots athletics clinics for school children to a chance for minor soccer teams to take on major league teams.

Other sponsorships are included in the following table:

| Form of sponsorship | Value creation |
|---|---|
| **Business –** Top Entrepreneur competition | • The competition aims to identify, encourage and nurture young talent in schools and tertiary institutions throughout the country. |
| **Broadcast** – Noot vir Noot | • Absa has sponsored the programme for a number of years. The sponsorship assists in enhancing Absa's image. |
| **Special project** – The Business Trust | • An initiative whereby companies work in partnership with the government to address job creation and capacity-building programmes. |

## Special donations

The tsunami disaster that affected Southeast Asia and parts of Africa on 26 December 2004 was a test case for many corporates and South Africans. Soon after the disaster, international organisations such as the International Red Cross, the UN, the United Nations Children's Fund (UNICEF), various faith-based organisations and leaders such as Nelson Mandela and Archbishop Desmond Tutu issued an appeal to support affected communities.

Absa was one of the companies to respond to the call with a donation of R1 million to the International Red Cross.

## Absa's sport development programme strives to make sport relevant among historically disadvantaged groups in South Africa.

### Awards and recognition

Since 1994, the Absa Foundation has taken its place amongst the leading performers in the corporate social investment arena in South Africa. Few other foundations enjoy Absa's size, reach, coverage and impact. Absa's CSI programme has won many accolades and awards, the following in 2004 alone:

| Syndicated surveys and awards | Absa's ranking and performance |
|---|---|
| **Corporate Care Check** | • Fifth most caring company in South Africa.<br>• Ranked as the most caring financial institution in South Africa. |
| **Business Social Monitor** | • Ranked as the most caring company according to decision-makers. |
| **PMR.Africa** | • Ranked first in the banking sector and awarded diamond status regarding the Group's BEE strategy, corporate governance, environmental care and social upliftment. |
| **Trialogue** | • Rated as the financial sector company that makes the strongest contribution to development.<br>• Nominated as having the most hands-on approach to CSI.<br>• Nominated as the corporate that most strongly involves its employees in CSI. |
| **Mail & Guardian: Investing in Life** | • Rated second with regard to Foundations and Trusts: Most Innovative HIV/Aids programme. |
| **Mail & Guardian: Investing in the Future** | • Rated second for Absa's partnership with the Masoyi Orphan Care project in Mpumalanga. |
| **Numismatic Society of South Africa** | • Absa Group Museum was awarded the Bob Morris Trophy for the best numismatic exhibition in South Africa. |

# Stakeholder reporting – Suppliers

## Introduction

Suppliers and the supplier environment are included in the community category in Absa's stakeholder model. However, as Absa spends billions of rands on procurement each year, it is implicit that Absa regards its supplier base as an ongoing source of value to the Group.

This, in addition to the important role that suppliers play in the future sustainability of an organisation, necessitates providing a separate report on the Group's suppliers and Absa's relationship with its suppliers.

For some years now, Absa has adopted a strategic procurement approach and supporting model. Over the past number of years, this approach has become more pervasive across Absa. Appropriate strategic sourcing and procurement practices and sound supply chain management methodologies have become entrenched. This ensures that tangible value is delivered to Absa's bottom line.

Absa's supplier environment is central to this approach. Absa engages with suppliers on the principles of fairness, integrity and sustainability to satisfy its needs for goods and services.

### Key developments

- Review of Absa's procurement policies.
- Increased focus was placed on social and environmental considerations with regard to the Group's supplier selection and contracts.

## Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| • To achieve the procurement targets as stipulated in the FSC and its associated scorecard. | • The BEE procurement weighted spend target for the 2004 calendar year was 20%, in line with the FSC procurement baseline spend. Absa exceeded this target by a margin of 4,79%. |
| • To develop a co-operative space with regard to the FSC with other industry players. | • Absa played an important role in the interbank procurement workgroup comprising the five major South African banking institutions. |

## Absa's supplier strategy

Absa's intent is to achieve the best fit between its goods and services requirements and the market's ability to supply by forging of fair, equitable and sustainable business relationships with its supplier base. Absa achieves this by creating viable sources of supply by deploying its procurement policies and world-class procurement practices.

In going forward, Absa's Procurement department will continue to support the principles and objectives of the Financial Sector Charter (FSC) and is committed to achieve:

- a fair distribution between existing corporate suppliers and new, upcoming enterprises to increase participation in the economy through active collaboration with all stakeholders;
- an appropriate spread of upliftment through all geographical regions and across the entire spectrum of Absa's procurement activity; and
- increased participation of SMEs in Absa's supply base.

Absa's supplier strategies are aligned with wider Absa Group strategies and are deployed pervasively across the Group through a comprehensive set of procurement policies that strongly embed the principles of fairness, transparency and the highest ethics in Absa's dealings with its suppliers.

## Absa's procurement policies

Absa's procurement policies have been reviewed to realign them with developments in the statutory, regulatory and business environment since the inception of the policies in 2003. However, they will only be published internally once due consideration has been given to the procurement impact of the Barclays transaction and any associated alignment issues. Absa Group Procurement acts as the custodian of these policies, whereas ownership of the Group's procurement policies vests in Absa's Group Executive Committee.

These policies reflect the strategic procurement approach adopted by Absa and take into account the prevailing market dynamics and the value of world-class procurement practices. The approach followed in the policies drives economies of scale, maximises efficiencies, seeks quality delivery and ensures spend is minimised, while promoting the highest standards of ethical practice in Absa's dealings with its external suppliers.

## Supplier selection and assessment

Absa follows a multi-tier supplier selection and assessment process. Supplier accreditation is the first tier of assessment. During accreditation, the supplier's credentials are thoroughly evaluated. Accreditation is followed by a supplier selection and engagement process, employing a comprehensive and objective sourcing intervention. The sourcing process includes risk assessment and methodologies to mitigate commercial, financial and other associated risks.



### Suppliers and social and environmental performance indicators

Supplier performance is constantly monitored by the business owner of the contract in Absa. Business owners implement appropriate levels of supplier management case by case, as deemed relevant, ensuring that risks are adequately mitigated.

Supplier social performance is evaluated during the strategic sourcing process. Thereafter specific commitments in this regard are followed up to ensure compliance.

Environmental compliance is managed on an exception basis. To date, Absa has not had any supplier performance issues in this area.

#### *Supplier selection*

Corporate governance requirements are embedded in Absa's procurement policies and are deployed throughout the supplier accreditation framework. They are also embedded in the contractual arrangements with suppliers that are established through specific sourcing interventions. Absa's sourcing strategies and methodologies include performing a comprehensive risk assessment, including social and environmental impact assessments of activities performed by suppliers, as part of the selection and supplier engagement process.

#### *Social and environmental requirements in supplier contracts*

Social and environmental risks identified during sourcing interventions are appropriately mitigated by including provisions and control mechanisms commensurate with the associated risks in contracts concluded with suppliers.

#### *Monitoring of social and environmental performance of suppliers*

The social and environmental performance of suppliers, as contracted, is currently monitored on a "best effort" basis. This type of monitoring is in its infancy in the current environment. Absa places a high degree of reliance on the environmental regulations, and adherence to these, as they pertain to the industries from which Absa procures its goods and services. The ultimate sanction for non-compliance from an Absa perspective would be to remove an offending supplier from Absa's approved vendor master list and to seek remedies through the available legal channels, should this be deemed necessary.

#### *Risk assessments in relation to the social impact of activities performed by suppliers*

Absa's strategic sourcing strategies and methodologies include the performance of comprehensive risk assessments, including assessing the social impact of a supplier's activities where deemed necessary and reasonable, prior to entering into a contractual relationship with such a supplier.

Absa deploys cross-functional commodity or sourcing teams when sourcing goods or services from its suppliers.

Absa's supplier strategies are aligned with wider Absa Group strategies and are deployed pervasively across the Group through a comprehensive set of procurement policies that strongly embed the principles of fairness, transparency and the highest ethics in Absa's dealings with its suppliers.



These teams consist of subject matter experts from various disciplines and include the required competencies to assess the social impact of that specific sourcing intervention. If the appropriate expertise is not available in Absa, such expertise is solicited from external sources.

## Consideration of human rights impacts as part of the procurement process

Absa subscribes to the JSE's Social Responsibility Index. Compliance with the criteria for inclusion in the index is mandatory. Therefore, the associated governance requirements (including those related to human rights) are embedded in Absa's procurement approach.

## Absa status with regard to suppliers and the FSC

Some significant changes in the supply market have come about as a result of the establishment of the FSC during 2003 and the ongoing development of other industry charters. Numerous major empowerment deals have been concluded.

Absa has played an important role in establishing and implementing the FSC and is fully committed to attaining its goals. As a result, Absa has spent 24,79% (weighted spend) of its qualifying procurement spend with BEE companies during 2004 (calendar year). The FSC procurement target for the calendar year ending 31 December 2005 is 27,5%. Absa is on track to meet and exceed this procurement target for this reporting period.

Absa views the FSC as an economic imperative aimed at redressing historic imbalances in the South African economy and at achieving sustainable socio-economic upliftment and economic growth. Absa's procurement policies support the guiding principles of the FSC and set out to achieve an appropriate geographical spread of upliftment and a fair distribution between existing corporate suppliers and new, upcoming vendors. This will continue to be a focus area of Absa's supplier strategy going forward.

To ensure that Absa continues to comply with the procurement requirements of the FSC, individual targets have been set for the various Absa business units and support functions for the 2005 calendar year. These targets will be actively monitored throughout the reporting period.

### Provision of training for emerging contractors

Although no formal procedures are in place for training emerging contractors from a procurement perspective, Absa does engage with suppliers one-on-one, as required, as well as through specific interventions with trade associations.

# Stakeholder reporting – Governments and regulators

## Introduction

Governments and regulators are key role-players in ensuring the sustainability and future stability of the financial services industry.

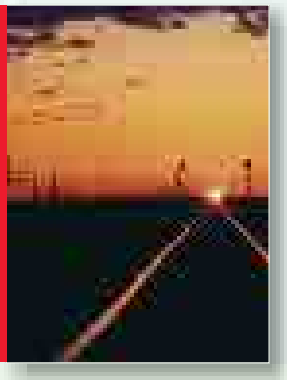
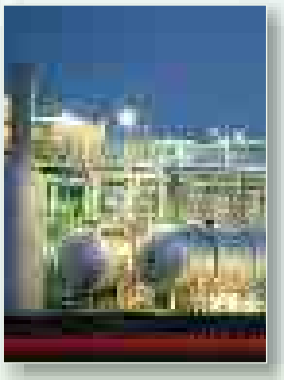
## Key developments

- A more structured approach to work with the South African government was developed through a government relations strategy and networking programme, which fosters partnering with the South African government on CSI initiatives.
- Absa enhanced its support to the City of Johannesburg by supporting its latest two bond issues and cemented its partnership in the expanded public works programme.

## Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| Obey the laws of the countries in which Absa operates and seek to engender healthy relations with governments and regulators. | Compliance with legislation, regulations and required industry standards. |
| To be the preferred partner to the government in the development of South Africa. | Absa has retained its leading market position in the public sector during the year under review. |



## As a socially responsible corporate citizen, Absa adheres to the laws and regulations of the countries in which it operates.

### Governments

As a socially responsible corporate citizen, Absa adheres to the laws and regulations of the countries in which it operates. By participating in many forums (both government and non-government) and interacting with the various spheres of government, the Group comments on policy formation and deployment, and provides positive inputs to the legislative and regulatory environment. Absa endeavours to support various aspects of government policy in the economic and financial dimensions in proactive and positively construed ways.

#### Absa corporate social investment and partnerships with the government

The South African government has the primary responsibility of ensuring that the country's welfare programme has the desired outcome and that all citizens have access to basic social services as prescribed by the constitution and the bill of rights. Admitting that the government cannot address all social ills on its own, the presidency and the responsible line ministries constantly issue calls for private sector intervention.

This, and the fact that the government is one of Absa's biggest customers and an important stakeholder, results in strategic partnerships being formed with the government from time to time, where necessary, for social upliftment.

Some of Absa's projects in which the government has participated include:

- The opening of a bakery project in Mpumalanga;
- The opening of a hospice in Brits, North West;
- The handover of a cheque to alleviate the impact of HIV/Aids in the Western Cape;
- The handover of computers in the Free State, Mpumalanga and Limpopo; and
- Early childhood development (ECD) awards.

The government has also invited Absa Corporate Social Investment (CSI) to participate in some of its activities. Absa was invited by the government to attend the Gauteng Department of Education learner awards and many other events.

It has therefore become necessary to consolidate the planning of CSI programmes in line with national development priorities. This approach will ensure that Absa CSI is recognised by the government as relevant, progressive and responding to the President's call for corporates to play a role in creating jobs and fighting the spread of HIV/Aids.

In addition, a more structured approach to work with the government was developed through a government relations strategy and networking programme. Innovative programmes have been initiated, in which Absa has been involved to date. For instance, every year, Absa:

- sends a team to accompany the South African National Defence Force (SANDF) to visit South African soldiers participating in the United Nations peace-keeping missions in the Democratic Republic of Congo and Burundi;
- organises a family day for the 250 members of the presidential guard; and
- hosts orientation workshops for members of the provincial legislatures and members of parliament.

### The government as a customer

#### *Absa's public sector strategy*

Absa's objective is to be the preferred partner to the government in the development of South Africa by delivering relevant, value-adding financial service solutions to its stakeholders in a sustainable way.

Absa aims to achieve its objective by understanding the imperatives the government faces. The presidential imperatives as articulated in the State of the Nation speech during 2005 form a critical guideline. Furthermore, Absa aims to ensure that its participation in the sector will contribute towards addressing those imperatives across all spheres of government.

The effectiveness of this strategy is evidenced in the retention of Absa's leading market share in the public sector. Apart from primary banking relationships with the Western Cape and Free State provincial governments, Absa was successful in retaining its relationship with the Limpopo provincial government and a split banking relationship with the North West provincial government during the tender processes in the first quarter of 2005.

At metropolitan council level, Absa prides itself in its primary banking relationships with the City of Johannesburg, the City of Tshwane, the Ekhurhuleni Metropolitan Council and the City of Cape Town Metropolitan Council. This means Absa has primary banking relationships with four of the six metropolitan municipalities in South Africa. Local government is also a priority focus area for Absa.

Education has remained a major primary focus area for Absa and the bank has retained its leading position in financing between 60 and 70% of the higher education and further education and training institutions in South Africa.

#### *Absa's public sector offering*

Absa is committed to the development of South Africa. This is demonstrated by the various activities in which it is involved, from social responsibility to investments in the public sector. As Absa believes that everyone has a right to share in the prosperity of South Africa, the Group has a dedicated team of public sector bankers and specialists. Through this focus and specialisation, Absa continually contributes to the country's development by offering solutions that meet the needs of the government.

The Absa offering is a banking relationship based on finding solutions that are innovative and value-adding. This offering is aimed at all spheres of government. Both traditional and non-traditional products and services are included in the offering to the government. This offering is constantly tailored for the specific needs of the government, so that solutions support the government's focus on implementation.

Absa particularly aims at addressing the government's needs in respect of:

- working capital management;
- the funding of infrastructure development; and
- a host of ancillary services related to the critical needs of the government.

Through its offering, Absa aims to support the government's three-tier approach in achieving its goals.

- At national level, solutioning is focused on the various ministries and national departments.
- At provincial level, the focus is on the specific requirements of the nine provinces.
- At local level, the solutions seek to support implementation at local government level.

## Absa's objective is to be the preferred partner to the government in the development of South Africa by delivering relevant, value-adding financial service solutions to its stakeholders in a sustainable way.



Apart from serving all spheres of government, Absa is committed to serving other public sector entities with dedicated offerings tailored to their specific needs.

***Core developments in the 2005 financial year***

As a proudly South African financial institution, Absa is committed to public-private partnerships (PPPs) that ensure employment opportunities, skills transfer and socio-economic development. Public Sector Banking has involved itself in various stages of PPPs across all spheres of government. It has also participated in economic development initiatives driven by the respective spheres of government by supporting projects launched by both provincial and local governments and seeking involvement in both the urban and rural environments.

Absa's financing structures for the expanded public works programme, the Johannesburg City Bond, the Roodeplaat Water project and other national initiatives demonstrate its intellectual capability to create innovative and customised financing structures that address the needs of all stakeholders.

In Johannesburg, the Group has gone to great lengths to support urban rejuvenation in the central business district and the Newtown precinct.

In rural areas, the Group, through its subsidiary AllPay Consolidated Investment Holdings (Proprietary) Limited, distributes social grants and other payments to beneficiaries on behalf of third parties. AllPay serves more than two million individuals on behalf of four provincial governments through joint venture partnerships with black empowerment companies and other groups.

## Regulators

Absa's footprint in both the banking and financial services industries means Absa answers to both the South African Reserve Bank and the Financial Services Board on regulatory matters. The Group endeavours to maintain a relationship of trust, transparency and honesty with these institutions and to ensure compliance in all matters.

# Environmental reporting

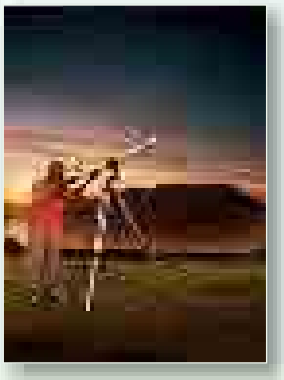
## Introduction

To ensure a better life for future generations, it has become increasingly important for organisations to participate in conserving the environment. As a financial institution, Absa does not directly impact on the environment in the same way as some other companies. The Group interacts with the environment through business relationships with customers whose operations have a direct impact on the environment, through the Group's use of resources such as paper and through direct involvement in environmental initiatives.



## Key developments

- Implementation of the Group's environmental policy.
- Satisfactory progress made with regard to the implementation of the Group's environmental management system according to the ISO 14001 standard.
- To enhance conservation, Absa has begun sponsoring the Southern African Wildlife College and the Southern African College for Tourism.



## With regard to Absa's customers, it is the Group's policy to consider the general environmental implications of credit proposals.

### Achievement against objectives

| Objectives set for the 2005 financial year | Performance against objectives |
|---|---|
| • Enhanced management of indirect environmental impacts. | • Consideration of general environmental implications of credit proposals.<br>• Absa's sourcing strategies and methodologies include performing a comprehensive risk assessment, including environmental impact assessments of activities performed by suppliers. |
| • To be a responsible and caring organisation that is committed to ensuring the ongoing existence of conservation and wildlife enclaves in Africa. | • Peace Parks Foundation sponsorship.<br>• Sponsorship of the Southern African Wildlife College and the Southern African College for Tourism. |
| • Continually enhancing processes, making them increasingly environmentally friendly. | • Increased focus on reducing the Group's paper consumption and on recycling paper. Initiatives have been put in place to reduce water and electricity consumption. |

### Indirect environmental impacts

Absa, as a financial services organisation, is considered a low environmental impact company. However, there is increased worldwide recognition that, despite financial services organisations being low-impact companies, environmental risk may arise indirectly from the environmental impact of third parties such as customers and business partners.

With regard to Absa's customers, it is the Group's policy to consider the general environmental implications of credit proposals. Environmental risk is one of the risks considered by the credit department in conjunction with specialists in the resources and project finance functions during the identification of credit risks, which is a standard procedure followed during the application process for credit facilities. These risks are reconsidered annually or when industry or environmental risks change. Moreover, the lending committee concerned also considers the possible impact of environmental risk on a customer, which acts as a further check.

In addition, environmental risk is always considered with all the other normal business risks, including commodity price risk, currency risk, operational risk and interest rate risk. Where the environmental risk is considered to be material, a detailed risk assessment and mitigation is required. This would typically entail environmental impact studies undertaken by independent technical advisors, indemnities from sellers are obtained, when required, if an acquisition is being funded, detailed environmental management plans from management, proof of

environmental and third-party liability insurance and the establishment of an environmental rehabilitation trust fund as well as evidence that future contributions to such fund have been included in the base case projections.

With reference to the Group's suppliers, Absa's sourcing strategies and methodologies include performing a comprehensive risk assessment, including environmental impact assessments of activities performed by suppliers, as part of the selection and supplier engagement process. Social and environmental risks identified during sourcing interventions are appropriately mitigated by including provisions and control mechanisms commensurate with the associated risks in contracts concluded with suppliers.

The monitoring of the environmental performance of suppliers, as contracted, is currently performed on a "best effort" basis. This type of monitoring is in its infancy in the current environment. Absa places a high degree of reliance on the environmental regulations and adherence to these as they pertain to the industries from which Absa procures its goods and services. The ultimate sanction for non-compliance from an Absa perspective would be to remove an offending supplier from Absa's approved vendor master list and to seek remedies through the available legal channels, should this be deemed necessary.

In addition, activities performed by contractors are included in all Absa's environmental, health and safety (EHS) risk assessments and these are documented in the EHS aspects, hazards and impacts registers.



## Direct environmental impacts

### Environmental governance

Absa has a dedicated department that focuses on the environment and environmental risk and issues. This department receives assistance from the regional facilities project managers in the respective regions. Absa's EHS department is housed in the Group's Security, Safety and Continuity business unit. This business unit reports to the divisional head responsible for Real Estate Asset Management, who reports directly to an executive director (Israel Skosana). The Group does not have a board committee focusing on the environment because Absa is a low-impact company. However, when considering potential exposures, the Group's Board Lending Committee and the Credit Committee: Large Exposures take environmental impacts and risk into account.

Monthly status reports are provided to top management regarding core developments and issues pertaining to the EHS department. However, the main emphasis is currently on health and safety issues because Absa's environmental reporting and awareness is currently in the implementation stage.

Each workplace in the Group has appointed EHS representatives reporting via a dotted line to the EHS department. Reports are submitted to the EHS department quarterly. The services of external consultants are also being used to ensure compliance with environmental standards.

Any non-conformance or environmental incident discovered is reported to the executive director responsible for Real Estate Asset Management.

### Environmental policy

Absa has an environmental policy, which forms part of a combined EHS policy. The policy enables Absa's EHS department to receive quarterly reports from representatives at each workplace in the Group. These representatives are being trained according to a curriculum developed by the EHS department. Having representation at each workplace and compulsory quarterly reporting enhances Absa's ability to manage and report on environmental issues and risks.

Absa has a dedicated department that focuses on the environment and environmental risk and issues. This department receives assistance from the regional facilities project managers in the respective regions.



The Group's environmental policy focuses on a structured, integrated management system. This enables sound environmental performance by controlling the impact of activities, products and services on the environment.

### Absa's strategic approach to environmental matters

Absa is a low-impact company. Its strategy and objectives in terms of the environment are based on its premise of ensuring a better quality of life for all the Group's stakeholders now and for future generations and, in so doing, ensuring that the Group's activities do not have a detrimental effect on the environment. In addition to this, the Group has a very specific objective of being a responsible and caring organisation that is committed to ensuring the ongoing existence of conservation and wildlife enclaves in Africa.

To achieve this strategy, the Group provides donations for conservation and continually enhances its processes, making them increasingly environmentally friendly. Core objectives going forward include:

- A focus on reducing the use of paper and ensuring that paper is recycled. The use of electronic media instead of paper is encouraged; and
- Although the Group is not a major user of water and energy resources, emphasis is being placed on implementing a monitoring system.

### Environmental awareness

Environmental awareness forms part of the Group's ISO 14001 strategy. Internal communication takes place via the Group's internal newsletter, policy communication and revisions and training provided to workplace representatives.

### Environmental systems

Absa is in the process of implementing an environmental management system (EMS) according to the ISO 14001 standard. The services of an external consultant have been obtained to assist with the process. Phase one has been completed, which included the following activities:

- Meetings with key personnel took place, information was provided regarding ISO 14001 and the external consultants' role regarding implementation was explained.
- A system review took place and a project plan was compiled, responsibilities assigned and the scope of the EMS determined. A gap analysis and the revision of existing environmental management documents and processes were concluded.
- Documentation and records were compiled in accordance with ISO 14001 standards. Planning requirements were completed as well as the aspects, hazards and impacts register. Significance ratings and mitigatory controls for corrections or improvements were also put in place.

- Objectives, targets and projects have been identified for implementation. The first phase of environmental representative training has been completed.

Phase two is currently in progress and consists of:

- developing an environmental legal register;
- implementing objectives, projects and targets;
- monitoring and measuring (including internal and external surveys as identified);
- liaison with the South African Bureau of Standards to conduct an audit to obtain ISO 14001 certification;
- further training environmental representatives; and
- implementing a system to ensure a three-month history prior to certification assessment.

Phase three will consist of the training of internal environmental auditors, a full ISO 14001 conformance audit and a final management review of the system.



### Environmental expenditure

Total environmental expenditure has not been measured and monitored in the past. The intent is to include this in future.

### Significant environmental impact of principal products and services

The Group's principal products and services have no significant environmental impact. As a result, the Group does not perform risk assessments in relation to significant indirect environmental impacts resulting from use of the company's products or services.

Although no formal investigation regarding the possible economic impact of the company's activities on entities or people in the company's sphere of influence or where it operates has been done to date, it is realised that Absa could have a major influence on people and entities in the Group's sphere. In particular, people and groups obtaining finance from Absa could be impacted. This impact is managed within the Group's enterprise-wide risk management framework.

### Land occupation

Absa has no significant impact on biodiversity as the Group predominantly occupies offices. In addition, Absa Development Company (Proprietary) Limited (a subsidiary of Absa Bank Limited) and its subsidiaries own various tracts of farmland on the urban edges of the metropolitan areas of Johannesburg, Tshwane, Mogali, Stellenbosch and Verulam, which are earmarked for residential township development.

The total extent of these tracts is approximately 1 250 hectares. In respect of each proposed development, an application supported by an environmental impact assessment is made to the relevant environmental authorities for approval before commencing to install the infrastructure. Every environmental impact assessment is prepared by an independent environmental consultant and any biodiverse-rich habitats, natural heritage sites, threatened or endemic species of fauna and flora and invasive alien vegetation are addressed.

Pursuant to approval by the relevant environmental authority, an environmental management plan is approved and biodiverse-rich habitats, natural heritage sites, threatened or endemic species of fauna and flora, and invasive alien vegetation are managed in terms of this plan by an independent environmental officer.

Absa is a low-impact company. Its strategy and objectives in terms of the environment are based on its premise of ensuring a better quality of life for all the Group's stakeholders now and for future generations and, in so doing, ensuring that the Group's activities do not have a detrimental effect on the environment.



### Water use

Absa is not a major water consumer. Water is primarily used for consumption and ablution facilities. Provision to record the quantity used has been made in an SAP system currently being implemented in the Group. A project is also in progress to further reduce water and effluent costs.

### Energy use

The measurement of energy use is not a major metric for Absa. As a result, electricity use has not been recorded. Provision for recording it has been made in the new SAP system currently being implemented in the Group.

A number of measures are being put in place to reduce the Group's energy use. This includes replacing old control gear on light fittings with electronic control gear. This has improved the lifespan of the fluorescent fittings and reduced the energy used to operate them. It also reduces the heat generated by the fittings, which, in turn, reduces the cooling load of the air-conditioning equipment. Power factor correction units have also been installed in all the buildings, balancing electrical loads.

All big air-conditioning chiller plants have been upgraded. These new refrigeration systems run on an environmentally friendly refrigerant, R134a.

### Paper use

Absa makes extensive use of paper, but the Group is actively involved in initiatives to reduce its use. Absa Vehicle and Asset Finance and Absa Card provide electronic statements to customers who choose this option. Electronic versions of 40% of all Absa forms are also available on the Absa intranet site. In addition, new equipment has been implemented at Absa Card's card issuing department that allows up to six cards to be inserted into one envelope. This has resulted in the saving of between 15 000 and 19 000 kilograms of paper (card carriers, brochures, conditions of use) per annum.

Group Administration is driving the Group's enterprise content management programme, with the ultimate goals of paper reduction and full supply chain automation.

Absa's current paper consumption averages 14 900 boxes/74 500 reams per month.

### Other material use

Other materials used by the Group include:

- Print consumables. Absa Graphic Services (a department in Group Procurement and Logistics) makes use of raw materials and consumables that can be recycled and have no or little impact on the environment. Most

printing and cleaning solvents used have very few hazardous ingredients, are water based and, when diluted, are environmentally friendly and can be recycled. All used litho-printing plates are recycled. Used film (negatives and positives) is returned to the manufacturers for recycling and the extraction of re-usable components. Used fixer is returned to the manufacturer in its original containers to extract industrial silver for re-use.

- All packing material, cardboard boxes and plastic strapping used are produced from recycled material.
- Redundant office furniture and equipment are sold to auctioneers or second hand furniture dealers.
- Absa Catering makes use of biodegradable, environmentally friendly cleaning materials. General waste is disposed of with the regular building waste.



### Recycling

Absa undertakes a number of endeavours to facilitate recycling. These include:

- Where possible, signage is designed to be re-usable. External signage is designed so that face changes can be implemented without changing the box.
- Third-party storage providers recycle all documents after expiry date and use only boxes manufactured from recycled material.
- Paper offcuts, redundant forms and other packaging materials are recycled. Paper waste is sold to paper waste recycling companies. It is estimated that the Group recycles approximately 20% of all paper used.
- Empty toner cartridges are returned to Absa's approved vendors for recycling. Disposals are handled by the vendor.
- Some unused office furniture, equipment and PCs are donated (on request) to institutions and government departments. Redundant IT equipment is the property of an external vendor and is disposed of by them.

### Emissions to the air

Measuring and monitoring emissions to the air is not applicable to the Group as it is mainly a service provider and its services have a low environmental impact. To reduce vehicle emissions and conserve natural fossil fuels, use is made of video conferencing, and training programmes are conducted via the Group's internal television service.

The Group's fleet consists of 192 pool vehicles and 1 335 functional vehicles. These vehicles are on lease contract and are replaced three-yearly. Absa's Fleet Management department manages all vehicles. Vehicles are serviced as prescribed by the manufacturer and the Absa policy.

### Significant discharges and Absa's waste stream

Absa produces insignificant water discharges as it is a provider of financial products and services and not a producer of resources or goods. Absa's waste stream includes medical waste generated by the clinics. The collection and disposal of this waste is contracted to a third party for safe disposal. Fluorescent tubes are disposed of by both contractors and Absa. The Group does not transport, store or trade in hazardous waste, nor recycle or reclaim waste materials, nor own any waste disposal sites.

With reference to uncontrolled releases, discharges or spills, one minor incident occurred where a small quantity of chemicals from a generator leaked into the stormwater drain. The local emergency services attended to the matter and the problem was immediately rectified. The Group settled all costs pertaining to this incident.

Absa makes extensive use of paper, but the Group is actively involved in initiatives to reduce its use. Absa Vehicle and Asset Finance and Absa Card provide electronic statements to customers who choose this option.



### Environmental liabilities

Absa makes provision in terms of the Environment Conservation Act for environmental rehabilitation when property is developed. The Group accepts its liabilities and will attend to cleaning up in case of an incident or accident. No provision is made for any other environmental liabilities as the Group is mainly a service provider in a low environmental impact area.

### Other direct environmental initiatives

The Group is a sponsor of the Peace Parks initiative, which involves a R10 million donation over a period of ten years. The Peace Parks Foundation assists governments in the Southern African Development Community (SADC) with the training of more than 10 000 game rangers, field guides, wildlife veterinarians and guesthouse managers. All SADC heads of state are patrons of the foundation. President Thabo Mbeki, in particular, supports this concept as it is in accord with the New Partnership for African development (NEPAD) plans. An agreement has been signed between Mozambique, South Africa and Zimbabwe to establish the world's largest animal kingdom.

Absa also supports the Southern African Wildlife College and the Southern African College for Tourism in Graaff-Reinet. Both these educational initiatives help to build capacity and develop the skills that are needed to turn the dream of peace parks into a reality. In recognition of the important work being done at these centres, Absa has instituted an Absa trophy to be awarded at the graduation ceremonies of each college.

Absa's motivation regarding environmental conservation involvement lies in the Group's objective of being a responsible and caring organisation that is committed to ensuring the ongoing existence of conservation and wildlife enclaves in Africa. Absa's environmental investments contribute towards biodiverse conservation and skills development that will improve the lives of the rural communities, which will also foster the economic well-being of the entire region.

### Internal auditing of environmental practices

Absa aims to validate its environmental practices in the short term. This validation will be conducted by the EHS department, which will be trained by the consultant assisting with implementation of the Group's ISO 14001 system. The audit process will include remedial actions and their implementation. The National Occupational Safety Association (NOSA) programme currently implemented will be used and provision for environmental auditing has been included in this programme. Internal audit training should be completed by September 2005. Executive management will receive regular reports regarding audit findings and remedial actions.

### Compliance

The Group has not incurred any fine for non-compliance with environmental regulations during the year under review.

## Global Reporting Initiative

The Global Reporting Initiative (GRI) requires reporting on a number of counters. This section of the report has provided commentary on a number of the GRI environmental counters. However, because the Group is a low-impact company, many of these counters are either negligible or not applicable and have therefore not been disclosed or reported on. The following table indicates the counters that have a limited bearing on the Group.

| GRI benchmark | | Relevance |
|---|---|---|
| EN15 | • Percentage of weight of products sold that is reclaimable versus the percentage that is actually reclaimed | Not applicable |
| EN17 | • Initiatives to use renewable energy sources | Not significant |
| EN18 | • Energy consumption footprint of major products | Not significant |
| EN19 | • Other direct (upstream/downstream) energy use and implications | Not applicable |
| EN20 | • Water sources and related ecosystems/habitats significantly affected by use of water | Not applicable |
| EN21 | • Annual withdrawals of ground and surface water | Not applicable |
| EN22 | • Total recycling and re-use of water | Not applicable |
| EN23 | • Total amount of land owned, leased or managed for production activities or extractive use | Not significant |
| EN24 | • Amount of impermeable surface as a percentage of land purchased or leased | Not significant |
| EN25 | • Impacts of activities on protected and sensitive areas | Not significant |
| EN26 | • Changes to natural habitats | Not significant |
| EN27 | • Strategies for protecting and restoring native ecosystems and species in degraded areas | Not applicable |
| EN28 | • Number of IUCN Red List species with habitats in areas affected by operations | Not applicable |
| EN29 | • Business units currently operating or planning operations in or around protected or sensitive areas | Not significant |
| EN31 | • All production, transport, import or export of any waste deemed hazardous under the terms of the Basel Convention | Not applicable |
| EN32 | • Water sources and related ecosystems/habitats significantly affected by discharges of water and run-off | Not applicable |
| EN34 | • Significant environmental impacts of transportation used for logistical purposes | Minor – small fleet – no trucks |

# MY BANK IS MY CHOICE

# Global Reporting Initiative index

# Global Reporting Initiative index

Absa's 2005 annual report complies, to a large extent, with the Global Reporting Initiative (GRI) guidelines. The table in this section of the report contains references to general GRI indices as well as the GRI indices recommended for companies operating in the financial services industry.

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| **General performance indicators** | | | |
| 1.1 | Vision and strategy | | |
| | • For the Group | *Contained in the introductory section* | 2 |
| | • Pertaining to sustainable development | *Set out in the section titled "Absa's commitment to corporate citizenship and sustainability"* | 383 |
| 1.2 | Statement from the chief executive officer | *Covered in:* | |
| | • Group developments | *The Group's chairman's statement and chief executive's review* | 33, 41 |
| | • Sustainable development | *Absa's commitment to corporate citizenship and sustainability* | 383 |
| 2.1 | Name of the reporting organisation | *Absa Group Limited* | N/A |
| 2.2 | Major products and/or services, including brands | *Absa provides the full range of banking and financial services products and solutions. The Group's products and services are highlighted in the operational review* | 161 |
| 2.3 | Operational structure of the organisation | *Legal, management and financial reporting structures are disclosed* | 94, 162, 498 |
| 2.4 | Description of major divisions, operating companies, subsidiaries and joint ventures | *Full reporting of the operations of the Group's major business units is contained in the Group's operational review* | 161 |
| 2.5 | Countries in which organisation's operations are located | *Absa operates mainly in South Africa* | N/A |
| 2.6 | Nature of ownership; legal form | *42 730 shareholders. Further information is provided in the shareholder report* | 393 |
| 2.7 | Nature of markets served | *Absa follows a customer-focused strategy in targeted markets* | 161 |
| 2.8 | • Scale of reporting organisation | *32 515 employees/R5 484 million in headline earnings* | 5 |
| | • Specific breakdowns by countries/regions that make up 5% or more of total revenue | *Absa derives the majority of its earnings from South Africa. For the 2005 financial year, 96% of headline earnings came from South Africa* | 351 |

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| **General performance indicators** *(continued)* | | | |
| 2.9 | List of stakeholders | *Absa's stakeholders are: shareholders, customers, employees, the community and governments and other regulators. The Group's corporate citizenship and sustainability report provides in-depth information regarding the Group's stakeholders* | 383 |
| 2.10 | Contact for the report | *ir@absa.co.za* | N/A |
| 2.11 | Reporting period | *For the financial year ended 31 March 2005* | N/A |
| 2.12 | Date of most recent previous report | *For the financial year ended 31 March 2004* | N/A |
| 2.13 | Boundaries/scope of report | *Predominantly domestic operations. The report provides information on all domestic and international operations. However, with reference to stakeholder reporting, the information tends to be focused on the Group's South African operations* | Throughout the report |
| 2.14 | Significant changes in size, structure, ownership or products/ services since last report | *No significant changes – incremental changes reported throughout the report. The acquisition of a controlling stake in Absa by Barclays Bank PLC took place subsequent to year-end* | Throughout the report |
| 2.15 | Basis for reporting that could compromise comparability | *Comprehensively disclosed in the operational review and the Group's annual financial statements* | 161, 253 |
| 2.16 | Explanation regarding the restatement of information | *Restatements, where applicable, are contained in the annual financial statements and the operational review* | 161, 253 |
| 2.17 | Decisions not to apply GRI principles or protocols | *The Group's report incorporates a large majority of the GRI benchmarks* | N/A |
| 2.18 | Criteria/definitions | *Accounting definitions are outlined in the Group's annual financial statements* | 288 |

# Global Reporting Initiative index

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| **General performance indicators** *(continued)* | | | |
| 2.19 | Significant changes in measurement | *The accounting policies adopted and applied by Absa are consistent with those of the prior year in all material aspects except for the treatment of goodwill* | 288 |
| 2.20/ 2.21 | Policies and internal practices to enhance and provide assurance about the accuracy, completeness and reliability of the sustainability report | *Review of the annual report by the Group's auditors. The respective business units verify and sign off their respective sections of the report* | 275, 385 |
| 2.22 | Additional information and reports on sustainability | *www.absa.co.za/Absa's social investment report* | N/A |
| 3.1 | Governance structure of the organisation | *Absa complies with King II. Full disclosure is provided in the section of the report titled "Corporate governance"* | 48 |
| 3.2 | Percentage of the board of directors that are independent, non-executive directors | | |
| 3.3 | Process for determining board member expertise regarding the provision of strategic direction | | |
| 3.4 | Board-level processes | | |
| 3.5 | Linkage between executive compensation and the achievement of objectives | | |
| 3.6 | Organisational structure and key responsibilities with regard to social policies | *Dedicated Executive Committee members are responsible for setting and implementing social policies* | 383 |
| 3.7 | Mission and value statements and code of conduct | *The Group has a well-defined mission statement, which is lived through the application of the Group's values and code of ethics* | 2, 435 |
| 3.8 | Mechanisms for shareholders to provide recommendations | *The Group's annual general meetings and special general meetings as well as direct and indirect communication media* | 390 |

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| **General performance indicators** *(continued)* | | | |
| 3.9 | Identification of major stakeholders | *Identification of stakeholders is approved by the board* | 383 |
| 3.10 | Stakeholder consultation | *The Group makes use of a number of media to communicate with and obtain feedback with its stakeholders. This is covered in the section titled "Stakeholder engagement" in the corporate citizenship and sustainability report* | 390 |
| 3.11 | Stakeholder consultation information | | |
| 3.12 | Use of stakeholder consultation information | | |
| 3.13 | Precautionary approach | *Absa performs a formal risk assessment of each new product. Internal Audit compiles risk management plans for implementation* | N/A |
| 3.14 | Economic, environmental and social charters | *Signatory to the Financial Sector Charter which was signed on 17 October 2003* | 147 |
| 3.15 | Industry and business association memberships | *Reported under the commentary for the Group's respective business units* | 161 |
| 3.16 | Policies and/or systems for managing upstream and downstream impacts | *Absa's procurement policy is in place and is currently under review* | 465 |
| 3.17 | Approach to managing indirect impacts | *Absa is a low-impact company. The Group's approach with reference to indirect environmental impacts is included in the environmental report* | 473 |
| 3.18 | Decisions regarding location and change in operations | *Comprehensively covered throughout the report* | Throughout the report |
| 3.19 | Programmes and procedures pertaining to economic, environmental performance | *Comprehensively covered throughout the report* | Throughout the report |
| 3.20 | Certification status | *Absa is currently not certified but is in the process of implementing an EMS based on the 14001 standard* | 475 |

# Global Reporting Initiative index

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| **Economic performance indicators** | | | |
| EC1 | Top-line income (net sales) | *R22 478 million (top-line income)* | 284 |
| EC2 | Geographic breakdown of markets | *Earnings predominantly from South African operations* | 351 |
| EC3 | Costs of all goods, materials and services purchased | *R6 421 million* | 326 |
| EC4 | Percentage of contracts paid in accordance with agreed terms | *Not measured* | N/A |
| EC5 | Payroll and benefits | *R6 340 million (predominantly paid to South African employees)* | 326 |
| EC6 | Distributions to providers of capital | *295 cents per share paid as dividends* | 5 |
| EC7 | Increase/decrease in retained earnings | *28,1% growth in distributable reserves* | 286 |
| EC8 | Taxes paid | *Indirect – R780 million*<br>*Direct – R2 048 million*<br>*Effective tax rate of 27%* | 284 |
| EC9 | Subsidies received | *R26 million claimed from the banking sector's education and training authority* | 416 |
| EC10 | Donations to community, civil society and other groups | *R18,4 million disbursed to the communities in which Absa operates by the Absa Foundation. In addition to this, the Group's business units provide resources to the community* | 448 |
| EC11 | Supplier breakdown by organisation and country | *Not disclosed* | N/A |
| EC12 | Total spend on non-core business infrastructure development | *Included in Absa Foundation's spend. In addition, business units also conduct CSI initiatives outside the Absa Foundation that could have an infrastructure focus* | 448 |
| EC13 | The organisation's indirect economic impacts | *Not applicable, as Absa is a provider of financial products and services* | N/A |

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| **Environmental performance indicators** | | | |
| EN1 | Total material used other than water | *Absa is not a major consumer of materials. Paper is the major material used. Absa uses on average 14 900 boxes of paper a month* | 477 |
| EN2 | Percentage of material used that is waste from sources external to Absa | *Not applicable* | N/A |
| EN3 | Direct energy use segmented by primary source | *Absa primarily uses electricity* | N/A |
| EN4 | Indirect energy use | *Not applicable* | N/A |
| EN5 | Total water use | *Water is primarily used for consumption and ablution facilities. It is therefore not a key metric* | 477 |
| EN6 | Location and size of land owned, leased or managed in bio-diverse rich habitats | *Absa has no significant impact on biodiversity as the Group predominantly occupies offices* | 476 |
| EN7 | Description of the major impacts on biodiversity | *Not applicable* | N/A |
| EN8 | Greenhouse gas emissions | *Not applicable* | N/A |
| EN9 | Use and emissions of ozone-depleting substances | *Not applicable* | N/A |
| EN10 | NOx, SOx and other significant air emissions by type | *Not applicable* | N/A |
| EN11 | Total amount of waste by type and destination | *Absa endeavours to facilitate recycling* | 478 |
| EN12 | Significant discharges to water by type | *Not applicable* | 478 |
| EN13 | Significant spills of chemicals, oils and fuels | *Not applicable* | 478 |
| EN14 | Significant environmental impacts of principal products and services | *Not applicable* | 476 |
| EN15 | Percentage of weight of products sold that is reclaimable | *Not applicable* | N/A |

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| **Environmental performance indicators** *(continued)* | | | |
| EN16 | Non-compliance | *The Group has not incurred any fine for non-compliance with environmental regulations* | 479 |
| EN17 | Initiatives to use renewable energy sources | *Not significant* | N/A |
| EN18 | Energy consumption footprint | *Not significant* | N/A |
| EN19 | Other indirect energy use | *Not applicable* | N/A |
| EN20 | Water sources and related ecosystems | *Not applicable* | N/A |
| EN21 | Annual withdrawals of ground and surface water | *Not applicable* | N/A |
| EN22 | Total recycling and re-use of water | *Not applicable* | N/A |
| EN23 | Total amount of land owned, leased or managed | *Not significant* | 476 |
| EN24 | Amount of impermeable surfaces | *Not significant* | N/A |
| EN25 | Impacts of activities and operations on protected and sensitive areas | *Not significant* | N/A |
| EN26 | Changes to natural habitats resulting from activities | *Not significant* | 476 |
| EN27 | Protecting and restoring native ecosystems | *Not significant* | 476 |
| EN28 | Number of IUCN Red List species | *Not applicable* | N/A |
| EN29 | Business units with plans in or around protected or sensitive areas | *Not significant* | 476 |
| EN30 | Other relevant indirect greenhouse emissions | *Not applicable* | N/A |
| EN31 | Products, transport, imports or exports deemed hazardous | *Not applicable* | N/A |

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| **Environmental performance indicators** *(continued)* | | | |
| EN32 | Water sources and related ecosystems significantly affected by discharges of water and run-off | *Not applicable* | N/A |
| EN33 | Performance of suppliers relative to environmental components | *Included in Absa's sourcing strategies and methodologies* | 474 |
| EN34 | Significant environmental impacts of transport used for logistical purposes | *Minor – small fleet – no trucks* | 480 |
| EN35 | Total environmental expenditure by type | *Not currently measured or monitored* | 476 |
| **Social performance indicators** | | | |
| ***Labour practices*** | | | |
| LA1 | Breakdown of workforce | *Full-time employees excluding Africa – 30 841*<br>*Temporary employees excluding Africa – 2 002*<br>*Employees in other entities consolidated into the Group's financial statements – 1 674* | 437 |
| LA2 | Employment creation and average turnover | *Average turnover of 10,9%* | 440 |
| LA3 | Trade union representation | *60% of non-management employees and 37% of management belong to Sasbo* | 426 |
| LA4 | Policy and procedures involving information, consultation, and negotiation with employees over changes in the reporting organisation's operations | *One-on-one interaction as well as consultation and negotiation with Sasbo. Communication with all employees is undertaken through the Group's various employee communication media* | 426 |
| LA5 | Occupational accidents and diseases | *268 cases* | 435 |
| LA6 | Health and safety committees | *Dedicated committees in each of the Group's buildings* | 434 |
| LA7 | Injury, lost days and absentee rates | *Average number of employees taking sick leave in the year – 69,2%, and number of employee days lost – 1 292* | 435, 441 |

# Global Reporting Initiative index

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| ***Labour practices*** *(continued)* | | | |
| LA8 | HIV/Aids policies or programmes | | 429 |

| | Additional indicators | Status |
|---|---|---|
| 1 | HIV/Aids policy | *In place* |
| 2 | Strategy for managing HIV/Aids | *Set objectives and deliverables* |
| 3 | Stakeholder involvement | *Internal and external experts and communication through numerous channels* |
| 4 | HIV/Aids prevalence rates | *South African banking industry rate of 3,4%* |
| 5 | HIV/Aids expenditure | *R6,3 million* |
| 6 | HIV/Aids awareness/education/training | *Process in place* |
| 7 | Voluntary counselling and testing | *Programme in place* |
| 8 | HIV prevention interventions | *Via the Group's clinics* |
| 9 | Programmes to assist members who suffer from Aids | *Comprehensive HIV/Aids treatment programme* |
| 10 | Provision of anti-retrovirals | *Provided through medical aid/(Bankmed)* |

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| LA9 | Training per employee level, gender and ethnic split | *30 048 employees trained* | 415 |
| LA10 | Equal opportunity policies or programmes, and their monitoring | *The Group has an employment equity policy and has a specific focus on managing diversity* | 417 |
| LA11 | Composition of senior management and corporate governance bodies | *The section of the report titled "Corporate governance" provides a detailed overview of the Group's governance structures* | 48 |

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| ***Labour practices*** *(continued)* | | | |
| LA12 | Employee benefits beyond those legally mandated | *Clinics, gymnasiums, canteens, HIV/Aids guidance, paid maternity leave and a sick leave benefit bank* | 423 |
| LA13 | Provision for formal worker representation in decision-making | *Formal recognition agreement with the trade union* | 426 |
| LA14 | Compliance with the ILO guidelines for occupational health management systems | *Absa's systems compare favourably with these guidelines* | 434 |
| LA15 | Formal agreements with trade unions covering health and safety at work and proportion of workforce covered by such agreements | *Absa's policy has been finalised and forwarded to Sasbo for approval* | 434 |
| LA16 | Programmes to support the continued employability of employees and to manage career endings | *Comprehensive retrenchment/career-ending process* | 426 |
| LA17 | Policies and programmes for skills management | *Dedicated programme* | 414 |
| ***Human rights*** | | | |
| HR1 | Policies, guidelines, corporate structure and procedures to deal with all aspects of human rights | *The Group's commitment to observe all the constitutional rights of employees is considered and articulated in various policy documents and statements* | 425 |
| HR2 | Evidence of consideration of human rights impacts as part of investment and procurement | | |
| HR3 | Policies and procedures to evaluate and address human rights performance within the supply chain and contractors | | |
| HR4 | Global policy and procedures/programmes preventing all forms of discrimination in operations | *Part of the Group's employment equity and diversity programme* | 425 |

# Global Reporting Initiative index

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| ***Human rights*** *(continued)* | | | |
| HR5 | Freedom of association policy | *Policy in place* | 425 |
| HR6 | Child labour policy | *This is dealt with in the Group's talent-sourcing and selection policy* | 425 |
| HR7 | Forced and compulsory labour policy | | |
| HR8 | Employee training on policies and practices concerning all aspects of human rights relevant to operations | *The Group's commitment to observe all constitutional rights of employees is confirmed and articulated in various policy documents and statements. Training is provided in respect of the application of relevant policies* | |
| HR9 | Appeal practices | *Absa's disciplinary policy provides for a review process* | |
| HR10 | Non-retaliation policy and employee grievance system | *No employee may be victimised or prejudiced because of having lodged a grievance* | |
| HR11 | Human rights training for security personnel | *The operational security function for the Group is outsourced and therefore training is undertaken by the vendor* | |
| HR12 | Description of policies, guidelines and procedures to address the needs of indigenous people | *Comprehensive employment equity and diversity programme in place* | 416 |
| HR13 | Description of jointly managed community grievance mechanisms/authority | *Grievance system in place for employees and customers* | 404, 426 |
| HR14 | Share of operating revenues from the area of operations that are redistributed to local communities | *Absa Foundation disbursed R18,4 million to communities in which Absa operates. This excludes business unit specific initiatives* | 448 |
| ***Society*** | | | |
| SO1 | Policies to manage impacts on communities | *Absa is a low-impact company. However, prior to approving the financing of projects, relevant communities are consulted* | 473 |
| SO2 | Policy/procedures for addressing bribery and corruption | *Policies and procedures are in place and managed and monitored by the Group's Internal Audit department and approved by the board* | 435 |

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| ***Society*** *(continued)* | | | |
| SO3 | Description of policy, procedures/ management systems for managing political lobbying and contributions | *Absa has a dedicated department that focuses on government relations and CSI* | 469 |
| SO4 | Awards received | *Retention of the title of the Best Company to Work For in the banking sector*<br>*Ranked as the most caring financial services institution and fifth most caring company in South Africa*<br>*Ranked as the most caring company according to decision-makers*<br>*Rated as the financial services company that makes the strongest contribution to development*<br>*Nominated as having the most hands-on approach to CSI*<br>*Nominated as the corporate that most strongly involves its employees in CSI* | 389 |
| SO5 | Money paid to political parties | *Not disclosed* | N/A |
| SO6 | Court decisions regarding cases pertaining to anti-trust and monopoly regulations | *No court cases instituted against Absa* | N/A |
| SO7 | Policies/procedures for preventing anti-competitive behaviour | *Not disclosed, but procedures are in place* | N/A |
| ***Product responsibility*** | | | |
| PR1 | Policy for preserving customer health and safety during use of products and services | *Limited relevance. However, the Group subscribes to and abides by the regulations of the Financial Intelligence Centre (FIC) Act and the Financial Advisory and Intermediary Services (FAIS) Act in obtaining customer information and providing customers with fit and proper financial advice.* | 405 |

# Global Reporting Initiative index

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| ***Product responsibility*** *(continued)* | | | |
| PR2 | Policy/procedures related to product information and labelling | *Information provided directly to customers via product pamphlets, conditions of use and the Group's website. Absa subscribes to and abides by the regulations of the Financial Intelligence Centre (FIC) Act and the Financial Advisory and Intermediary Services (FAIS) Act in obtaining customer information and providing customers with fit and proper financial advice* | 405 |
| PR3 | Policy/procedures relating to consumer privacy | *The Group subscribes to the Code of Banking Practice* | 406 |
| PR4 | Non-compliance with customer health and safety regulations | *Not applicable. However, Absa subscribes to and abides by the regulations of the Financial Intelligence Centre (FIC) Act and the Financial Advisory and Intermediary Services (FAIS) Act in obtaining customer information and providing customers with fit and proper financial advice* | 406 |
| PR5 | Complaints upheld regarding the health and safety of products and services | *Not applicable* | 406 |
| PR6 | Voluntary code compliance, product labels or awards with respect to social and/ or environmental responsibility | *Not applicable* | 476 |
| PR7 | Non-compliance concerning product information and labelling | *Not applicable* | 406 |
| PR8 | Policies/procedures and mechanisms related to customer satisfaction | *Customer satisfaction is continuously measured through in-depth market research interventions* | 404 |
| PR9 | Policies/procedures for adherence to standards and voluntary codes related to advertising | *Absa is committed to adhering to all the standards and voluntary codes related to advertising* | 406 |
| PR10 | Breaches of advertising and marketing regulations | *None* | 406 |
| PR11 | Complaints regarding breaches of consumer privacy | *Not disclosed* | N/A |

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| **Financial services' guidelines** | | | |
| ***Corporate social responsibility management*** | | | |
| CSR1 | Social elements of CSR policy | *Comprehensively disclosed* | 442 |
| CSR2 | Structure and relevant CSR responsibilities | *Dedicated corporate social investment function in the Group* | 442 |
| CSR3 | CSR audit | *Undertaken by the Group's internal auditors* | 442 |
| CSR4 | Procedures for handling issues sensitive to stakeholders | *Procedures in place for all identified stakeholders* | 383 |
| CSR5 | Non-compliance incidents with any law or regulatory code of conduct | *None* | N/A |
| CSR6 | Stakeholder dialogue and involvement procedures | *Specific interventions for identified stakeholder groups* | 390 |
| ***Internal social performance*** | | | |
| INT1 | Social responsibility issues covered in the human resources policies | *The Group's commitment to observe all the constitutional rights of employees is confirmed and articulated in various policy documents and statements* | 425 |
| INT2 | Staff turnover | *10,9%* | 440 |
| INT3 | Employee satisfaction | *Measured by external and internal surveys* | 391 |
| INT4 | Remuneration of Group executive directors and board of directors of the Absa Group | *R45 million* | 79 |
| INT5 | Bonuses that contain additional sustainability elements | *Incentive schemes are aligned with the Group's objectives and are currently being reviewed so as to include performance criteria* | 79 |
| INT6 | Ratio of female to male salaries, including bonuses, per hierarchy level | *Comprehensively disclosed* | 423 |
| INT7 | Employee profile per hierarchy level | *Split per gender, ethnic group and age is comprehensively disclosed* | 438 |

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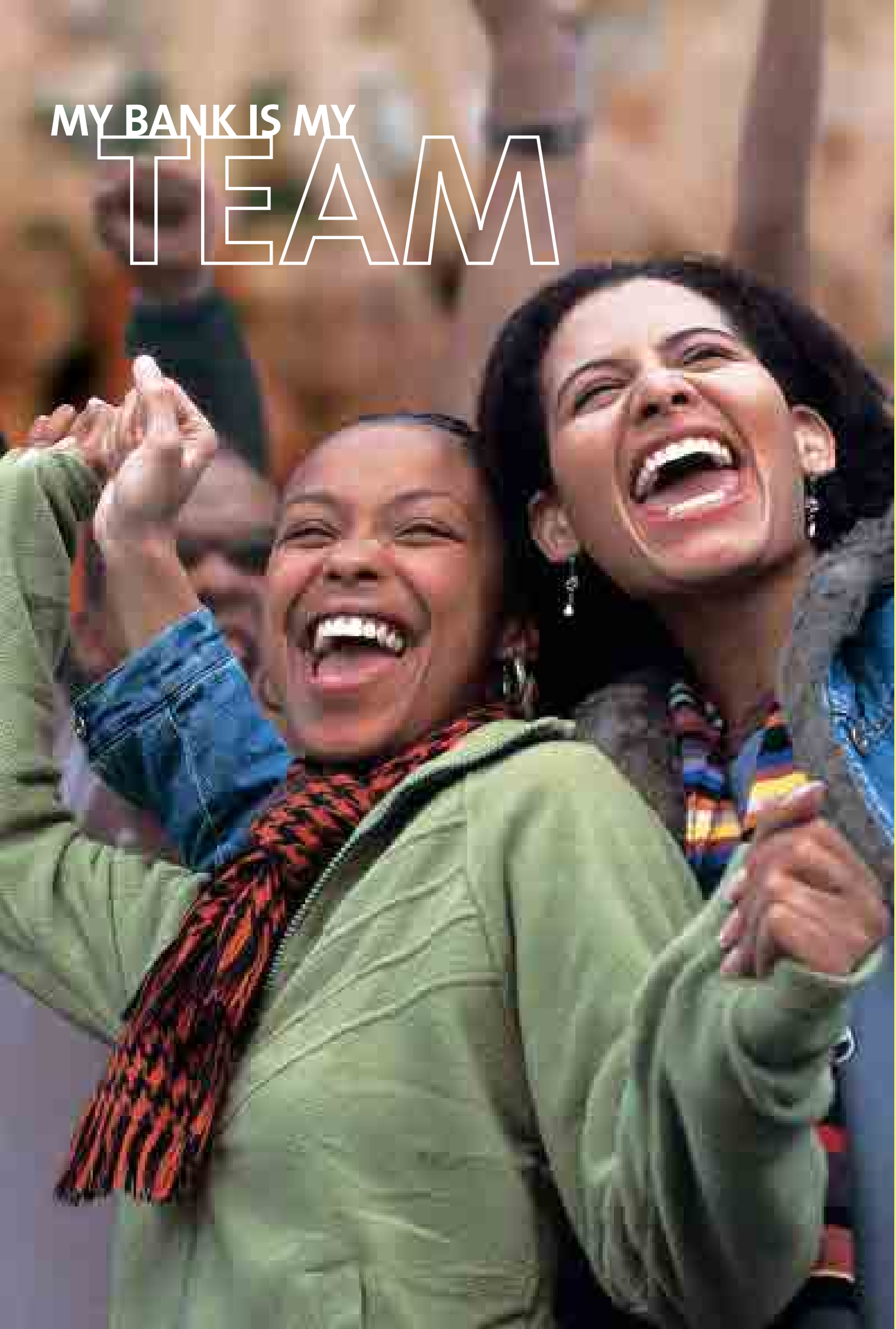
| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| ***Performance to society*** | | | |
| SOC1 | Contributions to charitable causes, community investments and commercial sponsorships | *R18,4 million disbursed to community initiatives plus business unit specific initiatives* | 448 |
| SOC2 | Economic value added | *R15 434 million* | 388 |
| ***Suppliers*** | | | |
| SUP1 | Policies/procedures to screen suppliers' social performance | *Included in the Group's supplier contracts* | 464 |
| SUP2 | Supplier satisfaction | *Undertaken through the supplier accreditation process, briefing sessions, performance reviews and feedback forums* | 392 |
| ***Retail banking*** | | | |
| RB1 | Social criteria in retail banking | *Absa has embedded the provisions of the FSC into its business strategies* | 145 |
| RB2 | Lending profile | *Retail banking contributed 41,1% to Group earnings* | 162 |
| RB3 | Lending with high social benefit | *Provision of holistic services to all targeted segments* | 172, 174, 228 |
| ***Investment banking*** | | | |
| IB1 | Social criteria applied by the reporting organisation to its investment banking activities | *Not disclosed – forms part of the due diligence process* | N/A |
| IB2 | Transaction structure according to World Bank classification of economies | *Not reported* | N/A |
| IB3 | Transactions with a high social benefit | *Financing of targeted investments and BEE transactions* | 158 |

| GRI benchmark | | Status | Page numbers |
|---|---|---|---|
| ***Asset management*** | | | |
| AM1 | Social criteria applied by the reporting organisation in asset management | *Not disclosed – Abvest strives for accountable investing* | 196 |
| AM2 | Provision of tailored and innovative products and services applying special positive ethical/ sustainability criteria | *No specific initiatives – operate under customer mandates with specific guidelines* | 196 |
| AM3 | Activities with companies invested in, where CSR issues are either raised in communications with board and management or explicitly considered when exercising shareholder rights | | |
| ***Insurance*** | | | |
| INS1 | Social criteria applied regarding underwriting policies | *Underwriting criteria are evidence-based and according to international standards and contain no elements of discrimination* | 209, 210 |
| INS2 | Customer profile | *Assurance = 1,6 million customers*<br>*Insurance = 756 000 customers* | 209, 210 |
| INS3 | Customer complaints | *FAIS Ombud and Ombudsmen for the life assurance and short-term insurance industries* | 68 |
| INS4 | Provision of tailored and innovative products and services applying special ethical or sustainability criteria | *Provision of specific offerings for the respective market segments* | 206 |


MY BANK IS MY
TEAM

# Administration and information pertaining to the annual general meeting

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# Administration

as at 24 June 2005

## Controlling company

**Absa Group Limited**
Reg No 1986/003934/06

**Registered office**
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*Postal address:* P O Box 7757,
Johannesburg, 2000
*Telephone:* (011) 350-4000
*Telefax:* (011) 350-4928
*e-mail:* groupsec@absa.co.za

**Board of directors**
D C Cronjé (chairman)
D C Brink (deputy chairman)
S F Booysen* (Group chief executive)
L N Angel
D C Arnold
D E Baloyi
L Boyd
B P Connellan
A S du Plessis
G Griffin
L N Jonker
P du P Kruger
L W Maasdorp
P T Motsepe
J H Schindehütte*
T M G Sexwale
F A Sonn
P E I Swartz
T van Wyk
J van Zyl
L L von Zeuner*
*Executive in the Absa Group.

**Transfer secretaries**
Computershare Investor Services
2004 (Proprietary) Limited,
70 Marshall Street, Johannesburg,
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*Postal address:* P O Box 61051,
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**ADR depositary**
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**Auditors**
KPMG Inc.
Ernst & Young

**Group secretary**
W R Somerville
*e-mail:* williams@absa.co.za

## Sponsors

**Lead sponsor**
***Merrill Lynch South Africa (Proprietary) Limited***
(Member of the Merrill Lynch Group)
138 West Street, Sandown, Sandton,
2196
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**Co-sponsor**
***Absa Corporate and Merchant Bank***
***Corporate Finance Department***
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## Banking

***Absa Bank Limited and its operating divisions***

**Absa Bank Limited**
Reg No 1986/004794/06

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170 Main Street, Johannesburg, 2001
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**Board of directors**
D C Cronjé (chairman)
D C Brink (deputy chairman)
S F Booysen* (chief executive)
L N Angel
D C Arnold
D E Baloyi
L Boyd
B P Connellan
A S du Plessis
R R Emslie* (alternate)
C Erasmus*
G Griffin
L N Jonker
P du P Kruger
L W Maasdorp
N P Mageza* (alternate)
P T Motsepe
J H Schindehütte*
T M G Sexwale
I B Skosana*
F A Sonn
P E I Swartz
J P van der Merwe*
L A van Dyk* (alternate)
T van Wyk
J van Zyl
L L von Zeuner*
*Executive in the Absa Group.

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**Divisional board**
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D Barrett
E R Bosman
D C Cronjé
F B de Vos
C Erasmus*
N A Gasa
N P Mageza*
B Mogale
I B Skosana*
F A Sonn
D D Tabata
J P van der Merwe*
L A van Dyk*
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**Divisional board**
C Erasmus* (chairman)
Z B M Bassa* (managing executive)
S Dakile-Hlongwane
M Kropman
P D Redshaw
D L Rose
I B Skosana*
A S Swart*
E Wasserman*
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N P Mageza*
S N Mahomed
J H Schindehütte*
P E I Swartz
L L von Zeuner*
M S Wylie
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**Divisional board**
S F Booysen* (chairman)
R R Emslie* (managing executive)
E R Bosman
D C Brink
B P Connellan
D C Cronjé
L N Jonker
L W Maasdorp
N J Morris
C C Okeahalam
J H Schindehütte*
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## Overseas offices

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*Executive in the Absa Group.

**Hamburg**
***Bankhaus Wölbern & Co (AG & Co KG)***
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I B Skosana* (chairman)
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G Opperman* (managing director)
13th Floor, Dah Sing, Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong
*Telephone:* (09852) 2531-9388
*Telefax:* (09852) 2802-1908
*e-mail:* absahk@absaasia.com
*Executive in the Absa Group.

**Isle of Man**
***Absa Manx Holdings Limited***
Reg No 076041C
D Lever (chairman)
R Green* (general manager)
2nd Floor, 18-20 North Quay, Douglas, Isle of Man, IM1 4LE
*Telephone:* (09441624) 615-042
*Telefax:* (09441624) 614-943
*e-mail:* roy@amalgamated-finance.com
*Executive in the Absa Group.

**Shanghai**
***Absa Bank Limited representative office***
J Zhu* (chief representative)
Unit B, 20th Floor, Huamin Empire Plaza, No 726 Yan An Rd (W), Shanghai, 200050
People's Republic of China
*Telephone:* (098621) 6210 0909
*Telefax:* (098621) 6210 0993
*e-mail:* juliaabsash@online.sh.cn
*Executive in the Absa Group.

**Singapore**
***Absa Bank Singapore***
D Meadows*
(regional general manager)
9 Temasek Boulevard, #40-01 Suntec Tower Two, Singapore, 038989
*Telephone:* (0965) 6 333-1033
*Telefax:* (0965) 6 333-1066
*e-mail:* absasgsg@absa.com.sg
*Executive in the Absa Group.

## Stockbroking

**Absa Stockbrokers (Proprietary) Limited**
(Member of the JSE Securities Exchange South Africa)
Reg No 1973/010798/07
C Erasmus* (chairman)
L J S Turnock* (managing director)
Park Ridge Office Park, Block A, 65 Empire Road, Parktown, 2193
*Postal address:* P O Box 61320, Marshalltown, 2107
***Dealing department:***
*Telephone:* (011) 647-0892
*Telefax:* (011) 647-0877
***Settlement department:***
*Telephone:* (011) 647-0819
*Telefax:* (011) 647-0828
*e-mail:* edwardf@absa.co.za
*Executive in the Absa Group.

## Factoring and invoice discounting

**Absa Finance Company (Proprietary) Limited (trading as Cutfin)**
Reg No 1990/001207/07
N P Mageza* (chairman)
R Pillay* (managing director)
19th Floor, Marble Towers, Jeppe Street, Johannesburg, 2001
*Postal address:* P O Box 11055, Johannesburg, 2000
*Telephone:* (011) 221-6444
*Telefax:* (011) 221-7569
*e-mail:* ravendrenp@absa.co.za
*Executive in the Absa Group.

## Delivery channels

**Delivery Channel Services**
J R K du Preez* (managing executive)
Absa Towers, 160 Main Street, Johannesburg, 2001
*Postal address:* P O Box 7735, Johannesburg, 2000
*Telephone:* (011) 350-4226
*Telefax:* (011) 356-5143
*e-mail:* juliettedp@absa.co.za
*Executive in the Absa Group.

## Credit card services

**Absa Card division**
P J W van Wyk*
(deputy managing executive)
Volkskas Centre, 230 Van der Walt Street, Pretoria, 0002
*Postal address:* P O Box 3915, Pretoria, 0001
*Telephone:* (012) 317-0000
*Telefax*: (012) 317-3400
*e-mail:* contactcard@absa.co.za
*Executive in the Absa Group.

## Asset management

**Abvest Associates (Proprietary) Limited**
Reg No 1997/017903/07
I B Skosana* (chairman)
S Houlie* (managing director)
2nd Floor, Paramount Place, 5 Protea Road, Claremont, 7708
*Postal address:* P O Box 44952, Claremont, 7735
*Telephone:* (021) 657-6000
*Telefax:* (021) 657-6100
*e-mail:* sam.houlie@abvest.com
*Executive in the Absa Group.

## Other banking subsidiaries and interests

**Tanzania**
***National Bank of Commerce Limited***
C M Nyirabo (chairman)
C P de Vries* (managing director)
Mezzanine Floor, NBC House, Sokoine Drive, Dar es Salaam
*Postal address:* P O Box 1863, Dar es Salaam, Tanzania
*Telephone:* (09255) 222-110959
*Telefax:* (09255) 222-112887
*e-mail:* cs@nbctz.com
*Executive in the Absa Group.

**Zimbabwe**
***Commercial Bank of Zimbabwe Limited***
R V Wilde (chairman)
N J Makuvise (managing director)
60 Kwame Nkrumah Avenue, Harare
*Postal address:* P O Box 3313, Harare, Zimbabwe
*Telephone:* (092634) 749714
*Telefax:* (092634) 758077
*e-mail:* cbzinfo@africaonline.co.zw

**Mozambique**
***Banco Austral, Sarl***
C Francesco (chairman)
G Jordaan* (managing director)
Avenida 25 de Setembro No 1184, Maputo, Mozambique
*Telephone:* (09258) 1 427685
*Telefax:* (09258) 1 301094
*e-mail:* jane.grob@teledata.mz
*Executive in the Absa Group.

**Namibia**
***Capricorn Investment Holdings Limited***
(formerly Bank Windhoek Holdings Limited)
J C Brandt (chairman)
J J Swanepoel (managing director)
Bank Windhoek Building, 262 Independence Avenue, Windhoek
*Postal address:* P O Box 15, Windhoek, Namibia
*Telephone:* (0926461) 299-1228
*Telefax:* (0926461) 299-1309
*e-mail:* vonludwigerh@bankwindhoek.com.na

**Angola**
***Banco Comercial Angolano***
A da Silva Tomas (chairman)
G Johnson* (managing director)
79 A – Avenida Comandante Valodia, Luanda

*Postal address:* Caixa Postal 6900, Luanda
*Telephone:* (+244) 2-448842/8/9
*Telefax:* (+244) 2-449516
*e-mail:* bca@bca.co.ao
*Executive in the Absa Group.

**South Africa**
***MEEG Bank Limited***
Reg No 1976/060115/06
W L Nkuhlu (chairman)
E G Kaltenbrünn* (managing director)
5th Floor, Absa Building, cnr Oxford and Gladstone Streets,
85 Oxford Street,
East London, Eastern Cape, 5201
*Postal address:* P O Box 429,
East London, 5200
*Telephone:* (043) 742-4949
*Telefax:* (043) 742-4955
*e-mail:* emilk@meegbank.co.za
*Executive in the Absa Group.

## Financial services and insurance

***Absa Financial Services Limited and its major subsidiaries***

**Absa Financial Services Limited**
Reg No 1969/009007/06
S F Booysen* (chairman)
C Erasmus* (managing director)
Absa Towers East, 170 Main Street,
Johannesburg, 2001
*Postal address:* P O Box 7735,
Johannesburg, 2000
*Telephone:* (011) 350-4227
*Telefax:* (011) 350-3946
*e-mail:* charlese@absa.co.za
*Executive in the Absa Group.

**Absa Consultants and Actuaries (Proprietary) Limited**
Reg No 1961/001434/07
C Erasmus* (chairman)
M J Grobler* (managing director)
21 Kruis Street, Johannesburg, 2001
*Postal address:* P O Box 928,
Johannesburg, 2000
*Telephone:* (011) 330-2224
*Telefax*: (011) 331-5264
*e-mail:* jgrobler@absa.co.za
*Executive in the Absa Group.

**Absa Health Care Consultants (Proprietary) Limited**
Reg No 1983/008344/07
C Erasmus* (chairman)
L J Botha* (managing director)
Absa Building, 2nd Floor,
1263 Heuwel Avenue, Centurion,
Pretoria, 0157
*Postal address:* P O Box 10285,
Centurion, 0046
*Telephone:* (012) 674-8800
*Telefax*: (012) 663-8673
*e-mail:* louisjb@absa.co.za
**Executive in the Absa Group.*

**Absa Fund Managers Limited**
Reg No 1991/000881/06
C Erasmus* (chairman)
A S Swart* (managing director)
65 Empire Road, Parktown, 2193
*Postal address:* P O Box 6115,
Johannesburg, 2000
*Telephone:* (011) 480-5000
*Telefax*: (011) 480-5440
*e-mail:* giliam@absa.co.za
*Executive in the Absa Group.

**Absa Brokers (Proprietary) Limited**
Reg No 1970/002732/07
C Erasmus* (chairman)
P J Reyneke* (managing director)
*Executive in the Absa Group.

***Life broking***
267 Kent Avenue, Randburg, 2194
*Postal address:* P O Box 3540,
Randburg, 2125
*Telephone:* (011) 289-0600
*Telefax:* (011) 289-0740
*e-mail:* jreyneke@absa-ib.co.za

***Short-term broking***
267 Kent Avenue, Randburg, 2194
*Postal address:* P O Box 3992,
Randburg, 2125
*Telephone:* (011) 289-0600
*Telefax:* (011) 289-0740
*e-mail:* jreyneke@absa-ib.co.za

**Absa Insurance Company Limited**
Reg No 1992/001737/06
C Erasmus* (chairman)
C F de Jager* (managing director)
21 Kruis Street, Johannesburg, 2001
*Postal address:* P O Box 421,
Johannesburg, 2000
*Telephone:* (011) 330-2111
*Telefax:* (011) 331-7414
*e-mail:* coenraad@absa.co.za
**Executive in the Absa Group.*

**Absa Life Limited**
Reg No 1992/001738/06
C Erasmus* (chairman)
W T Lategan* (managing director)
21 Kruis Street, Johannesburg, 2001
*Postal address:* P O Box 421,
Johannesburg, 2000
*Telephone:* (011) 330-2265
*Telefax:* (011) 331-1312
*e-mail:* williel@absa.co.za
*Executive in the Absa Group.

**Absa Trust Limited**
Reg No 1915/004665/06
C Erasmus* (chairman)
A S Swart* (managing director)
65 Empire Road, Parktown, 2193
*Postal address:* P O Box 223,
Auckland Park, 2006
*Telephone:* (011) 480-5000
*Telefax:* (011) 480-5193
*e-mail:* willieg@absa.co.za
*Executive in the Absa Group.

**Absa Investment Management Services (Proprietary) Limited**
Reg No 1980/002425/07
C Erasmus* (chairman)
C M Harris* (managing director)
1 Woodmead Drive, Block 6,
Woodmead Estate, 2128
*Postal address:* P O Box 974,
Johannesburg, 2000
*Telephone:* (011) 259-0111
*Telefax*: (011) 259-0051/2
*e-mail:* aims@absa.co.za
*Executive in the Absa Group.

## Property development

**Absa Development Company Holdings (Proprietary) Limited**
Reg No 1968/001326/07
I B Skosana* (chairman)
S Mashinini* (managing director)
Block E, Flora Park Office Park,
cnr Ontdekkers and Conrad Roads,
Florida, 1710
*Postal address:* P O Box 1132,
Johannesburg, 2000
*Telephone:* (011) 671-7300
*Telefax*: (011) 350-4769
*e-mail:* siphomas@absa.co.za
*Executive in the Absa Group.

**Real Estate Asset Management (REAM)**
Block E, Flora Park Office Park,
cnr Ontdekkers and Conrad Roads,
Florida, 1710
*Postal address:* P O Box 1132,
Johannesburg, 2000
*Telephone:* (011) 671-7300
*Telefax:* (011) 350-4769
*e-mail:* siphomas@absa.co.za

## Provincial boards

**Eastern and Southern Cape**
A A da Costa (chairman)
D D Tabata (vice-chairman)
D R Bruce
B P Erasmus
B C Qupe
J Schewitz

**Free State**
W F Relling (vice-chairman)
N Bagarette
R G Burls
K M Charlwood
M Makhubalo
E M Makotoko
O A Themba

**Gauteng**
L I Weil (chairman)
P J Muller (vice-chairman)
H P Africa
T Matshazi
A Mokadi
Y A Moti
J J Sauer

**Gauteng North**
D J de Villiers (chairman)
S Adendorff
D Motlatla
N R Mistry
D M Sewela
S Vil-Nkomo

**KwaZulu-Natal**
N A Gasa (chairman)
W D Howie
K Makan
L Moloi
D Myeni
N T Oosthuizen
S J Sibeko

**Mpumalanga**
N M Phosa (chairman)
J J Claassen
J J Maritz
N P Maziluko
H van der Merwe

**Northern Cape**
P Crouse (chairman)
J S Marais
N A Mazibuko
R E Modise
C P van den Heever
M S Wookey

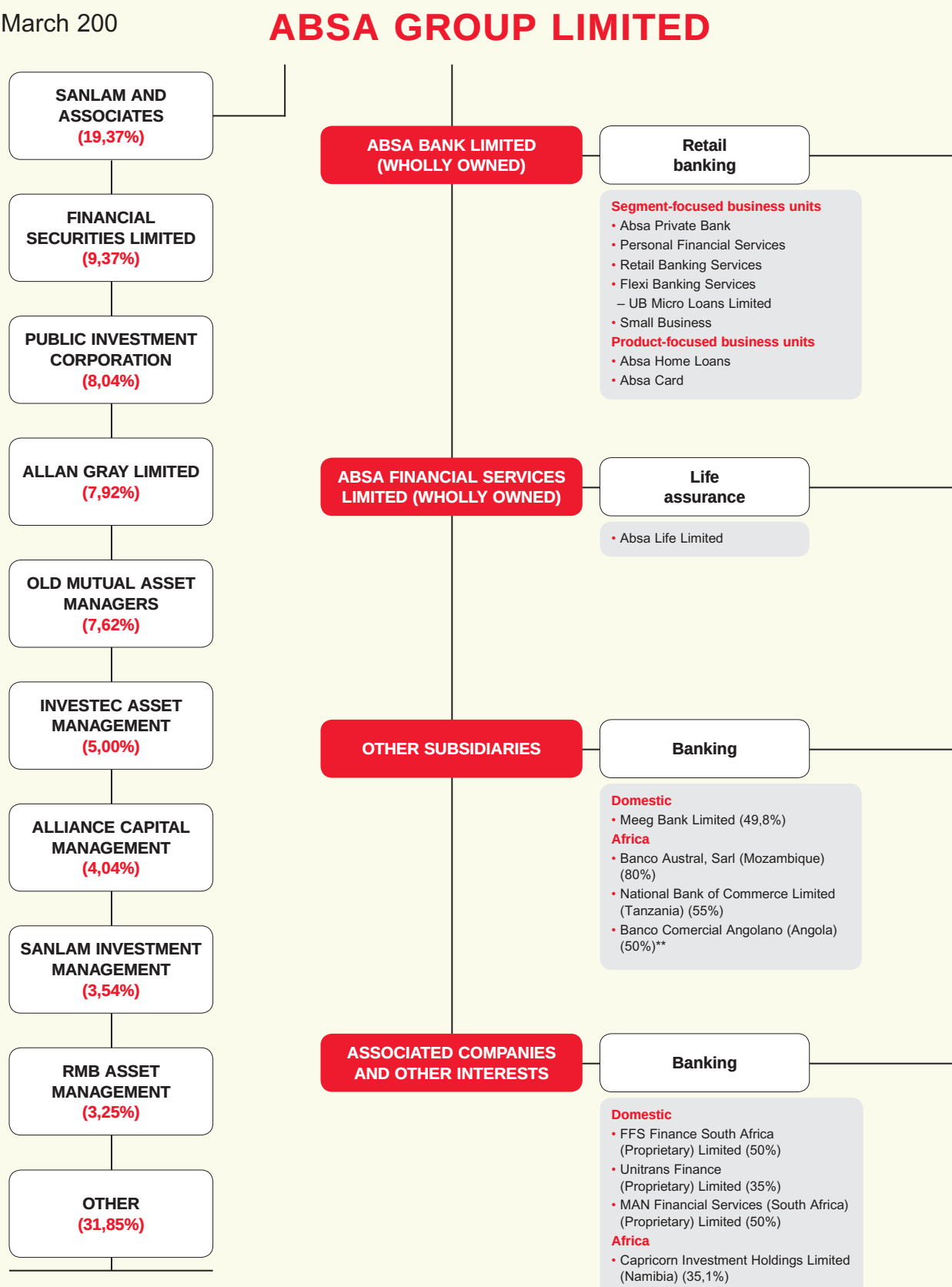
**Limpopo**
S N Mahomed (chairman)
I I Bower (vice-chairman)
L R Phathela
T F Pretorius
H Ramaphosa
L Thembe
P G A Vorster

**North West**
I Klynsmith (chairman)
M Kropman (vice-chairman)
J P du Preez
R K Mokitime
T A Ratefane
S Roopa
G van der Merwe

**Western Cape**
P E I Swartz (chairman)
Z Combi
C du Toit
A Floris
M Isaacs
P Krawitz
G Mallinick
S Young

# Group structure

as at 31 March 200




**Amalgamated Finance Limited ceased operations subsequent to 31 March 2005.*
***A 50% holding in Banco Comercial Angolano was acquired in April 2005.*

### Commercial banking

**Segment-focused business unit**
- Business Banking Services

**Product-focused business units**
- Absa Vehicle and Asset Finance
- Union Finance Holdings (Proprietary) Limited

### Wholesale banking

**Domestic operations**
- Absa Corporate and Merchant Bank

**International operations**
- Absa Bank London
- Absa Bank Singapore
- Absa Bank (Asia) Limited (Hong Kong)
- Bankhaus Wölbern & Co (Hamburg)

### Other

- Delivery Channel Services
- Real Estate Asset Management

### Short-term insurance

- Absa Insurance Company Limited

### Advisory services

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

### Wealth management

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

### Financial services

- Absa Manx Holdings Limited
  - Absa Syndicate Investments Holdings Limited (United Kingdom)
  - Absa Manx Insurance Company Limited
  - Amalgamated Finance Limited*
- Absa Stockbrokers (Proprietary) Limited

### Other

- Absa Development Company Holdings (Proprietary) Limited
- AllPay Consolidated Investment Holdings (Proprietary) Limited
- Abvest Holdings (Proprietary) Limited (90%)
- Absa Trading and Investment Solutions Holdings Limited

### Financial services

- Sage Group Limited (21,3%)

### Other

- Jigsaw Holdings Limited (25,1%)
- Property24 (Proprietary) Limited (50%)
- Sanlam Home Loans (Proprietary) Limited (50%)

# Letter from the chairman

Absa Group Limited

(Reg No 1986/003934/06)

Registered office
Absa Towers East
170 Main Street
Johannesburg
2001



24 June 2005

Dear Shareholder

## Absa Group Limited annual general meeting

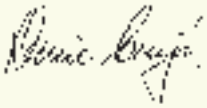
On behalf of the board of directors of Absa Group Limited, I have pleasure in extending an invitation to you to attend the annual general meeting, which will be held on Friday, 19 August 2005, at 11:45 in the P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg. If you are unable to attend, please arrange to vote by proxy in accordance with the instructions on the proxy form.

The board recognises the importance of its shareholders' presence at the annual general meeting. This is an opportunity for shareholders to participate in discussion relating to items included in the notice of meeting. In addition, the chairmen of board-appointed committees as well as senior members of management will be present to respond to questions from shareholders.

The notice of meeting, which is set out on pages 501 to 503 of the annual report, is accompanied by explanatory notes setting out the effects of all proposed resolutions included in the notice.

I look forward to your presence at the meeting.

Yours faithfully



**Danie Cronjé**

*Chairman*

# Notice of meeting

**Absa Group Limited**
**(Incorporated in the Republic of South Africa)**
**Registration number 1986/003934/06**
**JSE share code: ASA**
**Issuer code: AMAGB**
**ISIN: ZAE000013389**
**(the Company)**

Notice is hereby given that the nineteenth annual general meeting of ordinary shareholders will be held in the P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg, on Friday, 19 August 2005, at 11:45.

In terms of the Company's articles of association, redeemable cumulative option-holding preference shareholders have the same rights as ordinary shareholders to attend, speak and vote at general meetings of Absa ordinary shareholders and will thus be entitled to attend the annual general meeting and speak and vote thereat.

## Agenda

1. To consider the Group and Company financial statements for the year ended 31 March 2005.
2. Subject to the successful conclusion of the transaction in terms of which Barclays Bank PLC seeks to acquire a majority stake in the Company, to confirm the re-appointment of Messrs Ernst & Young, Chartered Accountants SA, as joint auditors of the Company, and to confirm the appointment of PricewaterhouseCoopers Inc., Chartered Accountants SA, as joint auditors of the Company effective from 19 August 2005, following the resignation of KPMG Inc., Chartered Accountants SA, with effect from the same date.
3. To sanction the proposed remuneration payable to non-executive directors from 1 October 2005, as set out in the table contained in the explanatory notes to the resolutions for the annual general meeting.
4. To pass the following ordinary resolution:
   "Resolved that the payment to Dr D C Cronjé of the sum of R1,5 million as additional one-off remuneration in respect of services performed by him in his capacity as chairman of the Company in and during the period commencing August 2004 and ending May 2005 be and is hereby ratified."
5. To re-elect the following directors, who retire by rotation, but being eligible, offer themselves for re-election:
   Mr D C Arnold, Mr L Boyd, Dr D C Cronjé, Mr L N Jonker, Dr F A Sonn, Mr P E I Swartz and Mr T van Wyk.*
6. To confirm the appointments of Dr D E Baloyi, Mr P T Motsepe**, Mr J H Schindehütte and Mr L L von Zeuner as directors of the Company.
7. To consider, and if deemed fit, to pass, with or without modification, the following as an **ordinary resolution** in order to provide the directors with flexibility to issue the unissued ordinary shares as and when suitable situations arise:

   "Resolved that the authorised but unissued ordinary shares of the Company (other than those specifically identified and authorised for issue in terms of any other authority by shareholders) are hereby placed under the control of the directors, who be and are hereby authorised, subject to any applicable legislation and the Listings Requirements from time to time of the JSE Securities Exchange South Africa (JSE) and any other stock exchange upon which ordinary shares in the capital of the Company may be quoted or listed from time to time, to allot and issue those ordinary shares on any such terms and conditions as they deem fit, subject to the proviso that the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution shall be limited to 5% (five percent) of the number of ordinary shares in issue at 31 March 2005."

**Should the Barclays transaction be successfully concluded prior to the AGM, Mr T van Wyk will not offer himself for re-election, as he would have resigned from the board of the Company.*

***Should the Barclays transaction be successfully concluded prior to the AGM, confirmation of Mr P T Motsepe's appointment will not be sought at the AGM as he would have resigned from the board of the Company.*

8. To consider and, if deemed fit, to pass, with or without modification, the following resolution as a **special resolution** in order to provide the directors with flexibility to repurchase shares as and when suitable situations arise:

"Resolved that the Company or any subsidiary of the Company may, subject to the Companies Act, the Company's articles of association and the Listings Requirements from time to time of the JSE Securities Exchange South Africa (JSE) and any other stock exchange upon which the securities in the capital of the Company may be quoted or listed from time to time, repurchase securities issued by the Company, provided that this authority shall be valid only until the next annual general meeting of the Company or for 15 months from the date of the resolution, whichever is the shorter, and may be varied by special resolution by any general meeting of the Company at any time prior to the next annual general meeting."

Pursuant to the above, the following additional information, required in terms of the Listings Requirements of the JSE, is submitted:

It is recorded that the Company may only make a general repurchase of securities if:

- the repurchase of securities is effected through the order book operated by the JSE trading system and is done without any prior understanding or arrangement between the Company and the counterparty;
- the Company is authorised thereto by its articles of association;
- the Company is authorised thereto by its shareholders in terms of a special resolution of the Company in general meeting, which authorisation shall be valid only until the next annual general meeting or for 15 (fifteen) months from the date of the resolution, whichever period is the shorter;
- repurchases may not be made at a price greater than 10% (ten percent) above the weighted average of the market value for the securities for the 5 (five) business days immediately preceding the date of repurchase;
- at any point in time, the Company may only appoint one agent to effect any repurchases on the Company's behalf;
- the Company may only undertake repurchases if, after such repurchase, the Company still complies with shareholder spread requirements in terms of the Listings Requirements of the JSE;
- the Company or its subsidiaries may not repurchase securities during a prohibited period defined in terms of the Listings Requirements of the JSE;
- a paid press announcement containing full details of such repurchases is published as soon as the Company has repurchased securities constituting, on a cumulative basis, 3% (three percent) of the number of securities in issue prior to the repurchases and for each 3% (three percent), on a cumulative basis, thereafter; and
- the general repurchase is limited to a maximum of 20% (twenty percent) of the Company's issued share capital of that class in any one financial year.

The directors of the Company undertake that, for a period of 12 (twelve) months following the date of the annual general meeting or for the period of the general authority, whichever is the longer, they will not undertake such repurchases unless:

- the Company and the Group would be able to repay its debts in the ordinary course of business;
- the assets of the Company and the Group, fairly valued in accordance with Generally Accepted Accounting Practice and the Company's accounting policies, would be in excess of the liabilities of the Company and the Group for the next year;
- the Company and the Group will have adequate capital and reserves for ordinary business purposes for the next year; and
- the working capital of the Company and the Group will be adequate for the next year's ordinary business purposes.

In terms of the Listings Requirements of the JSE, the maximum number of shares that can be repurchased amounts to 131 011 014 ordinary shares (20% of the 655 055 074 ordinary shares in issue as at 31 March 2005). This authority shall only be valid from the date of this annual general meeting until the following annual general meeting.

The **reason** for passing of the **special resolution** is to enable the Company or any of its subsidiaries, by way of a general authority from shareholders, to repurchase securities issued by the Company. The **effect** of the special resolution, once registered, will be to permit the Company or any of its subsidiaries to repurchase such securities in terms of the Companies Act. This authority will only be used if circumstances are appropriate.

For the purposes of considering the special resolution and in compliance with paragraph 11.26 (b) of the Listings Requirements of the JSE, the information listed below has been included in the annual report, in which this notice of annual general meeting is included, at the places indicated:

- directors – refer to pages 71 to 78 of this report;
- major shareholders – refer to page 395 of this report;
- no material changes in the financial or trading position of the Company and its subsidiaries have occurred since 31 March 2005;
- directors' interests in securities – refer to page 277 of this report;
- share capital of the Company – refer to page 282 of this report;
- the directors, whose names are set out on pages 71 to 78 of this report, collectively and individually accept full responsibility for the accuracy of the information contained in this special resolution and certify that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable enquiries in this regard; and
- there are no legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Company is aware), which may have or have had a material effect on the Company's financial position over the past 12 months.

**Proxy and voting procedure**

Members who have not dematerialised their shares or who have dematerialised their shares with own name registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy to attend, speak and vote in their stead. The person so appointed need not be a member of the Company.

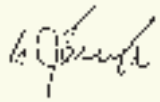
If certificated members or dematerialised members with own name registration are unable to attend the annual general meeting but wish to be represented thereat they must complete the attached proxy form.

In order to be effective, proxy forms should be delivered or posted to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107), so as to reach this address not later than 11:45 on Wednesday, 17 August 2005.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with own name registration, should contact their Central Securities Depositary Participant (CSDP) or stockbroker:

- to furnish their CSDP or stockbroker with their voting instruction; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

By order of the board



**W R Somerville**

*Group secretary*

Johannesburg

24 June 2005

# Appendix to the notice of meeting

## Important notes about the annual general meeting (AGM)

**Date:** Friday, 19 August 2005, at 11:45

**Venue:** P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg.

**Time:** The AGM will start promptly at 11:45. Shareholders wishing to attend are advised to be in the auditorium no later than 11:30. Reception staff at the Absa Towers complex will direct shareholders to the AGM venue. Refreshments will be served after the AGM.

**Admission:** Shareholders, representatives of shareholders and proxies attending the AGM are requested to register at the registration desk in the auditorium reception area at the venue. Shareholders, representatives of shareholders and proxies may be required to provide proof of identity.

**Security:** Secure parking is provided at the venue by prior arrangement. Attendees are asked not to bring cameras, laptop computers or tape recorders. Cellular telephones should be switched off for the duration of the proceedings.

## Other important notes

1. **General**

   Shareholders wishing to attend the annual general meeting have to ensure beforehand with the transfer secretaries of the Company that their shares are in fact registered in their name. Should this not be the case and the shares be registered in any other name or in the name of a nominee company, it is incumbent on shareholders attending the meeting to make the necessary arrangements with that party to be able to attend and vote in their personal capacity. The proxy form contains detailed instructions in this regard.

2. **Certificated shareholders and dematerialised shareholders with own name registration**

   If you are the registered holder of certificated Absa ordinary shares or hold dematerialised Absa ordinary shares in your own name and you are unable to attend the AGM and wish to be represented at the AGM, you should complete and return the attached form of proxy in accordance with the instructions contained therein so as to be received by the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107), by no later than 11:45 on Wednesday, 17 August 2005.

3. **Dematerialised shareholders**

   If you are the holder of dematerialised Absa ordinary shares, but not the holder of dematerialised Absa ordinary shares in your own name, you must timeously provide your Central Securities Depositary Participant (CSDP) or stockbroker with your voting instructions for the AGM in terms of the custody agreement entered into with your CSDP or stockbroker. However, if you wish to attend the AGM in person, you will need to request your CSDP or stockbroker timeously to provide you with the necessary authority to attend and vote your shares.

4. **Proxies**

   Shareholders must ensure that their proxy form reaches the transfer secretaries as indicated in note 3 on page 184 not later than 11:45 on 17 August 2005.

5. **Enquiries**

   Any shareholders having difficulties or queries with regard to the AGM or the above may contact the Group secretary, William Somerville, on (+27) 11 350-4828.

# Explanatory notes regarding the annual general meeting

## Explanatory notes to resolutions for the annual general meeting

### Consideration of Group and Company financial statements for the year ended 31 March 2005

The directors must present to members at the annual general meeting the annual financial statements of the Group and the Company, incorporating the report of the directors, for the year ended 31 March 2005, together with the report of the auditors contained in this annual report.

### Confirmation of appointment of auditors

With the proviso that Barclays Bank PLC (Barclays) successfully concludes the acquisition of a majority shareholding in the Company, it is deemed appropriate to appoint PricewaterhouseCoopers Inc. (who act as global auditors to Barclays) as joint auditors of Absa. This resolution is required to formalise the above.

KPMG has a long-standing association with Absa, having been auditors to the Group for many years. Although they will resign as joint auditors with effect from 19 August 2005, it has been decided to appoint them as Absa's preferred provider of non-audit services. This is also in accordance with governance principles for auditor independence.

### Sanction of proposed remuneration payable to non-executive directors from 1 October 2005

Shareholders are requested to consider and, if deemed appropriate, sanction the proposed remuneration payable to non-executive directors with effect from 1 October 2005, as set out below. Full particulars of all fees and remuneration for the past financial year as well as the process followed by the Group Remuneration Committee in recommending board fees and remuneration are contained on pages 79 to 93 of the annual report.

| Category | Notes | Current annual remuneration R | Proposed annual remuneration payable with effect 1 October 2005 R |
|---|---|---|---|
| Chairman | 1 & 13 | 2 300 000 | 2 500 000 |
| Board member | 2,3 & 13 | 104 000 | 112 000 |
| Group Audit and Compliance Committee (GACC) member | 5 & 11 | 81 000 | 87 000 |
| Group Risk Committee (GRC) member | 6 & 11 | 58 000 | 63 000 |
| Group Remuneration Committee | 7 & 11 | 48 000 | 52 000 (Rem Com) member |
| Directors' Affairs Committee (DAC) member | 8 & 11 | 36 000 | 39 000 |
| Credit Committee: Large Exposures | 9 & 11 | Not applicable | 39 000 |
| Implementation Committee | 10, 11 & 12 | Not applicable | 39 000 |
| Board Lending Committee member | | Pool of R207 000 per annum payable to Board Lending Committee members pro rata to the number of facilities reviewed | Pool of R300 000 per annum payable to Board Lending Committee members pro rata to the number of facilities reviewed |
| Ad hoc board fees: | | | |
| • per meeting of *ad hoc* board committees attended | | R9 000 | R9 700 |
| • consultancy work | | R2 300 per hour | R2 500 per hour |

**Notes**

(1) In addition to this amount, the chairman receives fees as board chairman equal to twice the fee payable to a board member.

(2) The deputy chairman receives fees equal to 1,5 times the fee payable to a board member.

(3) Executive directors of Absa Group Limited receive fees, as members of the Absa Group Limited board, equal to the fees payable to a board member.

(4) A fee of R15 000 per board member is paid for attendance at special board meetings, over and above the annual fee.

(5) The GACC chairman receives fees equal to twice the fee payable to a GACC member.

(6) The GRC chairman receives fees equal to twice the fee payable to a GRC member.

(7) The Rem Com chairman receives fees equal to twice the fee payable to a Rem Com member.

(8) As the Group chairman is chairman of the DAC, this is covered by his Group chairman's fee.

(9) As the Group chairman is also the chairman of the Credit Committee: Large Exposures, his fee is covered by his Group chairman's fee. This committee became operational in February 2005.

(10) The Implementation Committee chairman receives fees equal to twice the fee payable to an Implementation Committee member. This committee only became operational during 2005.

(11) A fee of R9 700 per board committee meeting is paid for attendance at special meetings of board committees, over and above the annual fee.

(12) With regard to the proposed Barclays transaction.

(13) The fees payable to non-executive directors of Absa Group Limited in respect of subsidiary companies are not included as these fees are approved by the shareholders of the respective subsidiaries. Amounts received by Absa Group Limited directors from subsidiaries are disclosed annually in the directors' remuneration report.



### Additional remuneration of Dr D C Cronjé

As a result of the additional time spent by Dr D C Cronjé in regard to Absa matters during the period from August 2004 to May 2005, over and above his current contractual arrangement with Absa, the Group Remuneration Committee approved the payment of a one-off additional remuneration of R1,5 million.

### Re-election of retiring directors

In terms of the Company's articles of association, one third of the directors are required to retire at each annual general meeting and may offer themselves for re-election. The directors who retire by rotation at the 2005 AGM are: Mr D C Arnold, Mr L Boyd, Dr D C Cronjé, Mr L N Jonker, Dr F A Sonn, Mr P E I Swartz and Mr T van Wyk*. Biographical details of these directors are set out on pages 73 to 78 of this annual report.

The performance of retiring directors was formally evaluated. This process culminated in the Absa board, on recommendation of the Absa Directors' Affairs Committee (DAC), considering whether the retiring directors should be recommended for re-election. Having considered the inputs of the DAC, the Absa board recommends to shareholders the re-election of the retiring directors.

**Should the Barclays transaction be successfully concluded prior to the AGM, Mr T van Wyk will not offer himself for re-election, as he would have resigned from the board of the Company.*

**Confirmation of appointment of new directors**

The appointment of any person as a director of the Company during the year requires confirmation by shareholders at the first annual general meeting of the Company after the appointment of such person as a director. Biographical details of the directors are set out on pages 73 to 78 of this annual report. Note: Should the Barclays transaction be successfully concluded prior to the AGM, confirmation of Mr P T Motsepe's appointment will not be sought at the AGM as he would have resigned from the board of the Company.

**Placing of unissued ordinary shares under the control of the directors**

In terms of sections 221 and 222 of the Companies Act, the members of the Company have to approve the placement of the unissued ordinary shares under the control of the directors.

The existing authority granted by the members at the previous annual general meeting on 20 August 2004 expires at the forthcoming annual general meeting, unless renewed. The authority will be subject to the Companies Act, the Banks Act and the Listings Requirements of the JSE from time to time. The aggregate number of ordinary shares able to be allotted and issued in terms of this resolution shall be limited to 5% (five percent) of the number of ordinary shares in issue at 31 March 2005.

The directors consider it advantageous to renew this authority to enable the Company to take advantage of any business opportunity that may arise in future.

**Repurchase by the Company or any subsidiary of the Company of securities issued by the Company (special resolution)**

The Company's articles of association contain a provision allowing the Company or any subsidiary of the Company to repurchase securities issued by the Company. This is subject to the approval of the members in terms of the Company's articles of association, the Companies Act, the Banks Act and the Listings Requirements of the JSE. The existing general authority, granted by the members at the previous annual general meeting on 20 August 2004, is due to expire, unless renewed.

The directors are of the opinion that it would be in the best interests of the Company to extend such general authority and thereby allow the Company or any subsidiary of the Company to be in a position to repurchase the securities issued by the Company through the order book of the JSE, should the market conditions and price justify such an action.

The proposed authority would enable the Company or any subsidiary of the Company to purchase up to a maximum of 131 011 014 ordinary securities in the ordinary issued share capital of the Company (20% of the issued ordinary share capital as at 31 March 2005) with a stated upper limit on the price payable, which reflects the Listings Requirements of the JSE. Repurchases will be made only after the most careful consideration, where the directors believe that an increase in earnings or net assets per share will result and where repurchases are, in the opinion of the directors, in the best interests of the Company and its members.

## Explanatory notes regarding proxies

1. If two or more proxies attend the annual general meeting, then that person attending the annual general meeting whose name appears first on the proxy form and whose name is not deleted shall be regarded as the validly appointed proxy.
2. The authority of a person signing a proxy in a representative capacity must be attached to the proxy form unless the authority has already been recorded by the Company.
3. In order to be effective, proxy forms must be delivered or posted to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107), so as to reach this address by not later than 11:45 on Wednesday, 17 August 2005.
4. The delivery of a duly completed proxy form shall not preclude any member or his/her duly authorised representative from attending the annual general meeting and speaking and voting thereat instead of the proxy.
5. Dematerialised shareholders who wish to attend the annual general meeting must contact their Central Securities Depositary Participant (CSDP) or broker, who will furnish them with the necessary authority to attend the annual general meeting. Alternatively, they must instruct their CSDP or broker as to how they wish to vote in this regard. This has to be done in terms of the agreement entered into between such shareholders and their CSDP or broker.

# Form of proxy

**Annual general meeting**

## Absa Group Limited

Registration number: 1986/003934/06
JSE share code: ASA
Issuer code: AMAGB
ISIN: ZAE000013389
(the Company)

To be completed by certificated shareholders and dematerialised shareholders with "own name" registration only.

I/We _____
(name(s) in block letters)
of _____
(address in block letters)
being (a) member(s) of the Company, entitled to vote and holding _____ shares do hereby appoint

_____

or, failing him/her,

or, failing him/her, the chairman of the annual general meeting as my/our proxy to attend and speak and vote for me/us and on my/our behalf at the annual general meeting of members of the Company to be held in the P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg, on Friday, 19 August 2005, at 11:45 and at any adjournment thereof, as follows:

| | In favour of* | Against* | Abstain* |
|---|---|---|---|
| 1. Resolution to consider the Group and Company annual financial statements. | | | |
| 2. Resolution to confirm the appointment of auditors: | | | |
| • Re-appointment of Ernst & Young | | | |
| • Appointment of PricewaterhouseCoopers Inc. | | | |
| 3. Resolution to sanction the proposed remuneration of the non-executive directors, payable from 1 October 2005. | | | |
| 4. Resolution to ratify the additional remuneration of Dr D C Cronjé. | | | |
| 5. Resolution to re-elect retiring directors: | | | |
| • Mr D C Arnold | | | |
| • Mr L Boyd | | | |
| • Dr D C Cronjé | | | |
| • Mr L N Jonker | | | |
| • Dr F A Sonn | | | |
| • Mr P E I Swartz | | | |
| • Mr T van Wyk | | | |
| 6. Resolution to confirm the appointment of Dr D E Baloyi as a director. | | | |
| 7. Resolution to confirm the appointment of Mr P T Motsepe as a director. | | | |
| 8. Resolution to confirm the appointment of Mr J H Schindehütte as a director. | | | |
| 9. Resolution to confirm the appointment of Mr L L von Zeuner as a director. | | | |
| 10. Resolution regarding the placing of the unissued shares under the control of the directors. | | | |
| 11. Special resolution regarding the authority for a general repurchase of securities. | | | |

**Please indicate with an "X" in the appropriate spaces provided above how you wish your vote to be cast. If no indication is given, the proxy may vote or abstain as he/she thinks fit.*

A member of the Company, entitled to attend and vote at the abovementioned meeting, is entitled to appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

Signed at _____ on _____ 2005

Full name(s) _____
(in block letters)
Signature(s) _____

Assisted by (guardian) _____ Date _____ 2005

If signing in a representative capacity, see note 4 on page 508.

## Notes to form of proxy

1. If two or more proxies attend the annual general meeting, then that person attending the annual general meeting whose name appears first on the proxy form and whose name is not deleted shall be regarded as the validly appointed proxy.
2. The chairman of the annual general meeting may reject or accept a form of proxy which is completed and/or received other than in accordance with these notes.
3. Any alteration to this proxy form, other than a deletion of alternatives, must be initialled by the signatories.
4. Documentary evidence establishing the authority of a person signing the proxy form in a representative or other legal capacity must be attached to this form of proxy unless previously recorded by the Company or the transfer secretaries or waived by the chairman of the annual general meeting.
5. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
6. In order to be effective, proxy forms must be delivered or posted to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107), so as to reach this address not later than 11:45 on Wednesday, 17 August 2005.
7. The delivery of a duly completed proxy form shall not preclude any member or his/her duly authorised representative from attending the annual general meeting and speaking and voting thereat instead of the proxy.
8. Where there are joint holders of shares:
   - 8.1 any one holder may sign the form of proxy; and
   - 8.2 the vote of the senior shareholder (for that purpose, seniority will be determined by the order in which the names of the shareholders appear in the Company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
9. Shareholders holding dematerialised shares who wish to attend the annual general meeting must contact their Central Securities Depositary Participant (CSDP) or stockbroker, who will furnish them with the necessary authority to attend the annual general meeting. Alternatively, such shareholders must instruct their CSDP or stockbroker as to how they wish to vote in this regard. This has to be done in terms of the agreement entered into between such shareholders and their CSDP or stockbroker.

## Results of the annual general meeting

As this annual report was printed after the Group's annual general meeting, the results of the meeting were such that all the resolutions set out in the Notice of Meeting were passed by the requisite majority of shareholders present or represented by proxy.

# Contact information

## Shareholder contact information

Shareholder and investment queries about the Absa Group should be directed to either of the following areas:

| Absa Group Investor Relations | Absa Group Secretariat |
|---|---|
| *Telephone:* (+27) 11 350-4061/4394/5785 | *Telephone:* (+27) 11 350-4828 |
| *Telefax:* (+27) 11 350-6487 | *Telefax:* (+27) 11 350-4928 |
| *e-mail:* ir@absa.co.za | *e-mail:* groupsec@absa.co.za |

### Group Media Relations

*Telephone:* (+27) 11 350-5768

### Group Legal Services

*Telephone:* (+27) 11 350-5267

### Head Office switchboard

*Telephone:* (+27) 11 350-4000

## Customer Support

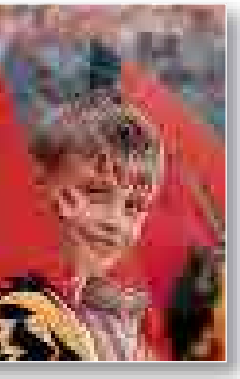
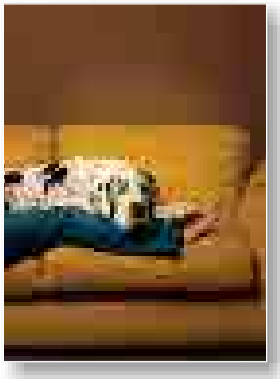
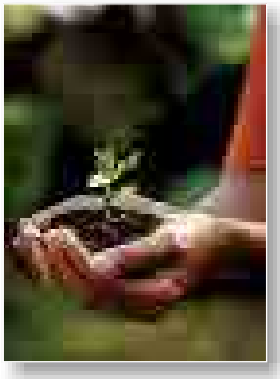
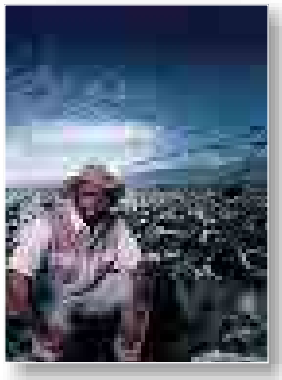
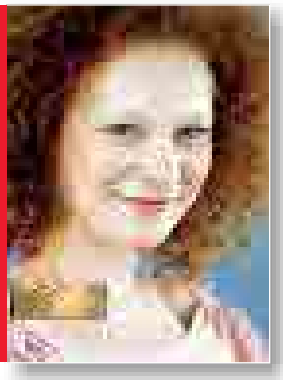
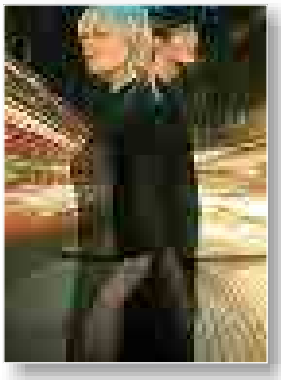
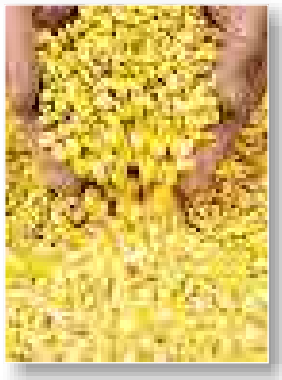
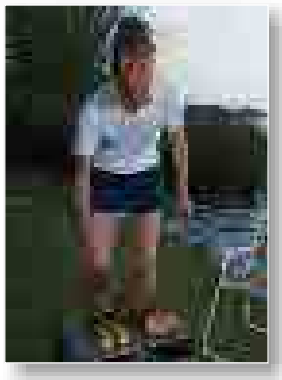
Although the Absa Group aims to maintain a high standard of customer service, disputes may arise. If one does, the matter can be raised by any of the following means:

Customer relationship hotline: 0800 414 414
Absa call centre: 0860 008 600 or (+27) 11 276-4000
*e-mail:* actionline@absa.co.za
*General e-mail enquiries:* absa@absa.co.za

However, we encourage customers to first approach the specific branch, area or line manager if a dispute arises.

## Reporting fraud or corruption

Absa has a dedicated telephone line to facilitate reporting possible fraud and corruption in the Absa Group. The line is available 24 hours a day, seven days a week. It is open to the general public and Absa's employees.

Calls may be made anonymously. They will not be recorded and no attempt will be made to determine the number from which the caller is calling. The number is 0860 557 557.

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