

# Absa Group Limited shareholder report 2006

*Absa Group Limited*  
*Shareholder report*

For the twelve months ended 31 December 2006

Member of the  **BARCLAYS** Group



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As a result of the change of Absa Group Limited's (Absa or the Group) year-end from March to December, the previous audited financial results for the Group were for the nine months ended 31 December 2005. To facilitate evaluation and interpretation, this report (with the exclusion of the audited financial statements) makes reference to the pro forma unaudited figures for the twelve months ended 31 December 2005 for comparison purposes.

This shareholder report for the twelve months ended 31 December 2006 conforms to legal and regulatory requirements. Absa's detailed stakeholder report for the twelve months ended 31 December 2006 will be accessible on Absa's website [www.absa.co.za](http://www.absa.co.za) in due course and can also be ordered, either as a hard copy or on a compact disk. Please write to Investor Relations, Absa Group Limited, PO Box 7735, Johannesburg 2000, or send an e-mail to [ir@absa.co.za](mailto:ir@absa.co.za) to order.

# Living the Absa values

*Our values are*

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.

## Letter from the chairman and Group chief executive

**D C Cronjé:** Chairman**S F Booyesen:** Group chief executive*Dear Shareholder*

In 2006, Absa made good progress with the execution of its strategy to become the pre-eminent bank in South Africa and the rest of Africa. The Group maintained its earnings momentum, as was evident from the 25,3% and 29,6% increases in headline and attributable earnings respectively.

All of the Group's banking businesses delivered strong growth in attributable earnings. The retail, business, corporate and investment banking segments benefited from a buoyant operating environment and the earnings uplift was assisted by the Absa-Barclays integration benefits as well as a good operational performance from the Group's bancassurance operations.

### Key financial highlights

Absa delivered headline earnings of R7 872 million for the twelve months ended 31 December 2006, an increase of 25,3% over the pro forma figure of R6 282 million for the twelve months ended 31 December 2005. The inclusion of the profit from the sale of several of the Group's non-core investments boosted attributable earnings to 29,6%.

Headline earnings per share increased by 23,8% from 954,8 cents per share for the twelve months ended 31 December 2005 to 1 181,8 cents per share. Fully diluted headline earnings per share amounted to 1 121,3 cents per share. This is an increase of 21,8% compared with the previous year and represents a dilution of 5,1% or 60,5 cents per share. Net asset value per share increased by 22,1% to 4 717 cents per share and the Group delivered a return of 27,4% on average shareholder's equity (twelve months pro forma December 2005: 25,6%). A final dividend of 265 cents per share was declared, bringing the total dividend for the twelve months ended 31 December 2006 to 473 cents per share, representing a dividend cover of 2,5 times.

The main drivers of the Group's performance included strong loans and advances growth of 25,8%, robust interest rate margins, increased transaction volumes and the accelerated Absa-Barclays synergy realisation.

Please refer to the financial analysis on page 44 of this report for additional information pertaining to the Group's financial performance for the twelve months ended 31 December 2006.

### Other developments for the twelve months under review

#### The operating environment

The favourable trading conditions of the past few years persisted for the twelve months under review. Despite high commodity prices, which caused rising inflation and higher interest rates in many developed and emerging market economies, global economic growth in 2006 was close to 5% – the best performance since the 1970s.

The South African economy, which is now in its seventh year of expansion, delivered real growth of 5,0% in 2006, compared with 5,1% for 2005. Consumers retained their appetite for credit and private sector credit growth edged upwards to over 27% year-on-year in the final quarter of 2006. Strong consumer spending in the first half of 2006 gradually made way for a levelling-off in spending growth rates in the last quarter of the year, with activity expansion in real estate, new vehicle sales and financial services tapering off. The South African monetary authorities have responded to the high demand for credit, rising inflation, strong consumer demand and the widening current account deficit by increasing interest rates by 200 basis points since June 2006.

#### Absa-Barclays synergies

The Group has made excellent progress with initiatives to improve earnings by implementing, where appropriate, the best practices applied by Barclays. It is the Group's stated objective to increase the sustainable profit before tax by delivering synergies amounting to R1,4 billion per annum within four years of the Barclays transaction taking place.

In the year under review, sustainable profit before tax benefits of R753 million were realised. This is well ahead of the 2006 target of R300 million. The one-off pre-tax cost of R640 million incurred to achieve this benefit was in line with expectations.

At the time that Barclays acquired its controlling stake in Absa in 2005, Absa and Barclays expressed their intention to combine the other sub-Saharan African Barclays operations with Absa with a view to creating the pre-eminent African banking group. As a first step, Absa acquired the South African operations of Barclays as at 1 January 2006, which contributed positively to earnings. The overall objective continues to be strategically attractive and remains the intention of both Barclays and Absa. However, concluding such a transaction will take some time owing to the complexities and the number of individual businesses involved.

#### Compliance, legislation and regulation

The Group made a submission to the Competition Commission enquiry hearings in November 2006. Absa's view is that the regulatory and commercial aspects of the banking environment have changed and will continue to shift further in future. This should result in increased consumer protection, a lowering of barriers to entry and intensified competition in the industry. However, we have a great responsibility to ensure that the banking system, which is widely regarded as a national asset and a competitive advantage for South Africa, is nurtured and refined.

## Letter from the chairman and Group chief executive

The National Credit Act (NCA), which becomes fully effective on 1 June 2007, was the primary regulatory and compliance challenge of the year. The required changes and adjustments have been successfully dealt with. Comprehensive strategies to take advantage of any new opportunities that may arise as a result of the implementation of the NCA have been developed.

Compliance with Basel II remains on track and anti-money-laundering preparedness has reached the desired levels.

### Looking ahead

The domestic economic landscape is expected to remain favourable, but inflationary pressures are expected to continue in 2007, with the CPIX inflation rate likely to test the 6% upper limit of the target range. Under such conditions, the South African Reserve Bank is expected to maintain its tight monetary policy during the early part of 2007. Real economic growth of around 4,5% is expected in 2007.

Increasing household indebtedness, tighter monetary conditions, the NCA and other legislative changes are expected to result in pressure on earnings growth as a result of lower credit and transaction volume growth and a higher impairment charge.

Absa is well positioned to benefit from the expected acceleration in fixed investment spending and to deal successfully with the anticipated slowdown in household consumption expenditure growth. The Group will continue in its relentless pursuit of its strategic objectives, which are designed to take Absa to pre-eminence.

### Annual general meeting

The Absa Group Limited annual general meeting for the twelve months ended 31 December 2006 will be held on Monday, 23 April 2007, at 11:00 in the P W Scales Auditorium, Absa Towers, 160 Main Street, Johannesburg.

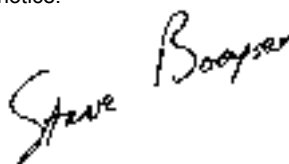
The Absa Group board of directors recognises the importance of its shareholders' presence at the annual general meeting. This is an opportunity for shareholders to participate in discussion relating to items included in the notice of meeting. In addition, the chairmen of board-appointed committees as well as senior members of management will be present to respond to questions from shareholders.

If you are unable to attend, please arrange to vote by proxy in accordance with the instructions on the proxy form, which can be found on page 235 of this report.

The notice of meeting, which is set out on pages 227 to 230 of the shareholder report, is accompanied by explanatory notes setting out the effects of all proposed resolutions included in the notice.



**D C Cronjé** • Chairman



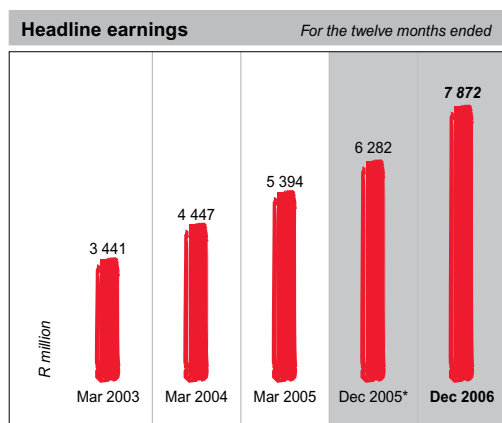
**S F Booysen** • Group chief executive

20 February 2007

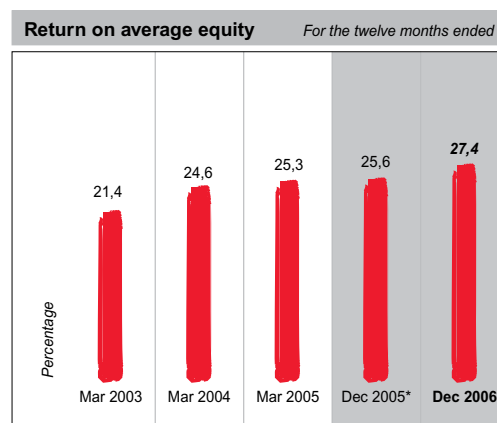
	Twelve months ended 31 December 2006 (Audited)	31 December 2005 (Unaudited) (Pro forma)	Change %	Nine months ended 31 December 2005* (Audited)
<b>Income statement (Rm)</b>				
Headline earnings**	7 872	6 282	25,3	4 902
Profit attributable to ordinary equity holders of the Group	8 105	6 252	29,6	4 776
<b>Balance sheet (Rm)</b>				
Total assets	495 112	404 561	22,4	404 561
Loans and advances to customers	386 174	306 856	25,8	306 856
Deposits due to customers	368 449	303 945	21,2	303 945
<b>Financial performance (%)</b>				
Return on average equity	27,4	25,6		26,5
Return on average assets	1,74	1,72		1,73
Loans-to-deposits ratio	104,8	101,0		101,0
<b>Operating performance (%)</b>				
Net interest margin on average assets	3,30	3,28		3,27
Net interest margin on average interest-bearing assets	3,69	3,65		3,65
Impairment losses on loans and advances as a percentage of average loans and advances to customers	0,44	0,31		0,26
Non-performing advances as a percentage of loans and advances to customers	1,3	1,8		1,8
Non-interest income as a percentage of total operating income	50,9	53,8		52,6
Cost-to-income ratio	54,6	57,0		58,0
Effective tax rate, excluding indirect taxation	27,6	31,2		31,1

\*The comparatives for the nine months ended 31 December 2005 have been restated for the deconsolidation of certain cell captives, the reclassification of certain assets and liabilities as well as the reclassification of interest and dividends on fair value through profit and loss assets. Refer to Annexure I on pages 208 to 210 for the restatement of prior year figures.

\*\*Excludes R73 million profit attributable to preference equity holders of the Group.



\*Twelve months pro forma figures



\*Twelve months pro forma figures

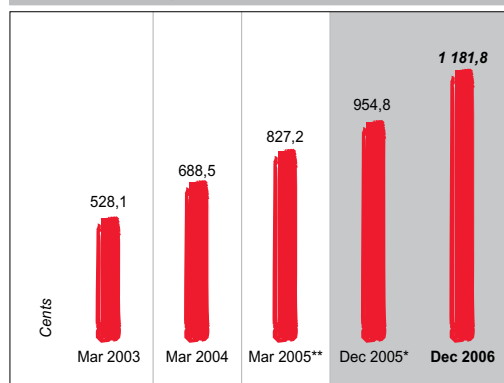


## Salient features

	Twelve months ended <b>31 December</b> <b>2006</b> <b>(Audited)</b>	31 December 2005 (Unaudited) (Pro forma)	Change %	Nine months ended 31 December 2005* (Audited)
<b>Share statistics (million)</b>				
Number of shares in issue	<b>672,0</b>	666,9		666,9
Weighted average number of shares	<b>666,1</b>	658,0		662,1
Weighted average diluted number of shares	<b>703,2</b>	684,0		690,8
<b>Share statistics (cents)</b>				
Headline earnings per share	<b>1 181,8</b>	954,8	23,8	740,4
Diluted headline earnings per share	<b>1 121,3</b>	920,3	21,8	710,9
Earnings per share	<b>1 216,8</b>	950,3	28,1	721,4
Diluted earnings per share	<b>1 154,4</b>	915,9	26,0	692,7
Dividends per ordinary share relating to income for the year/period	<b>473,0</b>	n/a		295,0
Dividend cover (times)	<b>2,5</b>	n/a		2,5
Net asset value per share	<b>4 717</b>	3 862	22,1	3 890
Tangible net asset value per share	<b>4 682</b>	3 834	22,1	3 861
<b>Capital adequacy (%)</b>				
Absa Bank	<b>12,3</b>	10,7		10,7
Absa Group	<b>13,1</b>	11,3		11,3

\*The comparatives for the nine months ended 31 December 2005 have been restated for the deconsolidation of certain cell captives, the reclassification of certain assets and liabilities as well as the reclassification of interest and dividends on fair value through profit and loss assets. Refer to Annexure I on pages 208 to 210 for the restatement of prior year figures.

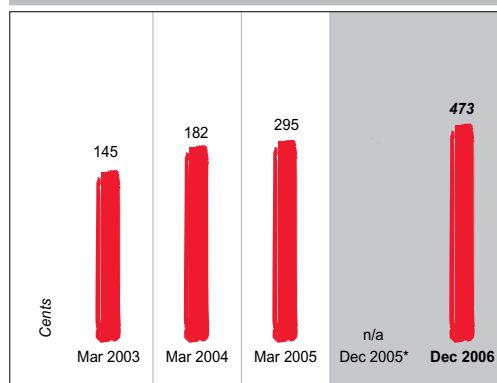
**Headline earnings per share** For the twelve months ended



\*Twelve months pro forma figures

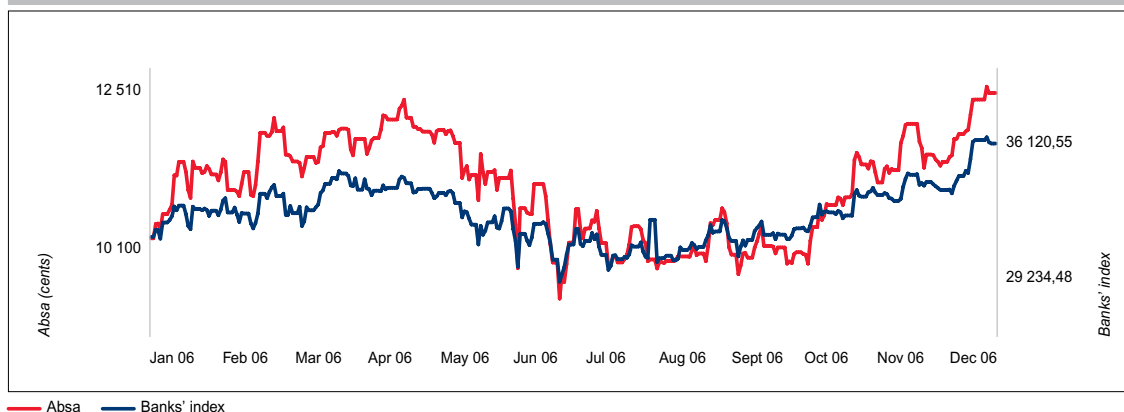
\*\*The comparatives for March 2005 have been restated for International Financial Reporting Standards.

**Dividends per share** For the twelve months ended



\*Twelve months pro forma figures

## Share performance



Absa's annualised total return for the twelve months ended 31 December 2006 was 28,0%.

Absa's share price outperformed the Banks' index by 0,25% over the twelve-month period. Total return was used to calculate the relative performance (calculated using an annualised dividend yield).

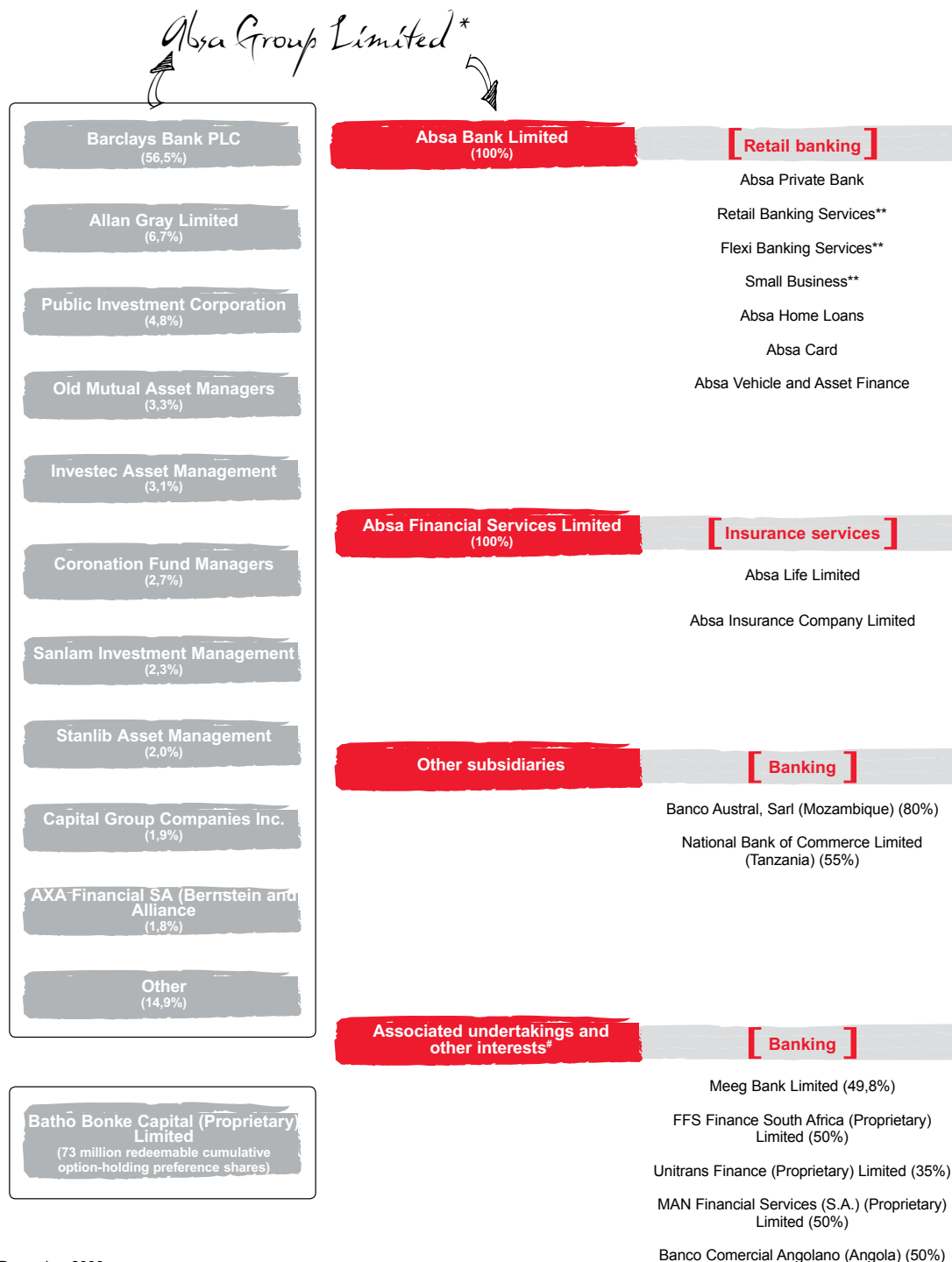
## Share performance on the JSE Limited

	Twelve months ended 31 December 2006	31 December 2005 (Pro forma)	Nine months ended 31 December 2005
Number of ordinary shares in issue*	671 955 074	666 855 074	666 855 074
Market price (cents per share)			
• closing	12 510	10 100	10 100
• high	12 615	10 320	10 320
• low	9 650	7 125	7 475
• weighted average	10 944	8 405	8 674
Closing price/net asset value per share (excluding preference shares)	2,65	2,62	2,60
Closing price/headline earnings per share	10,6	10,6	10,3
Volume of shares traded (millions)**	332,3	391,6	298,2
Value of shares traded (R millions)	35 925,7	33 492,4	26 443,4
Market capitalisation (R millions)	84 061,6	67 352,4	67 352,4

\*Includes 2 654 828 treasury shares held by the Absa Group Limited Share Incentive Trust (December 2005: 3 074 268) and 178 370 treasury shares held by Absa Life Limited (December 2005: 388 200).

\*\*Only one block trade, of 14,5 million shares, was traded through the JSE Limited during the Barclays acquisition in the period ended 31 December 2005. The remainder of the shares was tendered directly to Barclays by Absa shareholders.

## Group structure



\*As at 31 December 2006.

\*\*For financial reporting purposes these entities are housed under Retail Banking Services.

\*\*\*In May 2006, Absa Capital was launched, which represents a combination of the global expertise of Barclays Capital and the specialist local knowledge of Absa Corporate and Merchant Bank. Certain corporate customers were separated from Absa Capital and are now included as part of Absa Corporate and Business Bank.

\*\*\*\*Absa entered into a joint venture with Virgin Money during the year under review.

\*During the year under review, the Group sold its shares in Capricorn Investment Holdings Limited and announced its intention to sell its stake in CBZ Holdings Limited. Commercial property finance associated undertakings and joint venture companies are not disclosed. Refer to Annexure F for further information.

## Commercial banking

Absa Corporate and Business Bank\*\*\*

## Investment banking

Absa Capital\*\*\*

## Fiduciary services

Absa Trust Limited

Absa Consultants and Actuaries (Proprietary) Limited

Absa Health Care Consultants (Proprietary) Limited

## Investment services

Absa Investment Management Services (Proprietary) Limited

Absa Fund Managers Limited

Absa Mortgage Fund Managers (Proprietary) Limited

## Other

Absa Brokers (Proprietary) Limited

## Financial services

Absa Stockbrokers (Proprietary) Limited

Absa Portfolio Managers (Proprietary) Limited

Absa Manx Holdings Limited

- Absa Syndicate Investments Holdings Limited (United Kingdom)
- Absa Manx Insurance Company Limited

## Other

Absa Development Company Holdings (Proprietary) Limited

AllPay Consolidated Investment Holdings (Proprietary) Limited

Absa Asset Management (Proprietary) Limited

Absa Trading and Investment Solutions Holdings Limited

## Other

Property24 (Proprietary) Limited (50%)

Sanlam Home Loans (Proprietary) Limited (50%)

Virgin Money SA (50%)\*\*\*\*

Maravedi Group Company (Proprietary) Limited (45%)

## *Introduction*

Good corporate governance is an integral part of Absa's operations. Accordingly, Absa 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 highlights and developments*

The following were the key governance highlights and developments during the year under review:

- Ongoing compliance with King II.
- Successful implementation of section 404 of the Sarbanes-Oxley Act within the context of the materiality limits applicable to Barclays PLC.
- Process regarding the identification and recruitment of a new Group chairperson to replace Dr Danie Cronjé, who will be retiring from the board in 2007.
- Further improvement in reporting processes to the main board, board committees and Group Exco.
- Implementation of a new employee share scheme and related share scheme matters. (Refer to the Group remuneration report for additional information.)
- Ongoing adoption of governance standards and practices applied by Barclays as well as other international best practices, where deemed appropriate, by the Absa board.
- In line with international best practice, the introduction of a requirement in terms of which all directors serving on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting.
- The introduction of an annual director performance assessment for all directors (previously only applied in respect of those directors seeking re-election at the annual general meeting).
- An annual board effectiveness evaluation (previously done on a three-yearly cycle).
- The formation of a Board Finance Committee, with a mandate from the board to review and approve investments and divestments and related transactions, subject to specific limits.
- The formation of a Group Credit Committee, which replaced the Board Lending Committee.
- Ongoing progress with regard to meeting the requirements of the Financial Sector Charter.

## Challenges

Some of the key governance challenges include:

- The need to improve the board continuously and the availability of suitably skilled and experienced directors in this regard. This is especially pertinent for banks, which need to be at the forefront of risk management.
- The challenge of responding and adhering to a continuing flow of new laws and regulations, while at the same time ensuring a profitable and sustainable business.
- Basel II – ongoing preparation to ensure compliance by 2008.

## Awards and recognition

For the past four years, Absa's annual report has been placed in the top three listed companies in the annual Ernst & Young Excellence in Corporate Reporting survey of the top 100 listed company annual reports.

## Looking ahead

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

- Ongoing compliance with King II.
- Induction and assimilation of a new Group chairperson, who will replace Dr Danie Cronjé.
- Ongoing focus on the board's succession plan, specifically given that certain board members will be reaching retirement age over the next few years.
- Greater focus on director training and development, especially in Absa's African subsidiaries and also for new directors.
- The enhancement of a governance framework for adoption by the Absa subsidiaries in Tanzania, Mozambique and Angola.
- Governance matters relating to the proposed acquisition by Absa of the nine African banks currently owned by Barclays.
- Ongoing adoption of governance standards and practices applied by Barclays as well as other international best practices, where deemed appropriate by the Absa board.
- An investigation into electronic proxy voting and electronic communication with shareholders in general.
- Ongoing work to meet the requirements of Basel II by 2008 and the implementation of a market disclosure policy.

## Abridged corporate governance statement

### 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 (such as banks, financial and insurance entities).

Whereas the Absa board takes overall responsibility for 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 in respect of the companies of which they are directors.

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

- a full and effective review by the Absa board of all aspects relating to ongoing corporate governance, 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 process of corporate governance implemented by the Company successfully achieves 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.

Absa and Barclays have agreed on a governance framework for how the two entities will work together. The framework takes account of matters such as the regulatory, legislative and industry constraints applicable to Absa and Barclays respectively, the interests of Absa's minority shareholders, the legal implications resulting from the parent/subsidiary relationship between Barclays and Absa, taking cognisance of the fact that Barclays has made a financial strategic investment in Absa, the fiduciary responsibilities of the Absa and Barclays boards of directors and Absa's normal corporate governance procedures. The framework is intended to ensure that Barclays and Absa can work together to maximise value for all shareholders while complying with all regulatory and legislative requirements. The framework is reviewed by the board annually, taking account of recommendations made by the Directors' Affairs Committee.

As regards Absa's black economic empowerment (BEE) transaction (in terms of which approximately 10% of Absa's total issued share capital is held by Batho Bonke Capital (Proprietary) Limited), governance oversight is provided via an ad hoc board committee, comprising independent directors: D C Cronjé (committee chairman), D C Brink, A S du Plessis and P du P Kruger. The main objective of the committee is to ensure that the BEE transaction is implemented in accordance with the transaction approved by Absa shareholders in June 2004. This committee met four times during 2006 and considered a wide range of matters relating to the overall governance arrangements of the BEE transaction. The committee chairman reported to the board following each committee meeting, and minutes of the committee were provided to the board. In considering share allocations to potential recipients, the committee applied specific principles and criteria.

## Boards of directors and board committees

### Board composition

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

The Absa board has an appropriate balance, 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 21 of this report. There are 21 directors, of whom four are executive, five 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.

### 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, whereafter they are obliged to retire but can offer themselves for re-election. 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 report to shareholders. Non-executive directors are required to retire at the annual general meeting following their 70<sup>th</sup> birthday.

In line with international best practice, Absa has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting.

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 (DAC) (in respect of non-executive directors).

The DAC 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 address 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 Limited and as prescribed by the Banks Act.

### Independence

The DAC assesses 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: D C Cronjé, D C Brink, D C Arnold, D E Baloyi, B P Connellan, A S du Plessis, G Griffin, M W Hlahla, L N Jonker, P du P Kruger, F A Sonn and P E I Swartz.

With regard to Dr Cronjé, the DAC specifically considered the fact that he is chairman of Absa while at the same time being a director of Barclays PLC and Barclays Bank PLC. The DAC noted that Dr Cronjé did not represent Barclays PLC and Barclays Bank PLC on the Absa board nor vice versa. In addition, the committee felt that he was sufficiently independently minded. Taking these factors into account, the committee was of the view that Dr Cronjé is an independent director.

### Board performance assessment

The DAC annually assesses the contribution of each director, 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.

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



## Abridged corporate governance statement

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's 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, attendance over the past year and other areas or roles where the director's specific skills could be used.

Information on the director's standing for re-election at the annual general meeting is contained in the explanatory notes to resolutions for the annual general meeting (refer to page 232).

Annually, 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. The Absa board considers the outcomes of the evaluation and the recommendations of the DAC.

### Board remuneration and share ownership

Details of Absa's remuneration policies and practices and the remuneration paid to Absa Group directors are set out in the remuneration report on pages 29 to 43. Shareholders are invited to consider and approve the proposed remuneration payable to directors at each annual general meeting (refer to page 227 for details in respect of the 2007 annual general meeting).

Non-executive directors have agreed to hold a minimum of 1 000 Absa ordinary shares throughout their tenure. Details of the shares held by directors are set out on pages 64 and 65.

### Attendance at board meetings

#### Board meeting attendance (2006)

Director	Appointment	Resignation	Feb	Mar	Apr	Jun	Jul	Oct	Nov*	Dec
L N Angel			A	✓	✓	✓	✓	✓	✓	A
D C Arnold			✓	✓	✓	✓	✓	✓	✓	✓
D E Baloyi			✓	✓	✓	✓	✓	✓	✓	✓
S F Booysen			✓	✓	✓	✓	✓	✓	✓	✓
D C Brink (deputy chairman)			✓	A	✓	✓	✓	✓	✓	✓
D Bruynseels			✓	✓	✓	✓	✓	✓	✓	✓
B P Connellan			✓	✓	✓	✓	✓	✓	A	✓
D C Cronjé (chairman)			✓	✓	✓	✓	✓	✓	✓	✓
Y Z Cuba	6 Dec '06									
A S du Plessis			✓	✓	✓	✓	✓	✓	✓	✓
G Griffin			✓	✓	✓	✓	✓	✓	✓	✓
M W Hlahla			✓	✓	✓	✓	✓	A	✓	✓
L N Jonker			✓	✓	✓	✓	✓	✓	✓	✓
N Kheraj			✓	✓	✓	✓	✓	✓	✓	✓
P du P Kruger			✓	✓	✓	✓	✓	✓	✓	✓
L W Maasdorp		30 Sept '06	✓	✓	✓	✓	✓			
D L Roberts		23 Oct '06	✓	✓	✓	✓	✓			
J H Schindehütte			✓	✓	✓	✓	✓	✓	✓	✓
F F Seegers	23 Oct '06							✓	✓	✓
T M G Sexwale			A	✓	✓	✓	✓	✓	✓	✓
F A Sonn			✓	✓	✓	✓	✓	✓	✓	✓
P E I Swartz			✓	✓	✓	✓	✓	✓	✓	A
L L von Zeuner			✓	✓	✓	✓	✓	✓	✓	✓

#### Legend

\*Special meeting    ✓ Attendance    A Apologies

## 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 the standing committees appear in the pages that follow.

The Absa board also makes use of ad hoc board committees to deal with specific matters from time to time. Examples of matters dealt with by such committees in the recent past include the Group's broad-based BEE transaction and the proposed acquisition of the Barclays African operations, where the board has considered and made decisions based on the recommendations of the committees. These ad hoc committees operate under written terms of reference and, in the above instances, its members are all independent directors and have provided independent oversight.

The board is of the opinion that the board committees set out on the following pages 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), D E Baloyi, B P Connellan, D C Cronjé and F F Seegers.

**Composition and meeting procedures:** The Group Remuneration Committee is chaired by an independent director of Absa and comprises mainly independent directors of Absa. The Group chief executive, the executive director responsible for human resources 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.

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 held prior to its implementation and payment. Full details of remuneration matters (including a statement of the Group's remuneration philosophy) are contained in the remuneration report set out on pages 29 to 43 of this report.

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

### Group Remuneration Committee – meeting attendance (2006)

Director	Appointment	Resignation	Jan	Mar	May*	Jul	Sept	Oct*	Nov
D E Baloyi	17 Feb '06			✓	✓	✓	✓	✓	✓
D C Brink (chairman)			✓	✓	✓	✓	✓	✓	✓
B P Connellan			✓	✓	✓	✓	✓	✓	✓
D C Cronjé			✓	✓	✓	✓	✓	✓	✓
D L Roberts		23 Oct '06	✓	✓	✓	✓	✓		
F F Seegers	23 Oct '06							✓	✓

#### Legend

\*Special meeting

✓ Attendance

## Abridged corporate governance statement

### Group Audit and Compliance Committee (GACC)

**Members:** A S du Plessis (chairman), D C Arnold, Y Z Cuba, N Kheraj and P du P Kruger.

**Composition and meeting procedures:** Other than Mr Kheraj and Ms Cuba, who are non-executive directors, the chairman and remaining 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, 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 private discussions with committee members only, the committee together with management (excluding the external auditors) and the committee together with the external auditors (excluding management). Private 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 and compliance 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 the Group's policy on non-audit services and ensuring compliance therewith;
- reviewing and/or approving external audit plans, findings, reports and fees; and
- collaborating with the Group Risk Committee and considering issues identified by that 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 requirements of the Sarbanes-Oxley Act. The external auditors are prohibited from providing bookkeeping or other services related to the Group's accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, fairness opinions or contributions-in-kind reports, actuarial services, internal audit outsourcing, management functions or other secondments, human resource functions (including recruitment/selection), broker or dealer, investment adviser or investment banking services, legal and expert services and services where Absa is represented by the external auditors in legal proceedings involving tax matters.

Services that may be provided by the external auditors are statutory audit services, regulatory audit services, other attest and assurance services, regulatory non-audit services and taxation services (except for services where Absa is represented in legal proceedings). They may also provide accountancy advice, risk management and controls advice

and carry out transaction support and recoveries. Assignments for allowable services above a certain value must be pre-approved by the GACC. Assignments within management's mandate must be pre-approved by the Group finance director. All non-audit service fees are reported to the GACC quarterly.

Absa has a formal external auditor evaluation process which occurs annually and includes various criteria and standards such as audit planning, technical abilities, audit process/outputs and quality control, business insight, independence and general factors (such as BEE credentials).

Absa has an audit partner rotation process in accordance with the relevant legal and regulatory requirements.

The committee stays abreast of current and emerging trends in accounting standards and held several workshops during the period under review, specifically with regard to the Sarbanes-Oxley Act and the alignment of Absa's audit committee practices with those of Barclays.

#### Group Audit and Compliance Committee – meeting attendance (2006)

Director	Appointment	Resignation	Jan	Apr	Apr*	Jul	Sept	Nov	Nov
D C Arnold			✓	✓	✓	✓	✓	✓	✓
Y Z Cuba	6 Dec '06								
A S du Plessis (chairman)			✓	✓	✓	✓	✓	✓	✓
N Kheraj			✓	✓	✓	✓	✓	✓	✓
P du P Kruger			✓	✓	✓	✓	✓	✓	✓
L W Maasdorp		30 Sept '06	✓	✓	✓	✓	✓		

#### Legend

\*Special meeting    ✓ Attendance

#### Group Risk Committee (GRC)

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

**Composition and meeting procedures:** The GRC is chaired by an independent director and consists of a further six independent directors and one non-executive director (Mr N Kheraj). Members of executive management attend by invitation. The committee meets at least four times a year.

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

The GRC's principal responsibilities are:

- to assist the board:
  - in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied in Absa in the day-to-day management of the business;
  - in the identification of the build-up and concentration of the key risks and in developing a risk mitigation strategy to ensure that Absa manages the risks in an optimal manner;
  - to set up an independent risk management function, coordinate the monitoring of risk management on a globalised basis, and facilitate and promote communication regarding risk policies, procedures, practices and controls or any other related matter; and
  - in establishing a process that relates capital to the level of risk undertaken and states capital adequacy goals with respect to risk, taking account of Absa's strategic focus and business plan;
- to liaise with the GACC regarding matters which are common areas of responsibility;
- to annually recommend to the board for approval Absa Group's risk appetite, and to monitor the actual risk taken on against the board-approved appetite on a quarterly basis;

## Abridged corporate governance statement

- to review the adequacy and efficiency of the risk-type control frameworks and policies determined in accordance with the board's approved risk approach;
- to review the Group's various risk profiles and ensure they are understood and appropriately managed in the Group; and
- in conjunction with the GACC, to ensure Absa makes appropriate disclosure of its risk management status and activities.

### Group Risk Committee – meeting attendance (2006)

Director	Appointment	Mar	Jun	Sept	Nov
D C Arnold	28 Jul '06	✓	✓	✓	✓
D C Cronjé		✓	✓	✓	✓
A S du Plessis		✓	✓	✓	✓
G Griffin		✓	✓	✓	✓
M W Hlahla				A	✓
N Kheraj		✓	A #	✓	A #
P du P Kruger (chairman)		✓	✓	✓	✓
P E I Swartz		✓	✓	A	✓

#### Legend

✓ Attendance    A Apologies

#The Barclays risk director attended these meetings.

### Directors' Affairs Committee (DAC)

**Members:** D C Cronjé (chairman), D C Brink, L N Jonker, F F Seegers, T M G Sexwale and F A Sonn.

**Composition and meeting procedures:** The DAC is chaired by the Group chairman and the majority of its members are independent directors. Four 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 report to shareholders 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 annually as well as the performance of the board as a whole.

### Directors' Affairs Committee – meeting attendance (2006)

Director	Appointment	Resignation	Jan	Apr	Jul	Aug*	Oct*	Nov 06
D C Brink			✓	✓	✓	✓	✓	✓
D C Cronjé (chairman)			✓	✓	✓	✓	✓	✓
L N Jonker			✓	✓	✓	✓	✓	✓
D L Roberts		23 Oct '06	✓	✓	✓	✓	✓	
F F Seegers	23 Oct '06							✓
T M G Sexwale			A	✓	✓	A	✓	✓
F A Sonn	17 Feb '06			✓	✓	A	✓	✓

#### Legend

\*Special meeting    ✓ Attendance    A Apologies

**Group Credit Committee**

**Members, composition and meeting procedures:** The committee consists of a panel of four independent directors (D C Brink, B P Connellan, D C Cronjé and A S du Plessis), of which at least two are required as a quorum for facility decisions. Certain members of executive management and risk management also attend meetings. The committee meets daily as required.

**Role, purpose and principal functions:** The Group Credit Committee considers and approves credit exposures that exceed the mandated approval limits of management in the credit risk function. The Group Credit Committee replaced the former Board Lending Committee and divisional credit committees.

**Credit Committee: Large Exposures**

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

**Composition and meeting procedures:** Four independent directors and the Group chief executive and Group finance director. 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 has been established 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 Group Credit Committee. The Absa board sets these limits annually.

**Credit Committee: Large Exposures – meeting attendance (2006)**

Director	Apr	Jul	Sept	Nov
S F Booysen	✓	✓	✓	✓
D C Brink	✓	✓	✓	✓
B P Connellan	✓	✓	✓	A
D C Cronjé (chairman)	✓	✓	✓	✓
A S du Plessis	✓	✓	✓	✓
J H Schindehütte	✓	✓	✓	✓

**Legend**

✓ Attendance    A Apologies

**Implementation Committee**

**Members:** G Griffin (chairman), B P Connellan, D C Cronjé and F F Seegers.

**Composition and meeting procedures:** The Implementation Committee is chaired by an independent director and the majority of its members are independent directors. Six meetings were held during 2006.

**Role, purpose and principal functions:** This committee provides governance oversight and assists the board with regard to integration and implementation risks and opportunities flowing from the acquisition by Barclays of a controlling stake in Absa (the transaction). More specifically this encompasses:

- considering integration/implementation opportunities and risks flowing from and/or as a consequence of the transaction and making recommendations to the board and/or the relevant committees of the board, where appropriate, relating to actions deemed necessary to realise the planned benefits flowing from the transaction;
- providing a forum for Absa management for more detailed reporting to the board on progress with regard to implementation/integration matters, and more specifically where management is required to seek provisional support for a planned action, subject to final board approval where necessary;

## Abridged corporate governance statement

- providing oversight of any implementation investments (including write-offs but excluding acquisitions and disposals) as approved by Absa management within their mandate and making recommendations to the board with regard to any implementation investments above management's mandate; and
- within its mandate, reviewing and approving any economic transfer arrangements (ETAs) between Absa and Barclays and recommending to the Absa board and any ETAs exceeding its mandate.

### Implementation Committee – meeting attendance (2006)

Director	Appointment	Resignation	Feb	Apr	Jul	Sept	Oct	Dec
B P Connellan	17 Feb '06			✓	✓	✓	✓	✓
D C Cronjé			✓	✓	✓	✓	✓	✓
G Griffin (chairman)			✓	✓	✓	A	✓	✓
L W Maasdorp		30 Sept '06	✓	✓	✓	✓		
D L Roberts		23 Oct '06	✓	✓	✓	✓	✓	
F F Seegers	23 Oct '06							✓

#### Legend

✓ Attendance    A Apologies

### Board Finance Committee

**Members:** D C Cronjé (chairman), D C Brink, A S du Plessis, P du P Kruger and F F Seegers.

**Composition and meeting procedures:** The Board Finance Committee is chaired by an independent director and the majority of its members are independent directors. This committee was formed in early 2006 and has a mandate from the board to review and approve investments and divestments and certain defined large transactions, subject to specific limits. Meetings are held on an ad hoc basis as required. Six meetings were held during 2006.

**Role, purpose and principal functions:** The committee is mandated by the board to enter into and settle the terms of all transactions with regard to the acquisition and disposal of investments as well as to approve capital raising and securitisation transactions, subject to limits set by the board. Previously, these transactions were dealt with by the board, whereas these are now dealt with by the committee. The advantage of this is that the committee can more rapidly deal with matters within its mandate (such as investment or divestment opportunities), whereas previously this would typically have been dealt with at the next scheduled board meeting.

### Detailed corporate governance statement

The governance statement set out in this section of the shareholder report is an abridged version of Absa's detailed governance statement. The detailed version is available to shareholders on request.

## Introduction

The Absa board has an appropriate balance with a majority of independent directors. The chairman of the Absa board is an independent director. There are 21 directors, of whom four are executive, five are non-executive and 12 are considered to be independent directors.

## Key developments

A number of developments impacted the membership of the Absa board during the twelve months under review. These included:

- The resignation of Mr Maasdorp on 30 September 2006;
- The resignation of Mr Roberts on 23 October 2006 and the appointment of Mr Seegers at the same date; and
- The appointment of Ms Cuba on 6 December 2006.

## Board membership

The Absa Group board comprised the following directors as at 31 December 2006:

<b><u>Independent non-executive directors</u></b>	D C Arnold, D E Baloyi, D C Brink (deputy chairman), D C Cronjé (chairman), B P Connellan, A S du Plessis, G Griffin, M W Hlahla, L N Jonker, P du P Kruger, F A Sonn and P E I Swartz
<b><u>Non-executive directors</u></b>	L N Angel, Y Z Cuba, N Kheraj*, F F Seegers* and T M G Sexwale
<b><u>Executive directors</u></b>	S F Booysen (Group chief executive), D Bruynseels*, J H Schindehütte and L L von Zeuner

\*British  
\*Dutch

## Board committee membership

Absa seeks to ensure that a majority of independent non-executive directors serve on the Group's board committees. The board committees are set out below.

<b>Committee</b>	<b>Members</b>
<b><u>Group Audit and Compliance Committee</u></b>	A S du Plessis (chairman), D C Arnold, Y Z Cuba, N Kheraj and P du P Kruger
<b><u>Group Risk Committee</u></b>	P du P Kruger (chairman), D C Arnold, D C Cronjé, A S du Plessis, G Griffin, M W Hlahla, N Kheraj and P E I Swartz
<b><u>Group Remuneration Committee</u></b>	D C Brink (chairman), D E Baloyi, B P Connellan, D C Cronjé and F F Seegers
<b><u>Directors' Affairs Committee</u></b>	D C Cronjé (chairman), D C Brink, L N Jonker, F F Seegers, T M G Sexwale and F A Sonn
<b><u>Group Credit Committee</u></b>	D C Brink, B P Connellan, D C Cronjé and A S du Plessis
<b><u>Credit Committee: Large Exposures</u></b>	D C Cronjé (chairman), S F Booysen, D C Brink, B P Connellan, A S du Plessis and J H Schindehütte
<b><u>Implementation Committee</u></b>	G Griffin (chairman), B P Connellan, D C Cronjé and F F Seegers
<b><u>Board Finance Committee</u></b>	D C Cronjé (chairman), D C Brink, A S du Plessis, P du P Kruger and F F Seegers



## Group board

### Biographical details and appointment dates of board members

The biographical details and appointment dates of the Group's board members as at 31 December 2006 were as follows:



**D C (Danie) Cronjé**

<b>Age</b>	60
<b>Qualifications</b>	DCom
<b>Title</b>	Chairman
<b>Year appointed</b>	1987
<b>Independence</b>	Independent director
<b>Absa board committee memberships</b>	<ul style="list-style-type: none"> <li>• Directors' Affairs Committee (chairman)</li> <li>• Group Remuneration Committee</li> <li>• Group Risk Committee</li> <li>• Group Credit Committee</li> <li>• Credit Committee: Large Exposures (chairman)</li> <li>• Implementation Committee</li> <li>• Board Finance Committee</li> </ul>
<b>Other directorships/trusteeships</b>	Dr Cronjé is a director of Barclays PLC and Barclays Bank PLC. He is chairman of the Absa Foundation and a trustee of the Absa Group Retirement Fund. He is a member of certain subsidiary boards in Absa.
<b>Skills, expertise and experience</b>	Dr Cronjé 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.



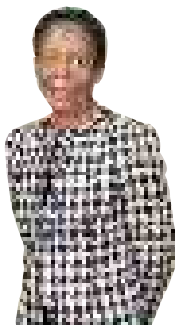
**D C (Dave) Brink**

<b>Age</b>	67
<b>Qualifications</b>	MSc Eng (Mining), Diploma in Business Administration, Graduate Diploma in Company Direction
<b>Title</b>	Deputy chairman
<b>Year appointed</b>	1992
<b>Independence</b>	Independent director
<b>Absa board committee memberships</b>	<ul style="list-style-type: none"> <li>• Directors' Affairs Committee</li> <li>• Group Remuneration Committee (chairman)</li> <li>• Group Credit Committee</li> <li>• Credit Committee: Large Exposures</li> <li>• Board Finance Committee</li> </ul>
<b>Other directorships/trusteeships</b>	Chairman of Unitrans Limited, and a director of 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 co-chairman of the Business Trust, a director of the National Business Initiative and vice-president of the South African Institute of Directors.
<b>Skills, expertise and experience</b>	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. Mr Brink was chief executive officer of Sankorp Limited from 1994 to 1997.



**S F (Steve) Booysen**

<b>Age</b>	44
<b>Qualifications</b>	DCom (Acc), CA(SA)
<b>Title</b>	Group chief executive
<b>Year appointed</b>	2004
<b>Independence</b>	Executive director
<b>Absa board committee memberships</b>	<ul style="list-style-type: none"> <li>• Credit Committee: Large Exposures</li> <li>• Attends various other board committee meetings ex officio.</li> </ul>
<b>Other directorships/trusteeships</b>	Dr Booysen is a director of various companies in the Absa Group.
<b>Skills, expertise and experience</b>	After completing his articles with Ernst & Young (1980–1983), Dr Booysen 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 (now Absa Capital). 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****Age** 52**Qualifications** BA (Hons), MSc (Sociology)**Year appointed** 2004**Independence** Non-executive director**Absa board committee memberships** • None, but she is a trustee of the Absa Foundation.**Other directorships/trusteeships** Ms Angel is chairperson of a women's investment group, TsaRona Investments, and a director of Batho Bonke Capital. She is active in nature conservation and is a director of the Open Africa Initiative and the Peace Parks Foundation. She is also 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 was seconded to the Presidency as chief operations officer: Strategic Planning and Communications.

From 2004 to 2005 she was the chief executive officer of Mvelaphanda Resources. She was then appointed as the managing director: External Relations at Eskom. She resigned from this position in June 2006, so as to focus on her role as chairperson of TsaRona Investments.

**D C (Des) Arnold****Age** 66**Qualifications** CA(SA), FCMA, AMP**Year appointed** 2003**Independence** Independent director**Absa board committee memberships** • Group Audit and Compliance Committee  
• Group Risk Committee**Other directorships/trusteeships** Mr Arnold is a director of the Wits Health Consortium (Proprietary) Limited and chairman of its audit committee. He is also chairman of the Barlows Pension Fund and is a trustee of the Absa Group Retirement Fund.**Skills, expertise and experience** Mr Arnold was formerly the executive director: Finance and Administration of Barloworld Limited. He 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 (ECSAFA) and represented ECSAFA on the Council of the International Federation of Accountants (IFAC). He is also a past president of the South African Institute of Chartered Accountants (SAICA) and is an honorary life member of SAICA. He has represented SAICA on the Financial and Management Accounting Committee of IFAC.

**D E (Danisa) Baloyi****Age** 50**Qualifications** Ed.D (International Education and Development)**Year appointed** 2004**Independence** Independent director**Absa board committee memberships** • Group Remuneration Committee**Other directorships/trusteeships** Dr Baloyi is 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 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 the chairperson of South African Women Investment Holdings, an organisation she founded, and serves on the board of governors of the SA Council on HIV/Aids.

**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.

## Group board



**D (Dominic) Bruynseels**

**Age** 46

**Qualifications** BA (Hons), MBA, Diploma in Financial Studies, Associate of the Chartered Institute of Bankers

**Year appointed** 2005

**Independence** Executive director

**Absa board committee memberships** • Attends various board committee meetings ex officio.

**Other directorships/trusteeships** He is a director of Barclays Bank of Botswana Limited, Barclays Bank of Ghana Limited, Barclays Bank of Kenya Limited, Barclays Bank of Zambia Limited, Barclays Bank Egypt (SAE), Barclays Overseas Pension Fund Trustees Limited and the Overseas Development Institute.

**Skills, expertise and experience** Joined Barclays in 1980. He has fulfilled a variety of UK-based branch, regional and head office roles, including a position as deputy head of the Barclays business sector marketing department. He was the head of Network and Operations (1995–1996). He was then appointed as finance director for the Barclays Africa, Caribbean, Middle East and Latin American business (1997). He was appointed as managing director for Barclays Africa in 1999. He now holds the role of chief executive officer for Barclays Africa.

He led the transformation of the Barclays business in Africa. Following the acquisition of Barclays majority holding in Absa, Mr Bruynseels was appointed Group executive director and member of the Absa Executive Committee and board (2005).



**B P (Brian) Connellan**

**Age** 66

**Qualifications** CA(SA)

**Year appointed** 1994

**Independence** Independent director

**Absa board committee memberships** • Group Remuneration Committee  
• Group Credit Committee  
• Credit Committee: Large Exposures  
• Implementation Committee

**Other directorships/trusteeships** Director of Illovo Sugar Limited, Tiger Brands Limited, Reunert Limited and Sasol Limited.

**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 Barlow Rand Limited in 1985. Mr Connellan was executive chairman of the building materials, steel and paint division until 1990. Thereafter he was appointed as executive chairman of Nampak Limited, a position he held until retirement in 2000.



**Y Z (Yolanda) Cuba**

**Age** 29

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

**Year appointed** 2006

**Independence** Non-executive director

**Absa board committee memberships** • Group Audit and Compliance Committee

**Other directorships/trusteeships** Director of Mvelaphanda Group Limited, Mvelaphanda Holdings (Proprietary) Limited, Total Facilities Management Company (Proprietary) Limited and Life Healthcare (Proprietary) Limited. She is a member of the Nelson Mandela Foundation Investment and Endowment Committee.

**Skills, expertise and experience** In 1999, Ms Cuba commenced her career in marketing with Robertsons Foods. Thereafter, she moved to Fisher Hoffman, an auditing firm, where she completed her articles in 2002. She then joined Mvelaphanda in January 2003 in its corporate finance division. She currently holds the position of deputy chief executive officer of Mvelaphanda Group and Mvelaphanda Holdings.

**A S (Attie) du Plessis**

**Age** 62

**Qualifications** BCom, CA(SA), H DipTax, AMP

**Year appointed** 1992

**Independence** Independent director

**Absa board committee memberships**

- Group Audit and Compliance Committee (chairman)
- Group Risk Committee
- Group Credit Committee
- Credit Committee: Large Exposures
- Board Finance Committee

**Other directorships/trusteeships** He is 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**

**Age** 57

**Qualifications** BSc, FIA, FASSA

**Year appointed** 2001

**Independence** Independent director

**Absa board committee memberships**

- Group Risk Committee
- Implementation Committee (chairman)
- Also serves on the board of Absa Financial Services and Absa Life Actuarial Committee

**Other directorships/trusteeships** He is chairman of two privately held companies based in Cape Town and is a trustee of the University of Cape Town Foundation.

**Skills, expertise and experience** An actuary, Mr Griffin 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 responsible for Old Mutual's worldwide asset management and unit trust businesses, as well as all activities outside South Africa.

Since 1999, he has consulted to a number of South African and international businesses, including Orbis, Investec Asset Management and Old Mutual PLC and served as a non-executive director on a number of boards, including Sage, Swiss Re of South Africa and Citadel Holdings. Mr Griffin was Group chief executive officer of the Sage Group from April 2003 to May 2005.

He is currently a member of the Council of the Actuarial Society of South Africa.

**M W (Monhla) Hlahla**

**Age** 43

**Qualifications** BA (Hons) (Economics), MA (Urban and Regional Planning)

**Year appointed** 2005

**Independence** Independent director

**Absa board committee memberships**

- Group Risk Committee

**Other directorships/trusteeships** Non-executive director of Air Traffic and Navigation Services and the Industrial Development Corporation. She is the second vice-chairperson and special adviser to the chairperson of the Airports Council International World Governing Body.

**Skills, expertise and experience** Ms Hlahla completed her studies in the United States of America. During her studies, she also worked at the Coalition for Women's Economic Development in Los Angeles.

In 1994, she reinvested her expertise in South Africa and joined the Development Bank of Southern Africa, where she successfully managed several large infrastructure projects. In 2000, Ms Hlahla joined Old Mutual Employee Benefits as regional manager: Northern Region, a position she held until her appointment as chief executive officer of the Airports Company South Africa (ACSA) in 2001.

## Group board



**L N (Lourens) Jonker**

**Age** 66

**Qualifications** BSc (Agric)

**Year appointed** 1996

**Independence** Independent director

**Absa board committee memberships** • Directors' Affairs Committee

**Other directorships/trusteeships** He is chairman of Weltevrede Wine Estates (Proprietary) Limited and a director of Naspers Limited, Toeloms Investments No 1 (Proprietary) Limited and Weltevrede Cellar (Proprietary) Limited. Mr Jonker was re-appointed to the Naspers Investments Limited board in September 2005.

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



**N (Naguib) Kheraj**

**Age** 42

**Qualifications** BA, MA (Economics)

**Year appointed** 2005

**Independence** Non-executive director

**Absa board committee memberships** • Group Audit and Compliance Committee  
• Group Risk Committee

**Other directorships/trusteeships** He serves on the boards of Barclays PLC and Barclays Bank PLC.

**Skills, expertise and experience** Mr Kheraj was appointed as Group finance director of Barclays and joined the board of that company on 1 January 2004. He has previously held the positions of chief executive of Barclays Private Clients, deputy chairman of Barclays Global Investors, global head of Investment Banking and global chief operating officer of Barclays Capital. Prior to joining Barclays, he was a managing director and held the position of chief financial officer for Europe at Salomon Brothers.



**P du P (Paul) Kruger**

**Age** 69

**Qualifications** BSc Eng (Mining), MBL

**Year appointed** 1996

**Independence** Independent director

**Absa board committee memberships** • Group Audit and Compliance Committee  
• Group Risk Committee (chairman)  
• Board Finance Committee

**Other directorships/trusteeships** Mr Kruger is a director of Abagold (Proprietary) Limited, Hardekoolkamp Properties (Proprietary) Limited, Wilderness 927 Trust, KGMF Trust, and the Rand Afrikaans University Trust.

**Skills, expertise and experience** Joined Sasol in 1964 at the Sigma Colliery in Sasolburg. Appointed chief executive officer and managing director of the Sasol Group in 1987. He was appointed as chairman of Sasol in 1996 and was a director of numerous Sasol subsidiaries. He retired from the Sasol boards on 31 December 2005.

**J H (Jacques) Schindehütte****Age** 47**Qualifications** BCom (Hons), CA(SA), H DipTax**Year appointed** 2005**Independence** Executive director

**Absa board committee memberships**

- Credit Committee: Large Exposures
- Attends various other board committee meetings ex officio.

**Other directorships/trusteeships**

A director of various companies in the Absa Group.

**Skills, expertise and experience**

Served articles with Ernst & Young from 1981 to 1983. Served in various senior managerial positions at Transnet until 1999. Joined Absa as Group executive: Group Finance during 1999. Appointed as a Group executive director in January 2005.

**F F (Frits) Seegers****Age** 47**Qualifications** Master's degrees in engineering and finance**Year appointed** 2006**Independence** Non-executive director

**Absa board committee memberships**

- Group Remuneration Committee
- Directors' Affairs Committee
- Implementation Committee
- Board Finance Committee

**Other directorships/trusteeships**

Mr Seegers is an executive director on the boards of Barclays PLC and Barclays Bank PLC.

**Skills, expertise and experience**

Mr Seegers is responsible for all Barclays retail and commercial banking operations globally. This includes UK Banking (Retail and Business), International Retail and Commercial Banking, and Barclaycard.

Mr Seegers joined Barclays in July 2006, having previously held senior positions in Citigroup over the past 17 years. Most recently, he was the chief executive officer of the Global Consumer Group with a remit covering all retail operations in Europe, Middle East and Africa. He was also a member of the Citigroup Operating Committee and the Citigroup Management Committee.

Between 2001 and 2004, Mr Seegers was the chief executive officer of Consumer Banking for Asia Pacific, covering 11 consumer markets. Under his leadership, this region was the fastest growing part of Citigroup. Prior to this, he developed internet banking for Citibank and held various posts including division executive for Japan, president of Citibank California, marketing director for Citibank Direct and marketing director of Citibank Belgium.

Mr Seegers joined Citigroup in Germany as an associate in 1989.

**T M G (Tokyo) Sexwale****Age** 53**Qualifications** Certificate in Business Studies**Year appointed** 2001**Independence** Non-executive director

**Absa board committee memberships**

- Directors' Affairs Committee

**Other directorships/trusteeships**

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. Mr Sexwale is a trustee of the Nelson Mandela Foundation and chancellor of the Vaal University of Technology, as well as a trustee of the Desmond Tutu Peace Trust.

**Skills, expertise and experience**

A former member of the national executive committee of the African National Congress and former premier of Gauteng.

## Group board



**F A (Franklin) Sonn**

**Age** 67

**Qualifications** BA (Hons), PTD, FIAC

**Year appointed** 1999

**Independence** Independent director

**Absa board committee memberships** • Directors' Affairs Committee

**Other directorships/trusteeships** Chairman of African Star Ventures (Proprietary) Limited, Airports Company South Africa Limited (ACSA), Kwezi V3 Engineers (Proprietary) Limited and Ekapa Mining (Proprietary) Limited. Director of Sappi Limited, Safmarine (Proprietary) Limited, Steinhoff International Holdings Limited, Macsteel Holdings Limited, Metropolitan Holdings Limited, RGA Reinsurance Company of South Africa Limited and RGA SA Holdings (Proprietary) Limited. Trustee of the Nelson Mandela Foundation and the Legal Resources Trust. Chancellor of the University of the Free State.

**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.



**P E I (Peter) Swartz**

**Age** 65

**Qualifications** Advanced Primary Teacher's Diploma

**Year appointed** 1994

**Independence** Independent director

**Absa board committee memberships** • Group Risk Committee

**Other directorships/trusteeships** He serves on the boards of Distell Limited and Sun International Limited. He is a trustee of the Cape Peninsula University of Technology Foundation, Western Cape Cerebral Palsy Association and the Eoan Group Trust.

**Skills, expertise and experience** Was a school music teacher for ten years. He became the first chancellor of the Cape Technikon (Cape Peninsula University of Technology). He has, over the past 35 years, held personal interests in various industries, including cinemas, hotels, supermarkets, fast foods outlets, centrifugal pump manufacturing and property development. A former chairman of the South African Tourism board. He also served over many years as a director of Sanlam Limited, Ellerines Holdings Limited and New Clicks Holdings Limited.



**L L (Louis) von Zeuner**

**Age** 45

**Qualifications** BEcon

**Year appointed** 2004

**Independence** Executive director

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

**Other directorships/trusteeships** Mr von Zeuner serves on the boards of the Banking Association, South Africa, Section 21 Housing Company, MasterCard, and the 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 head office, where he became the operating executive of Absa Commercial Bank. He was appointed as an executive director on the Absa Group board in September 2004.

## Introduction

The Group remuneration report deals with the governance of remuneration matters in Absa, the Group's remuneration policy as well as executive and non-executive directors' emoluments and service contracts.

## Key remuneration highlights and developments

- The Group's shareholders approved, at a special general meeting in May 2006, the adoption of four new incentive plans: the Absa Group Performance Share Plan (PSP), the Absa Group Phantom Performance Share Plan (Phantom PSP), the Absa Group Executive Share Award Scheme (ESAS) and the Absa Group Phantom Executive Share Award Scheme (Phantom ESAS). These plans were designed to align the interests of executive directors and senior executives with those of Absa's shareholders. The incentive plans implemented for 2006 were the Phantom PSP and the Phantom ESAS. The Phantom ESAS has been used to enable executive directors and senior executives to convert their existing banked bonuses into this phantom deferred share arrangement on a one-off basis. No additional benefits were provided under this scheme for 2006.
- Existing benefits were reviewed for all employees, and a new flat rate medical aid subsidy was introduced for all employees.
- Mr D L Roberts resigned from the Group Remuneration Committee on 23 October 2006.
- Mr F F Seegers was appointed to the Group Remuneration Committee on 23 October 2006.

## Challenges

- The introduction of the Phantom PSP (following shareholders' approval of the new incentive plans) involved a number of challenges, including determining the most appropriate way to adapt the best practice used by Barclays to the Absa Group and its employees, the communication of the new scheme to employees, the required valuation calculations with reference to the IFRS 2 requirements, and the appropriate Group hedging strategy to ensure that future requirements in relation to this scheme are identified and provided for.

## Looking ahead

- Continued use of the Phantom PSP in 2007 to ensure an alignment of interest between participants and shareholders with regard to the financial performance of the Group.
- Use of the Phantom ESAS in 2007 for all those employees, including Group executive directors, whose bonus awards exceed a predetermined threshold.
- Refining the bonus pool funding methodology.



## Group remuneration report

### Governance

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

Its members (D C Brink (chairman), D E Baloyi, B P Connellan, D C Cronjé and F F Seegers) are all non-executive directors and the majority are independent directors.

The Group chief executive, the executive responsible for human resources and the Group finance director attend the meetings by invitation. Meetings are held five times a year. In addition, special meetings are called to deal with urgent matters. No executive director is present when his or her own remuneration or performance evaluation is discussed.

The Group Remuneration Committee's responsibilities include:

- approving the Group's remuneration philosophy, principles and policy;
- approving the remuneration of the Group chief executive and executive committee members. In addition, it provides oversight regarding the remuneration of the senior leadership group. Remuneration includes all elements of remuneration: guaranteed fixed remuneration, performance bonuses, incentive plans, and any other form of benefits or perquisites;
- reviewing all payments made in terms of the Group's various incentive schemes;
- reviewing management's recommendations of the fee structure for directors and the fees for members of board committees, for onward recommendation to shareholders;
- determining the Group chairman's remuneration for approval by shareholders, 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 strategic positions/roles, together with the Group Directors' Affairs Committee (DAC); and
- evaluating the performance of the Group chief executive and reviewing the evaluation of the performance of executive directors.

The DAC assesses the contribution of all non-executive directors annually via an individual director evaluation process as well as the effectiveness of the board as a whole. The 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 takes this evaluation into account in determining the remuneration of the chairman. The Group Remuneration Committee's effectiveness is evaluated annually by the Absa Group board.

### Advisers

In determining the appropriate remuneration for Group executive directors, Absa makes use of the services of an independent remuneration consulting company, Global Remuneration Solutions (Proprietary) Limited. This company 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.

Furthermore, in setting the performance measures for the Phantom PSP, Absa makes use of independent advisers, Kepler & Associates, based in London. These advisers provide advice on appropriate financial performance targets and the probabilities of achieving these targets to ensure that there is sufficient "stretch" in the targets set. Kepler & Associates assists in setting the targets for the Phantom PSP annually.

Human Resources also provides advice to the Group Remuneration Committee. The Human Resources 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 salaries, bonuses and incentive plans. In addition, the Group executive: Human Resources is responsible for providing professional support to line management relating to human resources policies and administration and for monitoring compliance with prescribed policies and programmes across the Group.

## Remuneration philosophy and policy

Absa aims to employ individuals of the highest calibre, who embrace the Group's values. In addition to ensuring that all employees, including Group executive directors, create value for all Absa'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.

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

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

- Reward programmes are designed and administered to align the interests of senior managerial and professional employees, including executive directors, 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 contribution made.
- Appropriate industry and comparable organisations' remuneration practices are reviewed at least annually.

Absa's remuneration structure has three components:

- Fixed remuneration = annual salary and benefits.
- Variable remuneration = short- to medium-term performance related incentives.
- Incentive plans = long-term performance related incentive schemes.

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 incentives are reviewed annually and adjustments are made to improve their efficiency. Incentive plans are used to retain and incentivise key and talented employees.

## Remuneration of employees

### Guaranteed fixed remuneration

The approach adopted for all employees, including Group executive directors, is a total cost-to-company approach. The sustainable contribution of each employee is used as the basis for remuneration reviews. Across the Group, remuneration reviews are undertaken at least annually. The cost-to-company approach also encapsulates benefits provided such as retirement schemes; death and disability cover; medical cover and other benefits, as dictated by competitive local market practices.

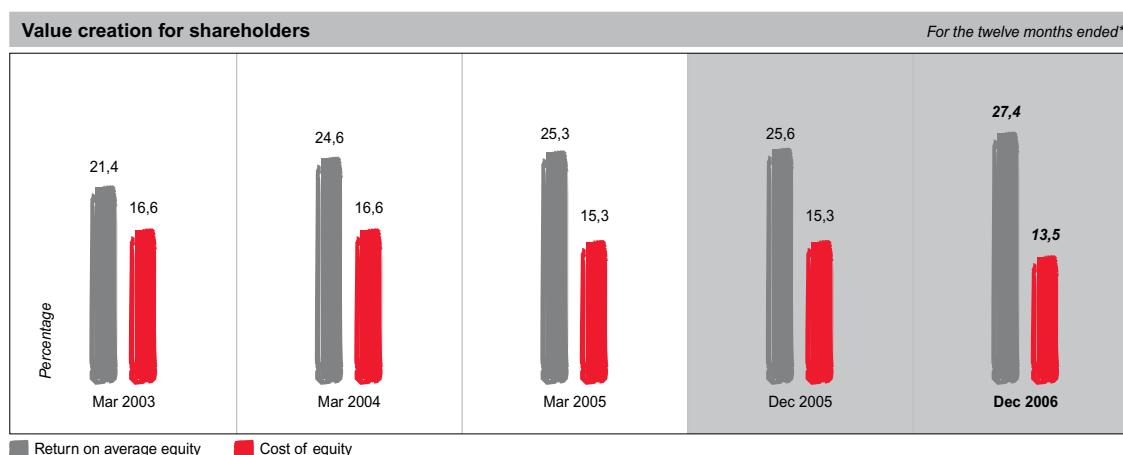
In addition to the above, employees, including Group executive directors, receive two payments at the time of the release of the Group's interim and annual results, based on the Group's financial performance. This is known as "conditional fixed remuneration". This element of pay was disclosed as part of the performance bonus in the past. This formed a relatively small component of each employee's total cost-to-company pay annually (approximately 5%). The Group has removed the conditional fixed remuneration element of pay (the final such payment was made in February 2007, relating to the Absa Group's annual results for 2006). Going forward, the conditional fixed remuneration will be included into the total cost-to-company remuneration for all employees (including Group executive directors). This change is effective 1 January 2007 and has resulted in a permanent uplift of total cost-to-company remuneration for all employees, including executive directors, on the basis that the bi-annual payments will cease. The net effect on the Group and employees, including Group executive directors, will largely be neutral, as the uplift in the total cost-to-company remuneration will compensate for the removal of the bi-annual conditional fixed remuneration awards.

## Group remuneration report

### 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 few years, significant value has been created for shareholders, with the Group's return on average equity (RoE) increasing from 21,4% in the 2003 financial year to 27,4% for the twelve months ended 31 December 2006.



\*The statistics for 2003 and 2004 have not been restated for International Financial Reporting Standards (IFRS).

### Methodology used to calculate performance bonuses

The Group Remuneration Committee approves a challenging performance target. This target is converted to a headline earnings target to facilitate communication and understanding.

For most areas of Absa\*\*, performance bonuses are paid only when the Group's financial performance exceeds a hurdle, which is related to the cost of equity.

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 period under review.

For most areas of Absa\*\*, the final bonus pool is calculated by multiplying the bonus multiple (which is a function of the level of achievement of the headline earnings target), by the sum of annual total cost-to-company remuneration, appropriately differentiated for each job grade. Although, in prior years, the calculation was based on direct remuneration, in the year under review, the Group moved to a calculation based on cost-to-company remuneration. Furthermore, the bonus multiple pool for executive directors had been capped at a two multiple, with a possible individual award of a performance bonus up to 2,5 times his/her remuneration. For the year under review, the Group Remuneration Committee approved bonus awards utilising a pool of 2,3 times the cost-to-company remuneration of the participating Group executive directors (in excess of the two multiple) given the superior financial performance of the Group. The overall individual limit of 2,5 times cost-to-company remuneration was observed.

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

Although prior practice was that two-thirds of any performance bonus paid in excess of one bonus multiple was banked (retained) and was paid during the next two financial years, subject to sustained performance by the Group, this is no longer the practice, and it has been replaced by the Phantom ESAS described in the section titled long-term incentive plans.

\*\*Other than in specialised areas such as Absa Capital.

### Group executive directors' remuneration and performance bonus statistics

The following table indicates the total guaranteed fixed remuneration paid to Group executive directors as well as their performance bonuses. It must be noted that the results for the twelve months ended 31 December 2006 are not comparable with those of the previous period, which have nine months as a base, owing to the change in the Group's year-end. The remuneration tabled below relates only to the period an individual is/was a Group executive director.

### Group executive directors' guaranteed fixed remuneration and performance bonuses

		Directors' fees								
Group executive director	Note	Absa Group	Absa Bank and other divisional boards	Salaries*	Travel allowances	Retirement fund contributions	Total guaranteed remuneration	Conditional fixed remuneration**	Performance bonuses***	Total R
		R	R	R	R	R	R	R	R	
Twelve months ended 31 December 2006										
S F Booysen	1	119 467	—	4 608 081	25 233	368 519	5 121 300	378 911	12 000 000	17 500 211
D Bruynseels	2 & 6	119 467	129 838	—	—	—	249 305	—	—	249 305
J H Schindehütte	3	119 467	—	2 288 637	24 862	182 963	2 615 929	184 042	5 500 000	8 299 971
L L von Zeuner	4	119 467	—	2 885 628	66 906	230 722	3 302 723	249 625	7 900 000	11 452 348
Total		477 868	129 838	9 782 346	117 001	782 204	11 289 257	812 578	25 400 000	37 501 835
Nine months ended 31 December 2005										
S F Booysen	1	80 000	—	3 184 195	24 641	251 501	3 540 337	231 683	7 486 000	11 258 020
D Bruynseels	2 & 6	45 333	4 834	—	—	—	50 167	—	—	50 167
F J du Toit	5	—	—	—	—	—	—	—	144 208	144 208
J H Schindehütte	3	80 000	—	1 671 472	53 375	132 222	1 937 069	129 897	2 975 000	5 041 966
L L von Zeuner	4	92 250	—	1 975 845	33 285	155 778	2 257 158	169 858	5 208 000	7 635 016
Total		297 583	4 834	6 831 512	111 301	539 501	7 784 731	531 438	15 813 208	24 129 377

#### Notes

- (1) Appointed to the Absa Group board on 1 August 2004.
- (2) Appointed to the Absa Group board on 27 July 2005.
- (3) Appointed to the Absa Group board on 1 January 2005.
- (4) Appointed to the Absa Group board on 1 September 2004.
- (5) Retired from the Absa Group board on 1 January 2005.
- (6) Currently remunerated by Barclays PLC, and any directors' fees earned are paid to Barclays PLC.

#### Additional note

Group executive directors' guaranteed remuneration, conditional fixed remuneration, and performance bonuses are paid by Absa Bank Limited, other than in the case of D Bruynseels.

\*The Group has, in the year under review, introduced a medical insurance subsidy for all employees. This subsidy falls outside of total cost-to-company remuneration for reasons relating to the need to track the subsidy separately from other cost-to-company remuneration items. The subsidy is R400 per month across the board for all permanent employees, including executive directors, irrespective of grade or pay level.

\*\*As mentioned previously in this report, the payment of conditional fixed remuneration took place in respect of 2006 for the last time, as the conditional fixed remuneration scheme has been discontinued with effect from 1 January 2007. The performance bonus for the nine months ended 31 December 2005 excluded conditional fixed remuneration. For 2006, the conditional fixed remuneration has been separated from the performance bonuses owing to the total cost-to-company remuneration adjustments (effective 1 April 2007) that will be effected to the revised cost-to-company remuneration figures (with regard to the inclusion of conditional fixed remuneration in total cost-to-company remuneration with effect from 1 April 2007).

\*\*\*Performance bonuses for 2006.

Group executive director	Cash consideration R	Deferred as part of the ESAS R	Total R
S F Booysen	9 000 000	3 000 000	12 000 000
J H Schindehütte	4 125 000	1 375 000	5 500 000
L L von Zeuner	5 925 000	1 975 000	7 900 000
<b>Total</b>	<b>19 050 000</b>	<b>6 350 000</b>	<b>25 400 000</b>

The performance bonuses comprise a cash portion (as to 75% of the notional performance bonus), which will have accrued to the Group executive director concerned, and a non-cash portion (as to 25% of the notional performance bonus), which will be deferred into the mandatory ESAS.

## Group remuneration report

### Long-term incentive plans

The Group has, until May 2006, operated a share incentive scheme designed to link the interests of executive directors and eligible employees with those of shareholders and the long-term desired strategic positioning of the Group.

All full-time senior managerial and professional employees above an agreed job grade were eligible to participate in the share incentive scheme, principally based on the ability of the individual to influence the Group's performance and the retention of key talent. One-third of the options vested on the third anniversary of the date of grant, a further third vested on the fourth anniversary of the date of grant and the final third on the fifth anniversary of the date of grant. All options in terms of the scheme have a ten-year expiry period. There are specific provisions governing retirement, death, retrenchment, ill health and contractual termination.

In addition to the requirement that recipients be in the employ of the Group on vesting dates, there were earnings-based performance measures linked to the allocation of share options in 2005. Recipients are generally key employees whose current and potential contributions to achieving or implementing Absa's strategy were taken into account.

The share incentive scheme has been supplemented with revised incentive plans to bring the Absa incentive plans in line with best practice. The new incentive plans were approved by shareholders at a special general meeting held on 10 May 2006.

Although the Group may still use the incentive scheme referred to above, the Group has, in the year under review, introduced new incentive plans, namely the PSP, the Phantom PSP, the ESAS and the Phantom ESAS.

The PSP is aimed at rewarding future performance by incentivising senior Absa employees, including executive directors, to achieve performance targets. The Absa Group Remuneration Committee annually makes an award of PSP shares or Phantom PSP shares to senior managers, professionals and executives and sets performance conditions applicable for a three-year period. The Group Remuneration Committee ensures that the performance conditions are sufficiently demanding and support profitable growth, capital efficiency, risk management and the creation of shareholder value. The Group Remuneration Committee engages with external advisers (Kepler & Associates) to obtain advice on performance conditions. In addition, the vesting of awards is subject to:

- a basic financial hurdle, such that the cumulative profit after tax for the Group in the three-year performance period attached to each award must be greater than the Group's cumulative profit after tax of the previous three-year period; and
- a second, three-year performance condition, typically an internal, non-market-based and/or an external market-based performance condition that applies to 100% of the PSP shares or Phantom PSP shares under each award. It being recorded that the minimum threshold for any vesting of 2006 awards will be based on growth in the Group's earnings per share of CPIX plus 5%, measured at a cumulative compound annual growth rate.

At the end of the three-year period, the final award of shares may be between 0% and 300% of the award, depending on the extent to which the performance conditions have been met.

Rand value awards took place, effective 22 May 2006, in terms of the rules of the Phantom PSP. Subsequent to the awards taking place, the participants were informed of the actual number of phantom shares that they were awarded. The awards were calculated at the volume-weighted price over the 20 days immediately preceding the award date. The details of the awards for Group executive directors are listed on page 38 of this report. The use of a rand-value award mechanism enables easy communication of the underlying value of the award. It also enables the Group Remuneration Committee to obtain an overall view of an individual's total compensation (total cost-to-company remuneration, discretionary bonus and share or phantom share award).

The purpose of the ESAS is, inter alia, to increase employee and shareholder alignment through employee share ownership, as well as to retain key personnel. Employees, including executive directors, whose annual bonuses are in excess of a certain level, participate in the ESAS. In terms of the ESAS, 25% of an employee's annual performance bonus is mandatorily converted into a number of nil-cost\* options, shares or phantom shares. A further 75% of a participating employee's bonus can be converted voluntarily by the employee. If the employee is still in the employ of the Group after a period of three years, he or she will receive certain bonus (matched) shares (or phantom shares) and certain dividend shares. A further portion of bonus (matched) shares and dividend shares will be awarded if the participant is still in the employ of the Group after a period of five years from the original date. The ESAS is therefore a deferred bonus plan that rewards participating employees with matched shares and encourages them to share in growth in Absa's share price. Generally, no performance conditions will apply to the ESAS.

The Group's senior executives, including Group executive directors, who elected to convert their banked bonuses during the period under review will participate in the Phantom ESAS in substitution for the Banked Bonus scheme.

The options granted in terms of the previous incentive scheme remain in place and may be exercised in terms of the rules under which the shares were granted.

#### Group executive directors' share options – composition of opening balances at 1 January 2006

Group executive director	Note	Date of grant	Share options granted		Price R
			Expiry date of options	Number granted	
S F Booysen	1	19 Jun '01	19 Jun '11	23 334	37,43
		7 Jun '02	7 Jun '12	80 000	33,67
		5 Jun '03	5 Jun '13	135 000	35,01
		7 Jun '04	7 Jun '14	300 000	48,73
		18 Aug '05	18 Aug '15	180 000	91,70
				<b>718 334</b>	
D Bruynseels	2	—	—	—	—
				<b>—</b>	
J H Schindehütte	3	19 Jun '01	19 Jun '11	23 334	37,43
		7 Jun '02	7 Jun '12	46 667	33,67
		5 Jun '03	5 Jun '13	30 000	35,01
		31 May '04	31 May '14	186 856	46,56
		18 Aug '05	18 Aug '15	30 000	91,70
				<b>316 857</b>	
L L von Zeuner	4	1 Apr '01	1 Apr '11	16 668	32,61
		19 Jun '01	19 Jun '11	21 668	37,43
		7 Jun '02	7 Jun '12	40 000	33,67
		5 Jun '03	5 Jun '13	95 000	35,01
		7 Jun '04	7 Jun '14	26 000	48,73
		19 Aug '04	19 Aug '14	102 000	51,61
		18 Aug '05	18 Aug '15	60 000	91,70
				<b>361 336</b>	

#### Notes

- (1) Appointed to the Absa Group board on 1 August 2004.  
 (2) Appointed to the Absa Group board on 27 July 2005.  
 (3) Appointed to the Absa Group board on 1 January 2005.  
 (4) Appointed to the Absa Group board on 1 September 2004.

\*An option that can be exercised at a zero strike price at any point between the end of the vesting period (after three years) and the end of the further vesting period (after five years).

## Group remuneration report

### Group executive directors' share option movements – Share incentive scheme

Group executive director	Note	Opening balance	Share options granted*				Share options exercised				Balance of share options
			Number	Date of grant	Price R	Expiry date	Number	Purchase date**/ exercise date	Option price R	Shares purchased/ Gains on share options exercised*** R	
Twelve months ended 31 December 2006											
S F Booysen	1	718 334	—	—	—	—	23 334	25 Aug '06	Shares purchased at share option price of R37,43		610 000
							40 000	25 Aug '06	Shares purchased at share option price of R33,67		
							45 000	25 Aug '06	Shares purchased at share option price of R35,01		
D Bruynseels	2	—	—	—	—	—	—	—	—		—
J H Schindehütte	3	316 857	—	—	—	—	23 334	24 Aug '06	Shares purchased at share option price of R37,43		260 190
							23 333	24 Aug '06	Shares purchased at share option price of R33,67		
							10 000	24 Aug '06	Shares purchased at share option price of R35,01		
L L von Zeuner	4	361 336	—	—	—	—	16 668	6 Apr '06	Shares purchased at share option price of R32,61		344 668

\*The share incentive scheme has not been used for new allocations to Group executive directors in respect of the year under review, given the introduction of the PSP.

\*\*Options are exercisable at any date from the vesting date. Where the activity reported upon is a purchase of shares, the purchase date has been reflected, in which event a preceding exercise of the options would already have taken place.

\*\*\*Note that a "gain" arises where the options have been exercised at a price higher than the grant date price during the year under review. Where no cash gain has been realised, in circumstances where a purchase of the shares has taken place, then the details of this purchase have been disclosed instead.

# Group remuneration report

**Absa Group Limited**  
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Share options granted*							Share options exercised					Balance of share options
Group executive director	Note	Opening balance	Number	Date of grant	Price R	Expiry date	Number	Purchase date**/ exercise date	Option price R	Shares purchased/ Gains on share options exercised***		
Nine months ended 31 December 2005												
S F Booyesen	1	735 750	180 000	18 Aug '05	91,70	18 Aug '15	104 450	27 Jul '05	82,50	3 803 653		
							69 633	2 Aug '05	93,77	6 491 563		
							23 333	14 Dec '05	Shares purchased at share option price of R37,43		718 334	
D Bruynseels	2	—	—	—	—	—	—	—	—	—	—	
J H Schindehütte	3	471 856	30 000	18 Aug '05	91,70	18 Aug '15	97 000	27 Jul '05	82,50	3 877 928		
							40 000	27 Jul '05	Shares purchased at share option price of R23,73			
							6 000	27 Jul '05	Shares purchased at share option price of R26,53			
							9 333	27 Jul '05	Shares purchased at share option price of R37,43			
							9 333	27 Jul '05	Shares purchased at share option price of R33,67			
							23 333	13 Sep '05	Shares purchased at share option price of R37,43		316 857	
L L von Zeuner	4	478 400	60 000	18 Aug '05	91,70	18 Aug '15	106 239	27 Jul '05	82,50	3 502 587		
							8 000	27 Jul '05	Shares purchased at share option price of R27,49			
							4 160	27 Jul '05	Shares purchased at share option price of R30,47			
							4 000	27 Jul '05	Shares purchased at share option price of R17,85			
							8 000	27 Jul '05	Shares purchased at share option price of R27,68			
							8 000	27 Jul '05	Shares purchased at share option price of R26,53			
							13 333	27 Jul '05	Shares purchased at share option price of R32,61			
							17 332	27 Jul '05	Shares purchased at share option price of R37,43			
							8 000	27 Jul '05	Shares purchased at share option price of R33,67		361 336	

## Notes

- (1) Appointed to the Absa Group board on 1 August 2004.
- (2) Appointed to the Absa Group board on 27 July 2005.
- (3) Appointed to the Absa Group board on 1 January 2005.
- (4) Appointed to the Absa Group board on 1 September 2004.

\*The share incentive scheme has not been used for new allocations to Group executive directors in respect of the year under review, given the introduction of the PSP.

\*\*Options are exercisable at any date from the vesting date. Where the activity reported upon is a purchase of shares, the purchase date has been reflected, in which event a preceding exercise of the options would already have taken place.

\*\*\*Note that a "gain" arises where the options have been exercised at a price higher than the grant date price during the period under review. Where no cash gain has been realised, in circumstances where a purchase of the shares has taken place, then the details of this purchase have been disclosed instead.



## Group remuneration report

### Group executive directors' share award movements – Phantom PSP\*

Phantom PSP shares granted							
Group executive director	Note	Opening balance at 1 January 2006	Initial allocation granted during 2006**	Date of grant	Price*** R	Expiry date	Closing balance as at 31 December 2006
S F Booysen	1	—	51 194	22 May '06	117,20	22 May '09	51 194
D Bruynseels	2	—	—	—	—	—	—
J H Schindehütte	3	—	23 464	22 May '06	117,20	22 May '09	23 464
L L von Zeuner	4	—	33 617	22 May '06	117,20	22 May '09	33 617

#### Notes

- (1) Appointed to the Absa Group board on 1 August 2004.  
 (2) Appointed to the Absa Group board on 27 July 2005.  
 (3) Appointed to the Absa Group board on 1 January 2005.  
 (4) Appointed to the Absa Group board on 1 September 2004.

\*The first allocations of the Phantom PSP took place in 2006. Therefore there is no comparable data for the previous reporting period. One Phantom PSP share has a value equivalent to one Absa ordinary share.

\*\*As mentioned on page 34 of this report, the scheme is subject to profit after tax and stretched earnings per share performance measures, which, if achieved, will have the effect of an increase on the initial allocation of Phantom PSP shares to a maximum of three times.

\*\*\*The price is the volume-weighted average price for the 20 trading days immediately preceding the grant date (22 May 2006).

### Conversion of banked bonuses to ESAS by executive directors

	Number of phantom shares under ESAS*	Date of grant	Price R**	Expiry date***	Closing balance – number of phantom shares under ESAS
S F Booysen	32 934	14 Jun '06	107,63	14 Jun '09	32 934
D Bruynseels	—	—	—	—	—
J H Schindehütte	15 665	14 Jun '06	107,63	14 Jun '09	15 665
L L von Zeuner	23 653	14 Jun '06	107,63	14 Jun '09	23 653

\*The banked bonus is not a new award, as this has been disclosed as part of the performance bonus awards for 2004 and 2005.

\*\*The price is the volume-weighted price over the 20 trading days up to and including 14 June 2006.

\*\*\*Although the vesting date is the third anniversary of the award date, there is an opportunity for a participant to remain in the scheme for a further two-year period.

#### Additional note

Please note that the portion of the 2006 notional performance bonuses that will be deferred to ESAS (which takes place in 2007) are contained on page 33 of this report.

### Absa executive compensation plans

Two new executive compensation plans were introduced during the previous reporting period. These plans are intended to:

- retain key members of the management team; and
- deliver, as a minimum, the Barclays business case\*\*\* for the acquisition of a controlling stake of the Absa Group.

### The first plan – Barclays special incentive plan

The first plan, known as the Barclays special incentive plan, is delivered in Barclays PLC shares, but is dependent on Absa's performance relative to the achievement of the business case\*\*\*\* in terms of the acquisition of a controlling stake in the Absa Group. The plan is aimed at selected key individuals, namely S F Booysen, D Bruynseels, J H Schindehütte, L L von Zeuner, R R Emslie and N P Mageza. The costs associated with the plan are borne directly by Barclays and therefore do not affect Absa's financial performance. The Barclays and Absa remuneration committees approve any awards under this plan and scrutinise the performance outcomes.

\*\*\*\*Delivery of the business case means realisation of the synergy benefits as well as the delivery of Absa's business-as-usual performance. Barclays Africa is excluded.

**Group executive directors – Barclays PSP awards\***

	Opening balance at 1 January 2006	Barclays PLC shares granted during 2006	Performance period	Vesting date	Closing balance as at 31 December 2006
S F Booyesen	—	100 224	1 Apr '05 – 30 Jun '08	30 Sept '08	100 224
D Bruynseels	—	27 839	1 Apr '05 – 30 Jun '08	30 Sept '08	27 839
J H Schindehütte	—	29 209	1 Apr '05 – 30 Jun '08	30 Sept '08	29 209
L L von Zeuner	—	49 090	1 Apr '05 – 30 Jun '08	30 Sept '08	49 090

\*This is an award of Barclays shares. Absa does not bear the cost of these awards. The specific performance conditions are linked to the underlying Absa Group performance from the period 1 April 2005 to 30 June 2008. There is a multiplier dependent on Absa's performance, the range of the multiplier being from zero to six times the initial allocation, with the maximum award being made in the event of performance being equal to 130% of the predetermined business case\*\*. These conditions have been approved by the Barclays Group Remuneration Committee. The attainment of these measures will be determined in respect of the published results for June 2008.

**The second plan – Special discretionary bonus plan**

The second plan consists of a special discretionary performance bonus for selected key roles (approximately 30 in number). Key criteria include the delivery of the business case\*\* in terms of the acquisition of a controlling stake in Absa and an individual's performance. The participants include a number of individuals assigned to Absa from Barclays. Participants in the Barclays special incentive plan detailed previously will not participate in this plan. The bonus, which may be up to 200% of guaranteed fixed remuneration, will be delivered in cash by Absa after two years, subject to individual performance assessments, taking into account delivery of the business case\*\*, including growth in profit before tax, the realisation of synergies, the management of restructuring costs and personal contribution. The Group Remuneration Committee will approve any awards under this plan, and will scrutinise the performance outcomes.

**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.

**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 fixed 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 Basic Conditions of Employment 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 Basic Conditions of Employment Act to be more beneficial.

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 Group executive director, or employee, whose contract is being terminated.

**Group non-executive directors' remuneration**

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

\*\*Delivery of the business case means realisation of the synergy benefits as well as the delivery of Absa's business-as-usual performance. Barclays Africa is excluded.

## Group remuneration report

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

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

Category	Note	Remuneration from 1 May 2006 to 30 April 2007 R	Remuneration from 1 October 2005 to 30 April 2006 R
Chairman	1 & 11	3 154 200	2 500 000
Board member	2, 3 & 11	123 200	112 000
Group Audit and Compliance Committee (GACC) member	4 & 11	104 400	87 000
Group Risk Committee (GRC) member	5 & 11	68 000	63 000
Group Remuneration Committee (Rem Com) member	6 & 11	54 600	52 000
Directors' Affairs Committee (DAC) member	7 & 11	41 000	39 000
Credit Committee: Large Exposures member	8 & 11	41 000	39 000
Implementation Committee member	9, 10 & 11	41 000	39 000
		<b>Pool of R350 000 per annum payable to committee members pro rata to the number of facilities reviewed.</b>	<b>Pool of R300 000 per annum payable to committee members pro rata to the number of facilities reviewed.</b>
Group Credit Committee member	12		
Special board meeting (per meeting)		16 500	15 000
Special board committee meeting		10 600	9 700
Ad hoc board fees:			
• per ad hoc board committee meeting attended		10 600	9 700
• consultancy work		<b>R2 750 per hour</b>	<b>R2 500 per hour</b>

### Notes

- (1) From 1 May 2006, the chairman's remuneration was changed to an all-in basis. Previously, he received fees as Absa Group Limited and Absa Bank Limited board chairman equal to twice the fee payable to a board member, over and above this annual remuneration as chairman.
- (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 Rem Com chairman receives fees equal to twice the fee payable to a Rem Com member.
- (7) As the Group chairman is chairman of the DAC, this is covered by his Group chairman's fee.
- (8) As the Group chairman is also the chairman of the Credit Committee: Large Exposures, this fee is covered by his Group chairman's fee.
- (9) The Implementation Committee chairman receives fees equal to twice the fee payable to an Implementation Committee member.
- (10) The Implementation Committee is a committee that was established in 2005 to provide governance oversight on various implementation issues arising from the Barclays transaction.
- (11) 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.
- (12) This fee has been revised in the period under review. Although the pool has remained the same, the basis of splitting the pool has changed to a fee per facility rather than a pro rata split of the pool.

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

## Group remuneration report

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

Name	Note	Fees for the twelve months ended 31 December 2006*					Actual fees for the nine months ended 31 December 2005*
		Absa Group Limited R	Absa Bank and its subsidiaries R	Ad hoc fees R	Commit-tees R	Total R	Total R
D C Cronjé (chairman)	1	74 667	3 029 533	10 600	—	3 114 800	3 634 160
D C Brink (deputy chairman)		179 200	144 000	96 350	485 167	904 717	661 186
L N Angel	2	119 467	96 000	15 750	39 504	270 721	209 500
D C Arnold		119 467	96 000	9 700	209 883	435 050	269 700
D E Baloyi	3	119 467	96 000	—	70 600	286 067	144 000
L Boyd	4	—	—	—	—	—	237 938
B P Connellan		119 467	96 000	35 750	336 163	587 380	316 692
Y Z Cuba	6	—	—	—	—	—	—
A S du Plessis		119 467	96 000	89 100	497 591	802 158	511 767
G Griffin		119 467	96 000	25 008	199 467	439 942	263 235
M W Hlahla	7	119 467	96 000	—	28 333	243 800	—
L N Jonker		119 467	96 000	15 750	72 033	303 250	216 500
N Kheraj	5	119 467	96 000	19 400	190 233	425 100	161 033
P du P Kruger		119 467	96 000	70 600	267 167	553 234	414 150
L W Maasdorp	2 & 13	88 667	71 250	25 450	165 183	350 550	282 650
P T Motsepe	8	—	—	—	—	—	62 333
D L Roberts	5 & 12	98 933	79 500	21 200	164 633	364 266	140 366
F F Seegers	9	20 533	16 500	—	38 367	75 400	—
T M G Sexwale		119 467	96 000	—	50 933	266 400	171 750
F A Sonn		119 467	96 000	25 750	58 183	299 400	188 750
P E I Swartz		119 467	96 000	35 750	76 833	328 050	233 500
T van Wyk	10	—	—	—	—	—	162 000
J van Zyl	11	—	—	—	—	—	62 332
<b>Total</b>		<b>2 015 071</b>	<b>4 588 783</b>	<b>496 158</b>	<b>2 950 273</b>	<b>10 050 285</b>	<b>8 343 542</b>

### Notes

- (1) As a result of the additional time spent by the Group chairman, Dr D C Cronjé, on Absa matters during the period from August 2004 to May 2005, over and above his current contractual arrangement with Absa, shareholders ratified the payment of R1,5 million at the annual general meeting held on 19 August 2005. This fee is included in the total fees for the nine months ended 31 December 2005.
- (2) Appointed to the Absa Group board on 16 August 2004.
- (3) Appointed to the Absa Group board on 31 December 2004.
- (4) Resigned from the Absa Group board on 30 December 2005.
- (5) Appointed to the Absa Group board on 27 July 2005.
- (6) Appointed to the Absa Group board on 6 December 2006.
- (7) Appointed to the Absa Group board on 23 December 2005.
- (8) Appointed on the Absa Group board on 9 July 2004. He subsequently resigned from the Absa Group board on 27 July 2005.
- (9) Appointed to the Absa Group board on 23 October 2006.
- (10) Resigned from the Absa Group board on 27 July 2005.
- (11) Appointed to the Absa Group board on 19 April 2004. He subsequently resigned from the Absa Group board on 27 July 2005.
- (12) Resigned from the Absa Group board on 23 October 2006.
- (13) Resigned from the Absa Group board on 30 September 2006.

\*All emoluments to Group non-executive directors are paid by Absa Bank Limited, as disclosed in note 48.5 to the financial statements.

**Absa shares held by Absa Group directors****Ordinary shares**

Certain executive and non-executive directors have an interest in the Group through beneficial and non-beneficial interests in Absa shares. This is disclosed in the directors' report on page 64 of this report.

**Absa Bank preference shares**

Certain executive and non-executive directors have an interest in the Group through Absa Bank Limited preference shares. This is disclosed in the directors' report on page 66 of this report.

**Preference shareholding in Absa**

Shareholders approved the allocation of cumulative redeemable option-holding preference shares (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 transaction on 25 June 2004. These allocations were made to Batho Bonke Capital (Proprietary) Limited (73 152 300 shares) and the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust (6 085 200 shares).

Absa's broad-based black economic empowerment and employee transactions entailed 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, the options and 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  $\leq$  R70,00, the strike price is R48,00; or
- If the Absa share price  $>$  R70,00, but  $\leq$  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 non-executive directors hold preference shares in Absa indirectly through their direct and indirect holdings of ordinary shares in Batho Bonke:

Group non-executive director	Absa preference shares	
	31 December 2006	31 December 2005
L N Angel	1 280 165	1 280 165
D E Baloyi	150 000	100 000
Y Z Cuba	91 600	—
M W Hlahla	50 000	—
L W Maasdorp	2 560 328*	2 560 328
T M G Sexwale	4 183 090	4 183 090
P E I Swartz	500 000	500 000
F A Sonn	500 000	500 000
<b>Total</b>	<b>9 315 183</b>	<b>9 123 583</b>

#### 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.

\*Resigned from the Absa Group board on 30 September 2006.

## Introduction

This analysis deals with the consolidated annual financial results of the Absa Group, its wholly owned subsidiaries, Absa Bank Limited (Absa Bank or the Bank), Absa Financial Services Limited (Absa Financial Services) and its holdings in other subsidiary and associated companies for the twelve months ended 31 December 2006.

As a result of the change in the Group's year-end from March to December, the previous audited financial results for the Group were for the nine months ended 31 December 2005. To facilitate evaluation and interpretation, the financial results for the period under review have been compared with the unaudited pro forma financial results for the twelve months ended 31 December 2005.

## Key highlights of the Group's financial performance

- 25,3% growth in headline earnings to R7 872 million.
- 23,8% increase in headline earnings per share to 1 181,8 cents per share.
- 27,4% return on shareholders' equity.
- 473 cents dividend per share was declared.

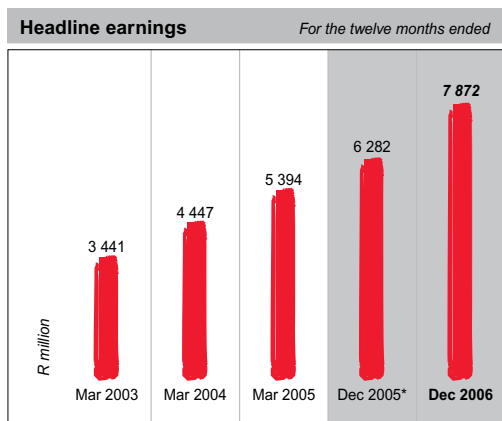
### Group performance

#### Headline earnings

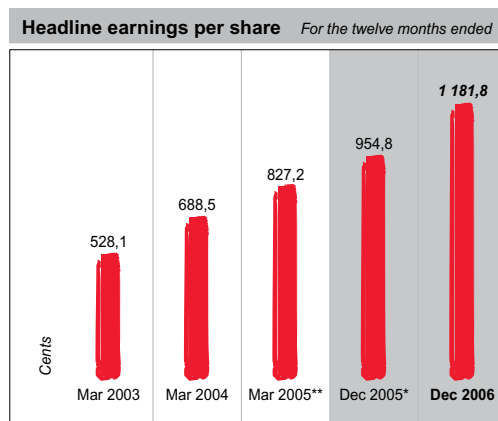
**Objective:** The Group aims to achieve real headline earnings growth of 10%.

**Performance:** The Group increased headline earnings by 25,3%, compared with December 2005 (pro forma), to R7 872 million. This growth outperforms the Group's objective of delivering real earnings growth of 10%.

All banking business segments delivered a strong performance, compared with December 2005 (pro forma). Retail banking grew headline earnings by 31,8% and Absa Corporate and Business Bank, Absa Capital and the African operations reflected growth of 36,7%, 45,9% and 24,5% respectively. The bancassurance businesses delivered sound operating performances. Following a year of buoyant equity markets, investment income again outperformed expectations, but not to the extent achieved in 2005. This, together with the higher claims experience in the short-term insurance operations, resulted in the modest attributable earnings growth of 7,4%.



\*Twelve months pro forma figures.



\*Twelve months pro forma figures.

\*\*The comparatives for March 2005 have been restated for International Financial Reporting Standards.

### Diluted headline earnings per share

Fully diluted headline earnings per share amounted to 1 121,3 cents. This is an increase of 21,8% compared with the same period of the previous year and includes a dilution of 5,1% or 60,5 cents per share. This dilution flows from the increase in the value of the options issued to Batho Bonke Capital (Proprietary) Limited (Absa's black economic empowerment partner), the Absa Group Limited Share Incentive Trust and the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust (the trust established to facilitate Absa's employee share ownership programme).

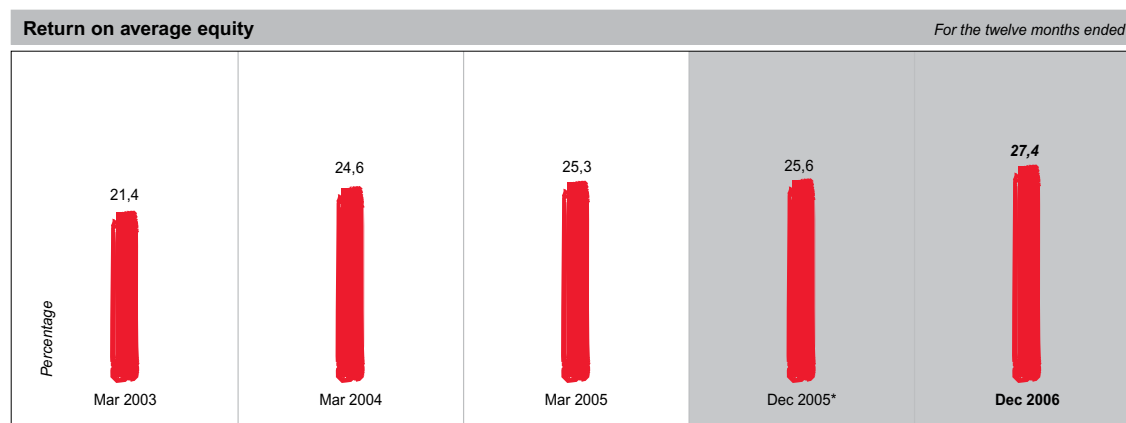
### Return on average equity (RoE)

**Objective:** The Group aims to maintain an RoE of at least 5% above the cost of equity (CoE).

**Performance:** The Group achieved an RoE of 27,4% for the twelve months under review. This pleasing result has enabled a sustained outperformance of 13,9% on the Group's objective of achieving an RoE of at least 5% above the Group's cost of equity of 13,5%.

To promote a thorough understanding of factors contributing to the Group's performance, an RoE decomposition has been provided.

	Note	31 December 2006 %	31 December 2005 %
Net interest/interest-bearing assets		multiply <b>3,69</b>	multiply 3,65
Interest-bearing assets/total assets		equals <b>0,89</b>	equals 0,90
Net interest yield	1	plus <b>3,30</b>	plus 3,28
Non-interest yield	2	equals <b>3,42</b>	equals 3,82
Gross yield		less <b>6,72</b>	less 7,10
Credit impairment	3	equals <b>0,35</b>	equals 0,25
Risk-adjusted yield		less <b>6,37</b>	less 6,85
Expenses	4	less <b>3,68</b>	less 4,08
Taxes		plus <b>0,89</b>	plus 1,07
Associated undertakings and joint ventures		less <b>0,03</b>	less 0,03
Minorities		less <b>0,04</b>	plus 0,02
Headline earnings adjustments		equals <b>0,05</b>	equals 0,01
<b>RoA</b>	5	multiply <b>1,74</b>	multiply 1,72
Gearing (average total assets/average equity)		equals <b>15,78</b>	equals 14,90
<b>RoE</b>		<b>27,4</b>	25,6



\*Twelve months pro forma figures.



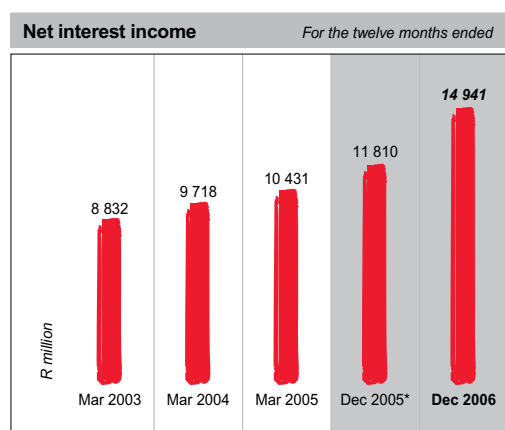
## Note 1 – Net interest yield

### Interest income

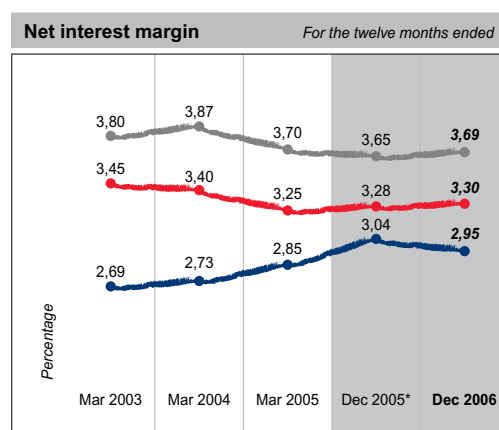
**Performance:** The Group's net interest income grew strongly from R11 810 million for the pro forma twelve months ended 31 December 2005 to R14 941 million for the twelve months ended 31 December 2006.

Loans and advances to customers increased by 25,8% from 31 December 2005. The growth in advances was largely supported by high growth in mortgages, credit cards and commercial property finance.

The Group recorded a net interest margin in respect of average assets of 3,30% for the period under review (twelve months to 31 December 2005: 3,28%). The interest margin has remained relatively stable as a result of the benefit of prime rate increases and preference shares issued by Absa Bank, which was offset by a greater reliance on wholesale funding and competitive pressure on lending rates.



\*Twelve months pro forma figures.



■ Net interest margin – daily average total assets  
 ■ Net interest margin – average interest-bearing assets  
 ■ Net interest margin – after impairment losses on loans and advances

\*Twelve months pro forma figures.

### Gross loans and advances to customers

**Performance:** Gross advances increased by 25,0% to R390 926 million, compared with 31 December 2005. Personal, commercial and wholesale advances showed growth of 31,0%, 24,9% and 9,0% respectively.

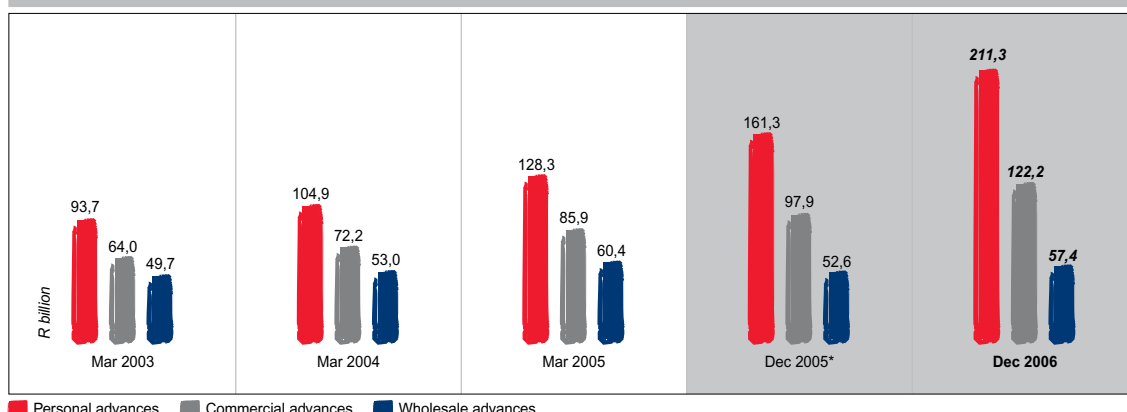
The growth in personal advances continues to be driven by increased household credit extension. Sound advances growth continues to be experienced in the affluent and high net worth market, with Absa Private Bank increasing its advances base by 23,2%.

Absa's repossessed properties portfolio continues to decline, with the total number of properties in possession declining by 54,8% from December 2005. The remaining properties in this portfolio (2 390 properties) have been adequately provided for. The solid growth in commercial advances was partly owing to high new business volumes.

The growth in the Group's instalment finance operations was assisted by the low vehicle price inflation. Strategic alliances with key suppliers and manufacturers continue to contribute to asset growth.

Both the large and medium business segments in Absa Corporate and Business Bank drove commercial advances growth. The strong property market remained a solid contributor to the 24,9% growth in commercial lending, reflecting growth of 33,9%.

The Group's wholesale advances experienced 9,0% growth. However, the demand for traditional interest-bearing products remained under pressure. Investments undertaken by Absa's securitisation vehicle (Abacas) and the appetite for specialised and project finance contributed significantly to the growth. These assets attract fees and offer narrower margins than traditional lending products.

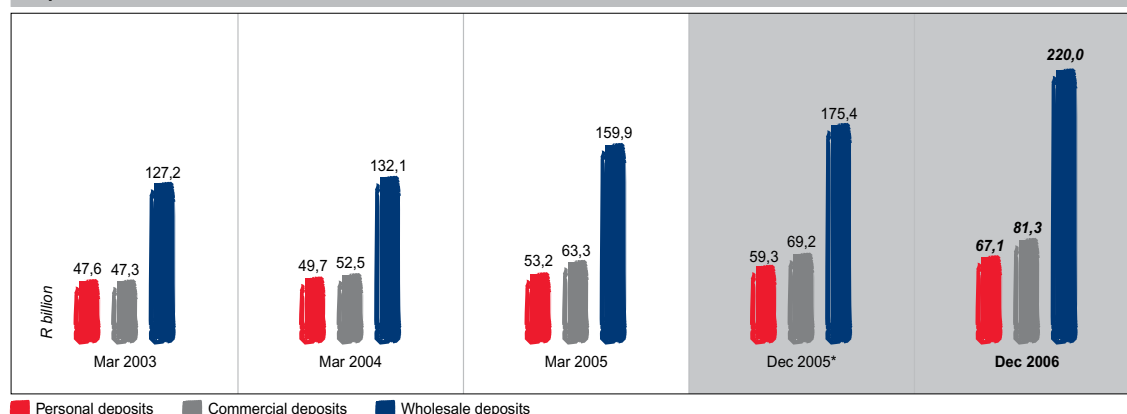
**Gross loans and advances to customers**


\*Reclassification of wholesale funding with banks to loans and advances to banks.

**Deposits due to customers**

**Performance:** Personal and commercial deposits comprise 40,3% of the Group's funding base, which is lower than the 42,3% recorded at 31 December 2005. This can be attributed to a change in the funding mix towards wholesale advances.

It remains difficult to attract retail deposits at a time when interest rates are relatively low, as investors look to higher-yielding asset classes. Despite this, personal and commercial deposits have grown 13,2% and 17,5% respectively, compared with 31 December 2005.

**Deposits due to customers**


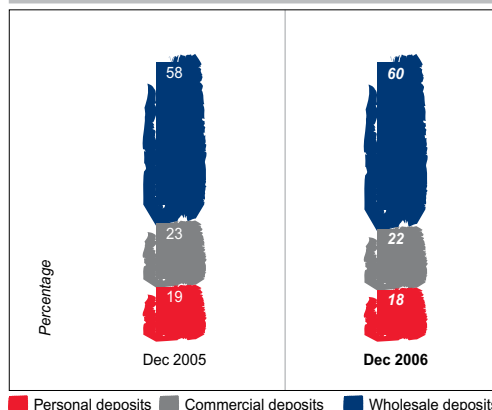
\*Reclassification of wholesale funding with banks to deposits from banks.

## Financial analysis

### Composition of deposits

	31 December		
	2006 Rbn	2005 Rbn	Change %
Cheque deposits	50	41	23,3
Saving and transmission deposits	26	23	18,2
Fixed and notice deposits	50	45	10,2
Other deposits	22	20	8,4
Total personal and commercial deposits	148	129	15,5
Wholesale deposits	220	175	25,4
<b>Total deposits</b>	<b>368</b>	<b>304</b>	<b>22,7</b>

### Deposit mix



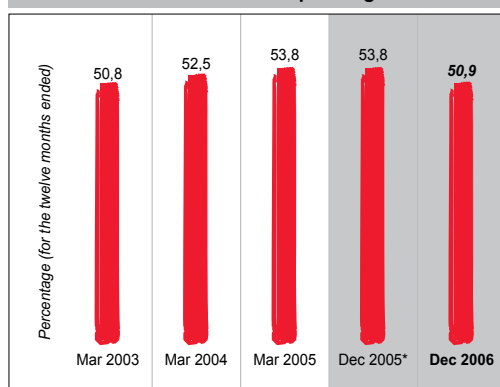
### Note 2 – Non-interest income

**Objective:** The Group aims to maintain non-interest income at approximately 50% of top-line income.

**Performance:** Non-interest income constituted approximately 50% of total operating income. The solid growth was achieved on the back of increased transaction volumes, strong growth in insurance related earnings and gains from the sale of a number of strategic investments. The reported growth of total fees and commission income was a modest 8,9%, largely as a result of the loss of fees from the international operations that were sold or closed. Credit card transaction fees increased by 23,6% and fees for both cheque accounts and electronic banking were up 13,1%.

Insurance related income benefited from a 22,9% rise in net insurance premiums received and the sale of strategic investments assisted in lifting gains from investments by 21,0%.

### Non-interest income as % of operating income\*\*



\*Twelve months pro forma figures.

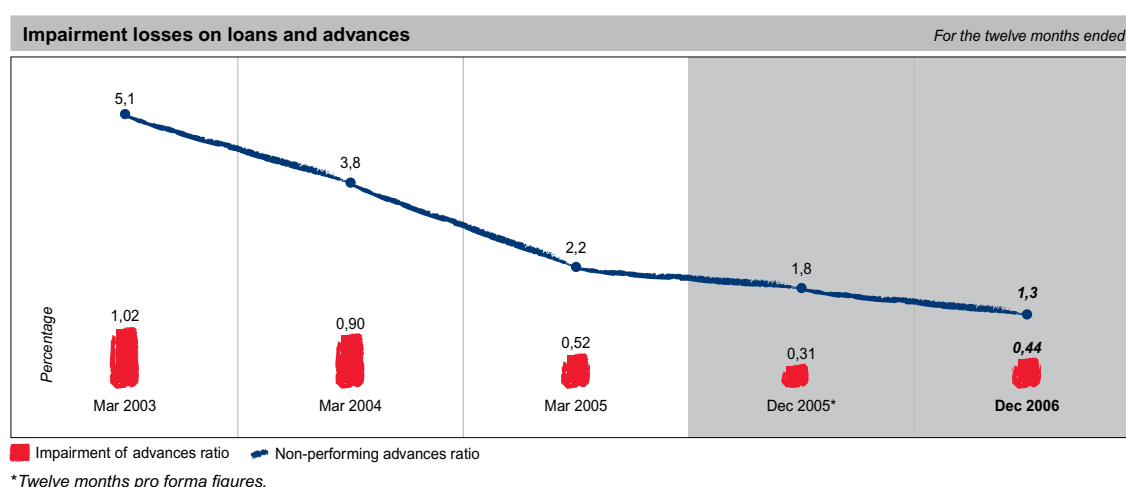
\*\*Excluding impairment losses.

### Non-interest income composition

	Twelve months ended 31 December		
	2006 Rm	2005 Rm	Change %
Net fee and commission income	10 374	9 612	7,9
Investment income	1 916	1 584	21,0
Trading and banking income	1 347	1 136	18,6
Net insurance premium income	2 994	2 437	22,9
Net insurance claims and benefits paid	(1 319)	(1 053)	(25,3)
Changes in insurance and investment liabilities	(748)	(532)	(40,6)
Property related and sundry income	938	596	57,4
<b>Total non-interest income</b>	<b>15 502</b>	<b>13 780</b>	<b>12,5</b>

**Note 3 – Impairment losses on loans and advances**

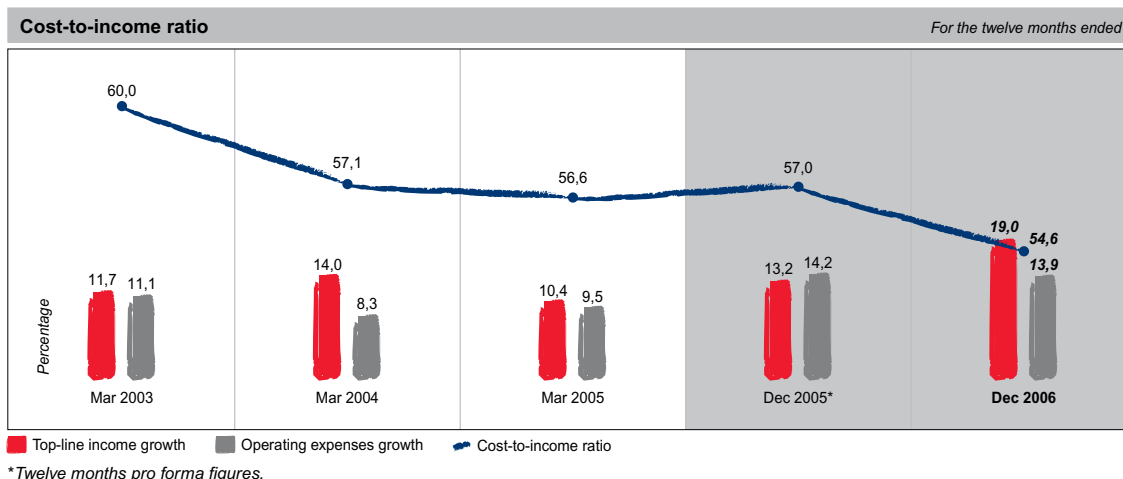
**Performance:** As expected, the impairment charge (R1 573 million) continued its move to more normalised levels and was substantially higher than the R875 million recorded for the corresponding period in 2005. The Group's impairment ratio (income statement charge as a percentage of average advances) for the current period was 0,44% compared with the 0,31% achieved for the twelve months ended 31 December 2005. The higher interest rates and an increase in delinquencies in the main consumer debt products impacted on the loss ratio. Furthermore, an increase in provisions to cater for the expected lower recoveries embedded in the Group's advances book as a result of the National Credit Act (NCA) also contributed to the higher loss ratio.

**Note 4 – Operating expenditure**

**Objective:** The Group aims to drive down the cost-to-income ratio towards the mid-fifties.

**Performance:** The favourable income growth of 19,0% outpaced operating expenditure growth by 5,1 percentage points. This led to a reduced cost-to-income ratio of 54,6%, which compares favourably with the previous year's ratio of 57,0%.

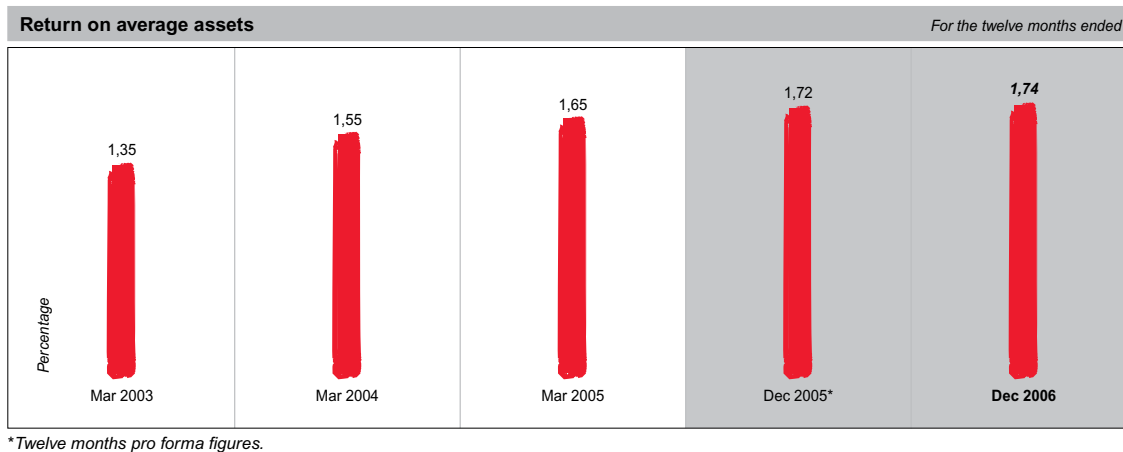
The growth in operating expenditure resulted from increased investment in the business in order to facilitate the continued growth in volumes and customers. The growth in operating expenditure is also attributable to an increase in the Group's employee complement, which increased by 1 611 to 35 154, above-inflation salary increases and higher incentive payments following the excellent performance of the Group. The investment in new delivery channels and new business initiatives, including the launch of Virgin Money and Barclays integration activities, also drove up costs.



#### Note 5 – Return on average assets (RoA)

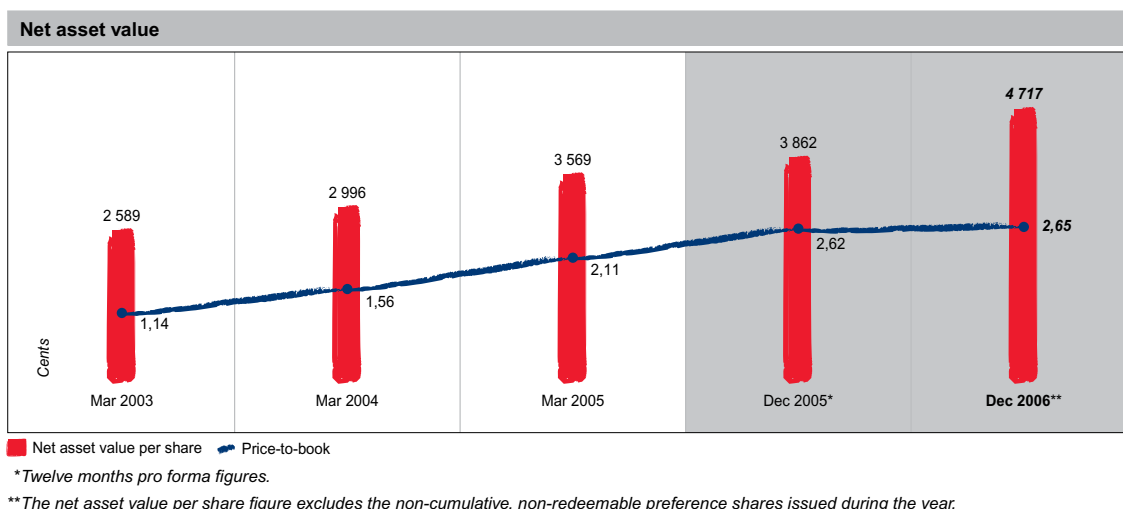
**Objective:** The Group's objective is to maintain an RoA of greater than 1,5%.

**Performance:** The Group's RoA improved from 1,72% to 1,74% compared with the twelve months ended 31 December 2005. This increase can largely be attributed to a lower expense ratio than was achieved for the twelve months ended 31 December 2005.



#### Note 6 – Net asset value

**Performance:** As a result of the Group's strong operational performance, the net asset value of the Absa Group (excluding the Absa Bank non-cumulative, non-redeemable preference shares) increased by 22,1% from 3 862 cents per share at 31 December 2005 to 4 717 cents per share at 31 December 2006.



**Management of capital:** The Group's capital management activities maximise shareholders' value by optimising the level and mix of its capital resources. The ratios, composition and cost of capital of the Group are managed to ensure that entities are adequately capitalised, dividend payout ratios are appropriate to sustain the required levels of risk-weighted asset growth, in terms of the Group's strategy and that the Group's capital structure is optimal in light of approved target capital ratios.

The management of the capital base includes the management of the following components of capital across the Group:

- Ordinary shareholders' equity;
- Preference shares;
- Accounting reserves impacting capital;
- Subordinated debt instruments; and
- Development of hybrids (Basel II).

The operations of Absa Group and its subsidiaries are well capitalised and capital adequacy levels are being managed to ensure that the capital structure is optimised.

**Absa's capital adequacy:** On the basis of the prescribed consolidated regulatory capital requirements, the Group's capital stood at 13,1% of risk-weighted assets at 31 December 2006 (31 December 2005: 11,3%). The Group's primary capital ratio was 10,1% (31 December 2005: 8,6%) and its secondary capital ratio was 3,0% as at 31 December 2006 (31 December 2005: 2,7%).

During the period under review, Absa Bank issued a tier II bond (AB06). The principal amount of the bond was R2 billion, with a final legal maturity date of 27 March 2020 and an optional call on 27 March 2015. The issue spread for the bond was 68,5 basis points above the R157 government bond. Absa Bank also issued R3 billion in non-cumulative, non-redeemable preference shares during the period under review. These preference shares were issued with a coupon rate of 63% of the prime overdraft lending rate and were listed on the JSE Limited on 25 April 2006.

In February 2006, the Absa Group board authorised a R20 billion securitisation programme for Absa Bank. In September 2006, Absa Bank entered the first series of the programme by securitising R2 billion of its vehicle finance receivables portfolio.

**Capital adequacy of Absa Bank Limited**

	31 December 2006		31 December 2005
	Assets Rm	Risk-weighted assets Rm	Risk-weighted assets Rm
<b>Risk-weighted assets</b>			
<b>Assets – banking activities</b>			
On-balance sheet	413 985	278 231	220 920
Off-balance sheet	728 697	8 498	11 119
Total	1 142 682	286 729	232 039
<b>Notional assets – trading activities</b>	—	10 439	14 096
	1 142 682*	297 168	246 135
<b>Qualifying capital</b>	Rm	%**	%**
<b>Primary capital</b>			
Ordinary share capital	303	0,1	0,1
Ordinary share premium	5 415	1,8	1,9
Preference shares	2 992	1,0	—
Reserves	18 415	6,2	6,0
Impairments	(127)	—	(0,3)
	26 998	9,1	7,7
<b>Secondary capital</b>			
Subordinated redeemable debt	8 600	2,9	2,7
Regulatory credit provision/reserve	827	0,3	0,3
Revaluation reserve	33	—	—
Impairments	(52)	—	—
	9 408	3,2	3,0
<b>Total qualifying capital</b>	36 406	12,3	10,7

\*Includes central securities depository participation (CSDP) of R688 099 million risk-weighted at 0%.

\*\*Percentage of capital to risk-weighted assets.

**Capital adequacy of Absa Group Limited and its banking subsidiaries**

	31 December 2006	31 December 2005
	Risk-weighted assets Rm	Capital adequacy ratio %
<b>South African operations</b>		
Absa Bank	297 168	12,3
<b>Non-South African operations</b>		
Absa Asia (Hong Kong)*	—	150,2
Absa Bank London (a branch of Absa Bank)	2 306	44,9
Absa Bank Singapore (a branch of Absa Bank)*	—	10,0
Banco Austral, Sarl (Mozambique)	462	26,2
Bankhaus Wölbern & Co. (Germany)**	—	10,1
Hesse Newman & Co. (Germany)**	—	21,2
National Bank of Commerce (Tanzania)	2 522	16,1
<b>Total banking operations</b>	<b>302 458</b>	<b>12,5</b>
Risk-weighted assets (Rm)	302 458	258 259
Tier I capital (Rm)	28 316	20 861
Tier I ratio (%)	9,4	8,1
<b>Absa Group Limited</b>	<b>13,1</b>	<b>11,3</b>
Risk-weighted assets (Rm)	314 479	279 935
Tier I capital (Rm)	31 661	23 956
Tier I ratio (%)	10,1	8,6
<b>Risk-weighted assets/total assets</b>	<b>63,5</b>	<b>69,2</b>

\*Ceased operations from 1 January 2006.

\*\*Sold during the year under review.

**Improvements in capital adequacy levels**

		31 December 2006	31 December 2005
Regulator		Risk-weighted assets Rm	Capital ratio %
Absa Bank Limited	SARB*	297 168	12,3
Absa Life Limited	FSB**	n/a	5,54 x CAR***
Absa Insurance Company Limited	FSB**	n/a	110,0 solvency
Absa Group	SARB*	314 479	13,1

**Notes:**

\*South African Reserve Bank.

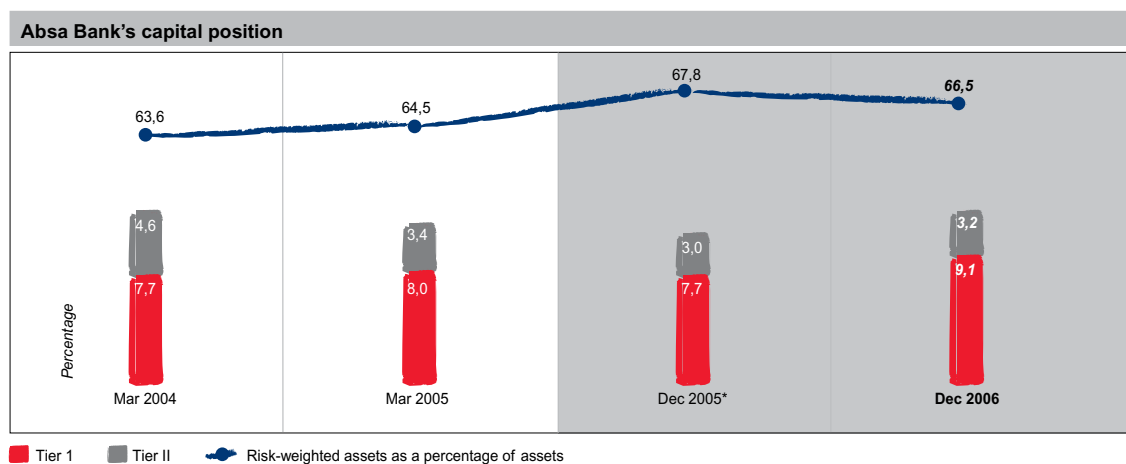
\*\*Financial Services Board.

\*\*\*Capital adequacy ratio.



## Financial analysis

**Risk-weighted asset growth:** During the twelve months ended 31 December 2006, Absa Bank's risk-weighted assets grew by less than total assets at 23,6% growth compared with 24,5% growth in total assets. This trend is expected to continue as the bank continues to focus on balance sheet optimisation and capital efficiency on the balance sheet.



**Basel II:** Absa has aligned its Basel II implementation with the Barclays Group programme. Absa's Basel II development is nearing completion and preparations are under way for the 2007 parallel run. Based on the local Basel II rules, which have not been finalised, Absa remains confident that the anticipated lower capital requirements from credit risk will be sufficient to offset any additional capital required from areas such as operational risk.

### Segmental reporting

All of the Group's banking businesses delivered very strong growth in attributable earnings. The retail, business corporate and investment banking segments benefited from a buoyant operating environment and the earnings uplift was assisted by the Barclays-Absa integration benefits. The bancassurance segment achieved good operational results, but attributable earnings growth was modest.

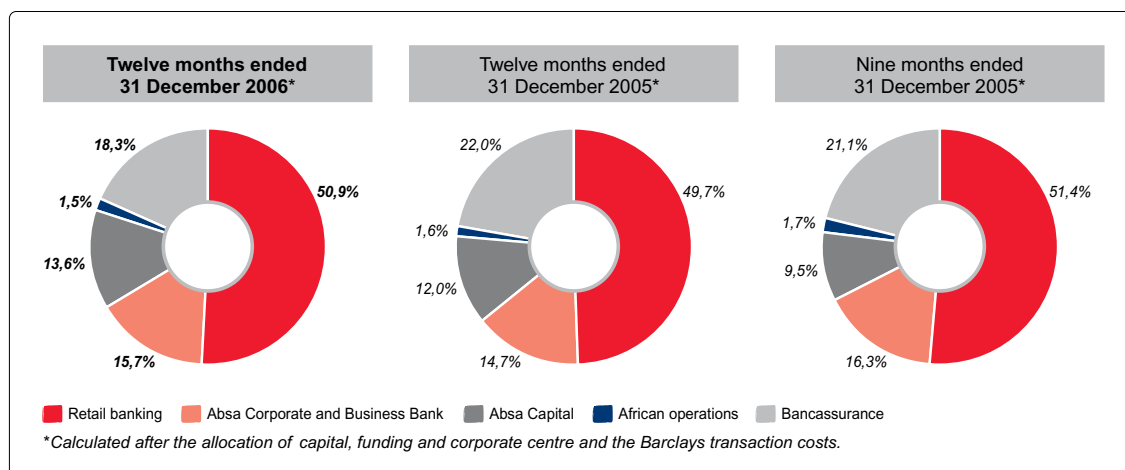
### Segmental performance

#### Segmental attributable earnings and RoE

Twelve months ended 31 December 2006			
	Attributable earnings Rm	Attributable earnings growth* %	RoE %
• Retail banking	4 166	31,8	29,0
• Absa Corporate and Business Bank	1 282	36,7	27,2
• Absa Capital	1 115	45,9	27,1
• African operations	127	24,5	23,3
• Bancassurance	1 500	7,4	38,9
• Other	442	>100,0	—
<b>Absa Group core earnings</b>	<b>8 632</b>	<b>34,8</b>	
Integration costs	(454)	>(100,0)	
Preference share dividends	(73)	—	
<b>Absa Group</b>	<b>8 105</b>	<b>29,6</b>	<b>27,4</b>

\*Base: Pro forma twelve months ended 31 December 2005.

### Profit contribution by segment



### Retail banking

The attributable earnings of R4 166 million were achieved as a result of good performances from Absa Private Bank, Retail Banking Services and Absa Card, which reported earnings growth of 36,1%, 36,3% and 45,8% respectively. The Group's retail banking operations recorded strong advances growth of 27,9% for the year. This enabled this segment to maintain its market share in most products and achieve a healthy gain in market share in credit card advances.

Mortgage advances, where the Group has retained a leadership position, increased by 29,8% and credit card advances grew by 61,3%. Although strong growth was recorded in unsecured lending products, secured lending represented 86,9% of total retail advances.

Solid retail deposit growth of 15,0% was recorded on the back of growth in savings, transmission and current accounts. Interest margins declined somewhat, mainly owing to a slight change in the advances composition, competitive pressures and a continued shift in the funding mix.

Strong growth in transaction volumes, which emanated from the increased activities of existing and new customers, resulted in non-interest income growth of 22,0%. The retail customer base increased by 9,5% to 8,3 million as at December 2006. Volumes in the branch network grew moderately. Good growth was experienced in automated teller machine (ATM), internet and cellphone banking transactions.

The retail impairment ratio for the period was 0,48% compared with the 0,28% of the previous twelve-month period. The higher impairment charge follows the increases in the prime interest rate and additional provisions that were raised in preparation for the impact of a more complex collections process under the NCA. The good progress that was made with the collection of the UniFer Holdings Limited (UniFer) book resulted in a provision release of R120 million.

Operating expenditure increased by 16,1%, mainly as a result of the expansion of the delivery footprint and increased business volumes. During the period under review, 31 staffed outlets were opened, predominantly in previously disadvantaged areas, and 1 218 ATMs were added. A further 37 outlets were upgraded and 208 internet kiosks and 114 self-service kiosks were put in service.

## Financial analysis

The contribution to attributable earnings of the various business units in retail banking was as follows:

	Twelve months ended 31 December			Nine months ended 31 December 2005
	2006 Rm	2005 (Pro forma) Rm	Change %	Rm
<b>Segment-focused business units</b>				
• <b>Affluent market</b> → Absa Private Bank	260	191	36,1	153
• <b>Middle, mass and small business</b> → Retail Banking Services*	1 341	984	36,3	805
<b>Product-focused business units</b>				
• <b>Credit cards</b> → Absa Card	700	480	45,8	385
• <b>Home loans</b> → Absa Home Loans**	1 086	849	27,9	793
• <b>Instalment finance</b> → Absa Vehicle and Asset Finance***	779	657	18,6	530
<b>Retail banking</b>	<b>4 166</b>	<b>3 161</b>	<b>31,8</b>	<b>2 666</b>

\*Includes Flexi Banking Services, Small Business and UB Micro Loans.

\*\*Includes Repossessed Properties.

\*\*\*Instalment finance was previously reported as part of commercial banking.

### Commercial banking – Absa Corporate and Business Bank

Absa Corporate and Business Bank increased its attributable earnings to R1 282 million from the R938 million of the previous year. This performance was driven by strong growth in advances, deposits and transaction volumes. Listed commercial property finance investments also performed very well.

The advances margin came under increased pressure as a result of heightened competition. The quality of the advances book improved further, as evidenced by an impairment loss ratio of 0,67% compared with the 0,90% of the previous year.

During the year under review, the emphasis fell on implementing a new value-aligned performance measurement tool that assists relationship managers to enhance customer profitability. This period also saw the introduction of a new operating model in Medium Business and the incorporation of Absa's corporate segment into the business bank segment.

The attributable earnings for Absa Corporate and Business Bank was as follows:

	Twelve months ended 31 December			Nine months ended 31 December 2005
	2006 Rm	2005 (Pro forma) Rm	Change %	Rm
<b>Absa Corporate and Business Bank****</b>	<b>1 282</b>	<b>938</b>	<b>36,7</b>	<b>845</b>

\*\*\*\*Includes the transfer of corporate banking business from Absa Capital to Absa Corporate and Business Bank. Comparatives have been restated accordingly.

### Investment banking – Absa Capital

Absa Capital increased attributable earnings to R1 115 million to elevate its contribution to the Group's earnings to 13,8%. This was largely as a result of increased customer flows following the launch of Absa Capital during the period under review. Absa Capital has been refocused into three business units: Primary Markets, Secondary Markets and Investor Services and Equity Investments. As a result, certain customers and products were migrated to Absa Corporate and Business Bank during 2006.

Primary Markets contributed 53% of Absa Capital's revenue for the period under review. Growth in this business was achieved as a result of an enhanced value proposition, enabled through a comprehensive and holistic international and local solutions approach, which in turn led to an increased customer deal flow.

Investor Services and Equity Investments, which accounted for 17% of total revenue, achieved strong growth by actively managing the investment portfolio and positioning the portfolio for future expansion.

Secondary Markets, which increased revenues throughout the period under review, accounted for 30% of total revenue. Better risk management, additions to product depth and breadth and increased customer flows supported this growth.

The attributable earnings for Absa Capital was as follows:

	Twelve months ended 31 December			Nine months ended 31 December 2005
	2006	2005 (Pro forma)	Change %	
	Rm	Rm		Rm
<b>Absa Capital*</b>	<b>1 115</b>	764	45,9	491

\*Includes the transfer of corporate banking business from Absa Capital to Absa Corporate and Business Bank. Comparatives have been restated accordingly.

### African operations

The increase to R127 million in the earnings from investments in banks in other African states was largely driven by a good operational performance from the National Bank of Commerce (Tanzania), which recorded sound advances, deposit and transaction growth over the past year.

Banco Austral, Sarl (Mozambique) increased its asset yields and experienced higher transaction volumes, but had higher-than-normal credit losses in commodity finance and posted a decline in earnings as a result.

The attributable earnings for African operations was as follows:

	Twelve months ended 31 December			Nine months ended 31 December 2005
	2006	2005 (Pro forma)	Change %	
	Rm	Rm		Rm
<b>African operations**</b>	<b>127</b>	102	24,5	90

- **Tanzania** → National Bank of Commerce Limited (NBC) (55,0% holding).
- **Mozambique** → Banco Austral, Sarl (80,0% holding).
- **Angola** → Banco Commercial Angolano (50,0% holding)

\*\*During the year under review, the Group sold its shares in Capricorn Investment Holdings Limited and announced its intention to sell its stake in CBZ Holdings Limited.

### Bancassurance

Absa's bancassurance operations posted attributable earnings of R1 500 million for the year under review. The life assurance operations contributed 39,4% of this following a particularly strong operational performance in 2006. A revision of future claims assumptions following, inter alia, the application of new Aids mortality statistics, boosted earnings for the year. The embedded value of new business, particularly in respect of the credit life business across all banking products, was up 68,6% to R263 million for the year under review. The embedded value of the life business increased by 21,5% to R2 486 million for the twelve months ended 31 December 2006, (twelve months ended 31 December 2005: R2 046 million), yielding a return on embedded value of 37,2%.

The domestic short-term insurance operations increased premiums by 21%, but the claims experience for the motor and personal lines business deteriorated in line with that of the industry.

Following a year of buoyant equity markets, investment income again outperformed expectations, but not to the extent achieved in 2005, owing to hedges put in place to protect the Group's earnings against volatility in equity markets. This, together with the higher claims experience in the short-term insurance operations, resulted in the modest attributable earnings growth of 7,4%.

Investment management operations reported strong growth in assets under management and administration. These grew by R18,1 billion to R99,1 billion for the twelve months under review. The Group is progressing well with its strategy of becoming a more significant participant in this market.

The attributable earnings for bancassurance are as follows:

	Twelve months ended 31 December			Nine months ended 31 December 2005
	2006	2005 (Pro forma)	Change	
	Rm	Rm	%	Rm
<b>Bancassurance*</b>	<b>1 500</b>	1 397	7,4	1 092

- **Insurance** → Absa Life Limited, Absa Insurance Company Limited, Absa Syndicate Investments Holdings Limited, Absa Manx Insurance Company Limited.
- **Investments** → Absa Fund Managers Limited, Absa Mortgage Fund Managers (Proprietary) Limited, Absa Stockbrokers (Proprietary) Limited, Absa Portfolio Managers (Proprietary) Limited; Absa Investment Management Services (Proprietary) Limited; Absa Asset Management (Proprietary) Limited.
- **Fiduciary** → Absa Trust Limited, Absa Consultants and Actuaries (Proprietary) Limited, Absa Health Care Consultants (Proprietary) Limited.
- **Other** → Absa Brokers (Proprietary) Limited.

\*Bancassurance now includes the results of Absa Asset Management (Proprietary) Limited, previously reported in the corporate centre. Comparatives have been restated accordingly.