Questionnaire

Absa Group Limited

Question form for the annual general meeting (AGM) of ordinary shareholders to be held in the P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg on Wednesday, 21 April 2010, at 11:00 and feedback form in respect of the annual report.

Note: Should you wish to pose a question at the AGM, kindly complete this form and fax it to the office of the Group Secretary at: 011 350 4009, for the attention of: Hendré van Zyl (hendrevz@absa.co.za), before Wednesday, 14 April 2010. Kindly keep the questions short and relevant to the matters set out in the notice of AGM. We will endeavour to address the more frequently raised questions during the course of the AGM. If time does not permit us to address all questions at the AGM we will prepare responses and make these available on our website.

Name of shareholder:	
Address:	
Telephone number:	
Fax number:	
Email address:	
Questions:	
Kindly provide us with your feedback on the Absa Group 2009 annual report:	
Amount of information:	Very poor/Poor/Average/Good/Excellent
Layout of information:	Very poor/Poor/Average/Good/Excellent
Ease of finding information:	Very poor/Poor/Average/Good/Excellent
Readability:	Very poor/Poor/Average/Good/Excellent
Ease of comprehension:	Very poor/Poor/Average/Good/Excellent
Visual appearance:	Very poor/Poor/Average/Good/Excellent
How can Absa's annual report be improved?	
I, (Name:), hereby request the Company not to send me a printed annual report in future, but rather to email the electronic version or the link to the online annual report to the following address: (Email:).	
Signed:	

Absa Group Limited Annual report 2009

Absa Group Limited

Annual report

for the year ended 31 December 2009

ABSA

Member of the BARCLAYS Group

Absa Group Limited. Authorised financial services and registered credit provider (NCRCP7)
Incorporated in the Republic of South Africa. Registration number: 1986/003934/06

Information supplied on CD

Contents

○ Information available on CD supplied.

Since its establishment in 1991, Absa has become a well-diversified financial services group with in excess of 11 million customers across retail, business and investment banking as well as a highly regarded bancassurance operation. 2009 was no doubt a test of the Group's resilience as an organisation, but despite the impact of the global economic downturn Absa has delivered strong underlying performance, improved its risk management and continued to strengthen the balance sheet. Absa maintains a strong capital base and is well positioned for future growth. During the year the 'One Absa' strategy was launched which aims to drive an integrated approach across all businesses so that customers are served in a seamless manner.

Absa is listed on the JSE Limited.

2009 Highlights

The Group managed to deliver a resilient financial performance for the year ended 31 December 2009 in a tough economic environment. Absa's customer base continued to grow, to approximately 11,7 million. The Group also maintained its strong capital levels.

Absa received a number of awards during the year, the main one being that of the 'Most Innovative Bank in Africa' from the African Banker magazine.

Resilient financial performance in a demanding economic environment

- Headline earnings per share declined by **25,5%** to **1 099,4** cents
- Net asset value per share increased by **0,6%** to **7 038** cents
- Net interest income decreased marginally by **1,1%** to **R21 854** million
- Cost-to-income ratio steady at **49,6%**
- Final dividend of **220** cents per share declared

Maintained strong capital adequacy levels

- Group total capital adequacy ratio improved to **15,6%**
- Tier I capital adequacy ratio improved to **12,7%**

Number of customers continued to grow

- Banking customer base grew to **11,7** million as at 31 December 2009
- Customer base increased by **9,3%**
- Internet banking users increased by **10,6%**
- Cellphone banking customers increased by **135,7%**
- NotifyMe users increased by **36,2%**
- Number of active Mzansi accounts increased by **24,0%**
- Number of active Flexi accounts increased by **17,2%**

Awards received during the year included:

- African 'Most Innovative Bank in Africa' *(the African Banker magazine)*
- 'Coolest Banking Brand' in South Africa 2009 *(Sunday Times Generation Next survey)*
- Number 1 'Employer in the Banking Sector' in South Africa 2009 *(Corporate Research Foundation survey)*
- Number 2 'Consumer Banking Brand' in South Africa 2009 *(Sunday Times/Markinor Top Brands survey)*

Financial performance highlights

Absa Group's financial performance for the year ended 31 December 2009 was affected by rising impairments and adverse market conditions. Within the context of a demanding economic environment, total revenues reflected a resilient performance while sound cost control enabled the Group to cushion the effect of increased impairments.

Customer numbers and transaction volumes continued to grow and interest margins improved during the second half of 2009.

Earnings per share (EPS) declined by 37,5%:
986,7 cents per share
(2008: 1 578,5 cents per share)

Headline earnings per share (HEPS) declined by 25,5%:
1 099,4 cents per share
(2008: 1 474,8 cents per share)

Dividend per ordinary share:
445,0 cents per share
(2008: 595,0 cents per share)

Net asset value (NAV) per share increased by 0,6%:
7 038 cents per share
(2008: 6 998 cents per share)

Return on average equity (RoE):
15,5%
(2008: 23,4%)

Cost-to-income ratio:
49,6%
(2008: 49,2%)

Impairment losses on loans and advances increased by 53,6%:
R8 967 million
(2008: R5 839 million)

Market capitalisation up 25,4%:
R92,3 billion
(2008: R73,6 billion)

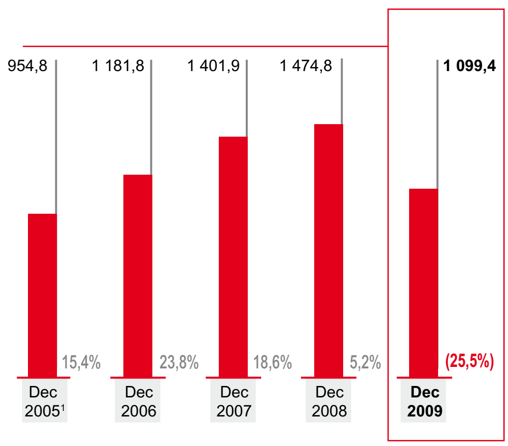
Total assets down 7,3%:
R717,7 billion
(2008: R774,2 billion)

Loans and advances to customers down 5,4%:
R503,6 billion
(2008: R532,1 billion)

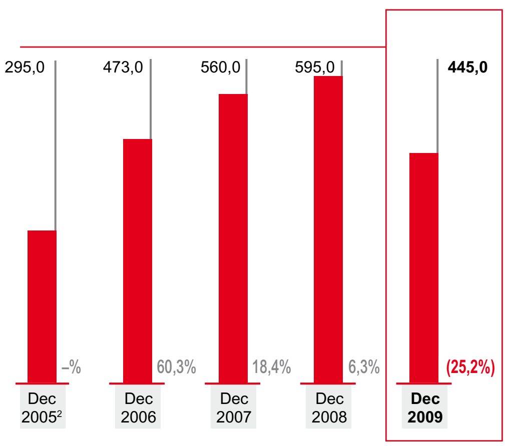
Tier I capital adequacy ratio improved:
12,7%
(2008: 11,6%)

Total capital adequacy ratio improved:
15,6%
(2008: 14,1%)

***Headline earnings per share** (cents)*



***Dividends per share** (cents)*



Notes

[1]*Proforma figures (12 months).*

[2]*For the nine months ended 31 December 2005.*

'One Absa' strategy

Sustainable growth in targeted markets

What

To become the number one bank in South Africa and selected African countries in terms of profitability and return on equity.

How

- Absa Group seeks to identify opportunities to grow value and to enter new markets.
- This requires a deep understanding of customers' needs, and working together across business clusters.
- Meeting all the financial needs of the Group's customers is critical to success.

The power

Simple, streamlined Group for customer delivery

What

To establish a 'One Absa' mindset in order to improve integration, generate efficiencies and focus on delivery to customers.

How

- The spotlight is on ensuring that Absa's operating model, systems and processes are streamlined and simplified, and that the Group builds its processes with the customer's experience in mind.
- It also means reducing costs by driving efficiencies and capturing opportunities across business sectors.

Balance sheet optimisation and proactive risk management

What

To have a strong and shock-resilient balance sheet and to proactively manage risks.

How

- Balancing risk and reward while ensuring the optimisation of liquidity and capital management by utilising capital where Absa realises the best returns.
- Absa continuously endeavours to mitigate all the major risks facing the Group in a prudent manner.

# of One Absa

Customer- and people-centred organisation

What

Great customer service delivered by talented, motivated people.

How

- The Group seeks to have a customer-centred mindset in everything it does in order to deliver a consistent customer service experience and to demonstrate professionalism and integrity in serving its customers.
- Absa continuously employs talented, energised and passionate people to make this happen.
- The Group strives to create an enabling environment for its employees to provide leading-edge service to its customers.

Absa Group structure

As at 31 December 2009

Shareholding

Barclays Bank PLC	-	55,52%
Public Investment Corporation	-	8,57%
Batho Bonke Capital (Proprietary) Limited	-	5,10%
Old Mutual Asset Managers	-	3,14%
Investec Asset Management	-	2,72%
Stanlib Asset Management	-	1,70%
Sanlam Investment Management	-	1,44%
Absa Stockbrokers (Proprietary) Limited	-	1,01%
Investec Securities (Proprietary) Limited (ZA)	-	0,84%
Foord Asset Management	-	0,82%
Other	-	19,14%

Absa Group Limited

Absa Bank Limited

100%

Retail banking

- Retail Bank
- Absa Home Loans (AHL)
- Absa Card and Unsecured Lending
- Absa Vehicle and Asset Finance (AVAF)

Corporate and commercial banking

- Absa Corporate and Business Bank (ACBB)
- Absa Bank London-Business Bank
- Commercial Asset Finance (CAF)

Investment banking

- Absa Capital
- Absa Wealth
- Absa Bank London-Corporate

Absa Financial Services Limited

100%

Insurance

- Absa Life Limited
- Absa Insurance Company Limited
- Absa 'iDirect' Limited

Fiduciary

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

Investments

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

Other

- Absa Insurance and Financial Advisers (Proprietary) Limited (formerly Absa Brokers)

Other subsidiaries

Banking

- Barclays Bank Mozambique S.A. (80%)
- National Bank of Commerce Limited (Tanzania) (55%)
- Woolworths Financial Services (Proprietary) Limited (50% + 1 share)
- Meeg Bank Limited

Financial services

- Absa Manx Insurance Company Limited

Other

- Absa Development Company Holdings (Proprietary) Limited
- Allpay Consolidated Investment Holdings (Proprietary) Limited
- Absa Trading and Investments Solutions Holdings Limited

Significant associates and other interests

Banking

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

Note:

Refer pages 202 to 211 for a complete list of subsidiaries, associates and other interests of the Group.

Chairman's statement

Introduction

2009 was a testing time for financial services companies. A substantial decline in levels of investment and consumer spending led to a dramatic decrease in business activity across industries and countries.

To stabilise the financial system and to minimise damage to the real economy, governments and regulators injected liquidity into the system. With an unprecedented coordinated effort, governments, financial regulators and the private sector worked together to put in place measures to reduce the current and potential impact of financial crises.

The monetary and fiscal measures have been mostly successful. However, there remain concerns about medium- and long-term sustainability, even predictions of another recession.

"Our success and sustainability in the future is largely dependent on our ability to transform and remain relevant within the context of South Africa's economy."

There are certainly risk factors:

Some banks, especially in industrialised countries, have yet to fully clear their balance sheets of bad loans. When they do, there is a risk of further turmoil in the financial markets.

Another concern is whether central banks will succeed in normalising the financial system after the inflow of liquidity, without causing more problems in the global economy.

There are also risks posed by governments becoming increasingly involved in the banking system. According to a survey of 450 bankers, regulators and financial services industry observers in 49 countries, political interference is the number one risk facing the banking industry. The support that governments provided to the banking system prevented its collapse, but left the sector highly politicised. ('Banking Banana Skins' survey, Centre for the Study of Financial Innovation (CSFI) in association with PricewaterhouseCoopers, 2010)

The fiscal stresses of Eurozone countries, especially Greece but also Ireland, Spain and Portugal, have added to the uncertainty. How these stresses are resolved may affect interest rates and investor confidence.

There are mitigating factors. The level of global coordination by regulators, governments and the private sector has been impressive. However, there are signs that this coordination is beginning to fragment. Some countries, most notably the United States, embarked on reforms that are out of step with the proposals agreed last year by the Group of 20 nations, the Financial Stability Forum and the Bank of International Settlements.

Another mitigating factor, no less important, is China's industrialisation. It has proven to be a driving force for the world economy, especially for commodity-producing countries such as Australia, Brazil and South Africa.

South Africa

Last year, South Africa was spared the worst of the economic recession. Increased government spending, especially on infrastructure, and the easing of monetary policy, helped keep the economy stable. In addition, the financial crisis had less of an effect on South Africa's financial sector as it did on its peers in the industrialised nations. This was at least in part due to the quality of management and the world-class regulatory system in South African banking.

The business rescue provisions of the new Companies Act pose a threat to the banking sector. The intention is to create a mechanism to rescue financially distressed companies. However, the framing of these provisions may lead to interference in the bank's security for loans.

Business Leadership South Africa has a vision of South Africa being a developed country by 2040. The vision underlines the importance of creating jobs, especially for the poorest people in South Africa. It is a vision that deserves the support of government, business, labour and civil society.

Barclays

Absa's relationship with majority shareholder, Barclays, is healthy and constructive. Our Group Chief Executive, Maria Ramos, sits on the Executive Committee of Barclays, which gives us insight into the majority shareholder's strategy.

We also draw on the experience and expertise that Barclays holds: three representatives sit on the Absa board, namely, Robert Le Blanc, Head of Risk, Barclays (one of the top risk experts globally); Antony Jenkins, Head of Retail, Barclays; and Benoît de Vitry d'Avaucourt, Head of Global Markets Europe and Head of Commodities and Emerging Markets, Barclays Capital. The contribution of Barclays Capital is crucial to the success of Absa Capital.

Sustainability

For Absa, sustainability means identifying and managing economic, social and environmental issues across all our operations.

Environment: As signatories to the Copenhagen communiqué on climate change, we actively seek opportunities to reduce our carbon footprint. We have adopted the Equator principles that ensure the projects we finance are developed in a socially responsible way and reflect sound environmental management practices.

Diversity: The more diverse the backgrounds, skills and experiences of our employees, the better we can satisfy the needs of all our customers. Our success and sustainability depend on our ability to transform and remain relevant. As a Group we consider transformation to be both a business and moral imperative and we remain committed to transformation at all levels. Our executive and other appointments, for example, bear out our commitment to attract and retain top talent, while implementing our transformation agenda.

Responsible citizenship: Being a good corporate citizen helps to make business more sustainable. Our approach to Corporate Social Investment (CSI) is not only about the money we donate to society but also about the spirit of giving. Our *Give As You Earn* initiative encourages all employees to contribute a percentage of their earnings to community projects that the Group supports. Employees (including the Group Executive Committee) are also encouraged to give their time to community projects of their choices.

Remuneration

Remuneration plays an important role in how companies manage business and promote efficiency and excellence. How much bankers are compensated is a controversial issue, especially in the aftermath of the financial crisis. Certainly, in comparison to engineers and scientists (skills essential to the real economy), in general, bankers receive higher remuneration.

Bonuses are a legitimate and positive way to reward employees for contributing to the growth of a business, but only if responsibly implemented. At Absa, we give our employees incentives to perform – but only for real value creation. We also defer portions of incentives so that measuring the performance to be rewarded is validated over time.

Board changes

Our Chairperson, Gill Marcus, left to become the governor of the South African Reserve Bank. We were very sorry to see her go, as Gill made an outstanding contribution to the Group. We wish her well in her current and future roles.

We are working hard to find a new chairperson. The Board is considering various candidates and we will update shareholders as soon as we can.

Jacques Schindehütte stepped down as Group Finance Director after many years of committed service. We welcome David Hodnett as replacement for Group Finance Director. David retains responsibility for Group Risk until we find a suitable candidate for the position of Group Risk Officer.

Franklin Sonn and Peter Mageza retired during 2009. We thank them for their contribution and wish them well in the future.

Conclusion

The board of any major enterprise must satisfy itself that three objectives are met: that the enterprise has a valid strategy; that it has a chief executive who can deliver on that strategy; and that internal controls are in place to avoid undue risk. As the Absa board, we are satisfied that all three are met.

We are pleased that we have a Group Chief Executive of Maria Ramos' calibre. Since taking over as Group Chief Executive on 1 March 2009, she has improved the coherence of our strategy. We thank her for a positive start to her very pivotal role.

We are fortunate to have visionary board members who show commitment to our long-term success. The quality of their contribution has been excellent. It took much time and focus to deliver on all the duties of the various committees, and we have been successful in these tasks.

Absa employees and management have shown remarkable determination, perseverance and teamwork over the past year. Without their contribution, we would not be where we are today in our effort to be a people- and customer-centred organisation.

Thank you, also, to our loyal customers. We are committed to understanding and delivering on customers' needs, and it is our objective to improve our ability to do so.

Finally, thank you to our shareholders. You have believed in our strategy, even during difficult economic times. Your support is invaluable. We believe that Absa remains on a stable path, and we look forward to a positive future.

Dave Brink

Group Chairman

Group chief executive's review

Introduction

The worldwide financial crisis posed challenges to the financial services sector and highlighted the complexity and interconnectedness of the global financial system. What began with the collapse of the subprime mortgage market in the United States in mid-2007 evolved into the deepest global recession since the 1930s.

The economic downturn was steepest in industrialised economies with several already showing signs of contraction in the first half of 2008.World trade fell sharply in 2009, partly because of the drop in demand for goods and services but also because the credit crunch reduced the availability of trade finance and pushed up its cost. Less output led to more job losses. The first half of 2009 was difficult for many people around the world as they had to cope not only with losing their jobs, but also with reduced values of properties and investments.

"Our association with Barclays provides us with a global platform and brand to differentiate our offerings in the South African and African markets. It is a platform that we have yet to exploit and an area which we intend to focus closely on in future."

Faced with these conditions and in response to the crisis, we witnessed a significant and coordinated fiscal and monetary policy response that sought to improve access to liquidity in the short term as efforts were made to stabilise the system, and avert a collapse of the banking system and an even deeper recession in the medium term. With most countries showing signs of emerging from the recession in the third quarter of 2009 and with the global economy also showing early signs that it is also recovering, the focus has now shifted on the sustainability of the recovery.

The severity and reach of the crisis has drawn the attention of regulatory authorities and policymakers to the financial sector. New regulatory proposals have been introduced to strengthen the global financial system and lessen the impact of future crises on the real economy, including companies, jobs, people and households.

Much of the regulatory attention and many of the proposals, aim to address areas of weakness that arose during the crisis, in particular, capital adequacy levels and liquidity management.

The Basel Committee on banking supervision released its consultative document in December 2009 with a focus on three key areas. The first area relates to capital adequacy and requires banks to have adequate Tier 1 capital of sufficient quality to absorb losses on an ongoing basis.

The second area is to ensure healthy liquidity. Too many banks (even those whose capital ratios were considered solid) faced difficulties because they could not raise cash fast enough to cope with sudden outflows.

The third area is the leverage ratio. The emergence of excessively leveraged financial institutions has been a common feature of economic crises both past and present.

The interconnectedness of the financial system globally has further highlighted the importance and need for a synchronised and coordinated effort among regulatory authorities across the world. It will be critical for the authorities to find a balance between the extent of regulation and the need to support economic activity.

As a Group, we have anticipated regulatory changes and are engaged with the authorities about the potential implications. As is the case with other major South African banking groups, our capital base is solid and our leverage ratios are prudent. We have improved our capital ratios during the year, with our total capital ratio now at 15,6% and the Tier 1 ratio at 12,7% (Core Tier 1 ratio is at 11,5%). These levels are well above both our board-approved targets and minimum regulatory levels.

Absa supports the spirit of the proposed changes, which we believe will enhance risk sensitivity. We are committed to assist in assessing the potential impact of the proposed changes to ensure that they are fit for purpose from a South African perspective.

Performance review

In 2009, the country's economy declined by 1,8% as consumers spent less and investment growth weakened. Increased government spending, and the easing of monetary policy, gave some relief. However, consumers and businesses remained under pressure because of high unemployment and indebtedness levels. 870 000 workers lost their jobs. This was the first recession in 17 years in South Africa and, coupled with a global recession, the consequences were far more severe than expected.

These conditions tested the resilience of our organisation and the strength of our strategy. We believe that the Group has emerged from it stronger. Once again, our business model of diversifying income streams proved its importance in difficult trading conditions.

The severity of the past two years is evident in our financial performance, especially the increase in credit impairments. Credit impairments are a good indicator of the financial health of our customers and the state of their finances.

It is against this background that our financial performance in 2009 should be seen.

Our results were seriously affected by three factors: higher credit impairments in retail banking; the impairments in the values of investments acquired after the default by a broker on single-stock futures trading; and the lower valuation of our private equity portfolio.

Headline earnings declined 24% to R7 621 million and attributable earnings declined by 36% to R6 840 million; the difference in declines between headline and attributable earnings was due to the impairments associated with the single-stock futures defaults.

Yet the underlying businesses of the Group performed well, especially in the second half of 2009. We grew customer numbers, transactional volumes and net interest margins. We restricted the decline in Group income to 1% and kept a tight rein on costs. The combination of these helped us maintain our cost-to-income ratio below 50%.

Divisional highlights

Retail banking

The Retail banking unit posted a 21% decline in attributable earnings to R2 863 million, largely due to a 40,8% increase in impairments to R7 778 million, 60% of which is attributable to impairments in the home loan book. Excluding impairments, the underlying business performed respectably. Revenues rose 4,9%, costs were contained at 2008 levels, and customer deposit growth exceeded expectations.

Absa Capital

Absa Capital's results were significantly affected by the single-stock futures trading default and, to a lesser extent, by the fall in the value of investments in the private equity portfolio. Attributable earnings fell 87,3% to R288 million and headline earnings, which exclude the impact of the single-stock futures impairments, were 44% lower at R1 272 million. Despite this, Absa Capital's markets business grew revenues by 1,9% to R3 264 million, boosted by the performance of the fixed-income and equity business.

Absa Corporate and Business Bank

Absa Corporate and Business Bank's attributable earnings declined 17,9% to R2 317 million, largely due to higher impairments across the business. Credit impairments increased to R872 million but losses, as a percentage of average advances, remained in line with expectations at 0,75%. Despite the highly competitive and challenging environment, Absa Corporate and Business Bank grew the number of customers and transaction volumes.

Bancassurance

The performance of the Bancassurance cluster was affected by higher insurance claims, with the loss ratio increasing from 66% in 2008 to 69,9% in 2009. As a result, the cluster's attributable earnings declined 15,2% to R1 284 million. Absa Investments performed well during the year following the acquisition of several key mandates that resulted in assets under management growing 31% from the previous year.

Economic outlook

There are growing signs that the global economic recovery is under way. The International Monetary Fund (IMF) has forecast growth of 3,9% in 2010. However, the outlook remains uncertain. Various factors place this recovery at risk, including sovereign debt risks in the Eurozone, uncertainty about China's efforts to prevent economic overheating, and the risk of destabilising the markets when the central banks exit the policy responses to the crisis.

Economic conditions in South Africa are also showing signs of recovery even though business and consumer confidence remains weak. There is no doubt that during this period South Africa's recovery will depend heavily on the momentum of the global recovery and continued government spending. We expect the economy to grow by 2,5% this year.

Growth opportunities

Our association with Barclays provides us with a global platform and brand to differentiate our offerings in the South African and African markets. It is a platform that we have yet to fully exploit and an area which we intend to focus on closely in future.

Africa remains an important area of growth for the Group. We will continue to make significant investments to strengthen our capability to service this growing market as well as our South African business clients that are expanding across the continent. We will focus on implementing our solutions and expertise in those countries where Absa and Barclays operate.

There are considerable opportunities for collaboration with Barclays, particularly in the areas of Agri-business and Islamic banking. Absa's Agri-business and Islamic banking units are both centres of excellence within the Barclays Group, and we plan to use these capabilities across the continent for the benefit of the entire Group.

Absa will launch a **Corporate Bank** this year to focus on the top 1 000 corporate customers, with solutions and opportunities that draw on the expertise of our investment banking division, as well as other relevant business units across the Group.

Currently, over five million South Africans in the **entry-level segment** of the market have chosen Absa. This year we will increase our efforts to serve this market more comprehensively. We will offer a broader range of financial services, including the ability to transact on our banking platforms and build financial security. We will launch new low-cost channels and basic banking products to grow value from this important segment.

The **middle market** remains the core market segment for the Group. Our 2009 performance confirmed our competitive edge. To strengthen our relationships with this loyal customer base, we are working harder to understand their needs. This will help us deliver targeted and efficient services and increase our product penetration.

An example is the cross-selling of bancassurance products, where we have seen early successes.

Technology is a key differentiator in this sector. This year we will enhance our electronic product offering and capture significant additional revenue in this market.

Growing our **Wealth** business and improving its scale remains a priority. While we have historically pursued an organic approach to growing this business, we are now also considering inorganic options to achieve critical mass within a shorter time.

The way forward

'One Absa' strategy

During 2009, we launched the 'One Absa' strategy which comprises four key pillars: to achieve sustainable growth in targeted markets; to have a simple and streamlined Group for customer delivery; to optimise balance sheet management and entrench proactive risk management; and to ensure that support is provided through a people- and customer-centred organisation.

The tough business environment in 2009 tested the strength of these pillars and they proved remarkably sturdy, confirming the robust quality of our strategy.

During the past year, we also took several steps to ensure that there is adequate and balanced attention between strategy and implementation. As a result, we reorganised the Executive Committee and established an Operations Committee. The Operations Committee has been tasked with driving disciplined execution of the strategy and with ensuring that the anticipated benefits are realised.

The four pillars of the 'One Absa' strategy:

1. Sustainable growth in targeted markets

   We want to be the number one bank in South Africa and selected African markets, measured in terms of profitability and number of customers. To achieve this goal we must develop a deeper understanding of our customers and their needs. This will require us to draw on the expertise of all our business units to satisfy those needs.

2. Simple streamlined Group for customer delivery

   We are working hard to instil a culture within the Group of operating as a fully integrated organisation, in a manner that generates efficiencies and places the customer at the centre of everything that we do. That is why we are continuously streamlining our operating model, systems and processes, and have been reducing costs through improved efficiencies.

3. Balance sheet optimisation and proactive risk management

   We want to have a strong balance sheet that can withstand economic and financial shocks. This requires us to become better at balancing risk and reward, while ensuring that we manage our capital and liquidity optimally.

4. People- and customer-centred organisation

   We aim to deliver leading-edge customer service, using the most talented and motivated people.

Conclusion

2009 was a very trying time, but as promised, we stayed close to our customers, working harder than ever before to exceed their expectations. Our employees have displayed diligence, integrity, a sense of teamwork and, most importantly, an understanding of the economic and financial pressures with which our clients have had to contend. I want to take this opportunity to thank them warmly for their efforts. They are as determined as I am to ensure that the resources of the Group are employed prudently for the long-term success of all of our stakeholders.

Maria Ramos

Group Chief Executive

The Absa Group board of directors

Introduction

The Absa Group board comprises an appropriate balance of executive, non-executive and independent directors, with a majority of independent directors (as defined by the King II report).

Overview of 2009

The following changes to the board occurred during 2009:

- On 1 March 2009, M Ramos was appointed as Absa's new Group chief executive, replacing S F Booysen, who resigned effective 28 February 2009.
- On 23 March 2009, B C M M de Vitry d'Avaucourt[1] and A Jenkins[2] were appointed as non-executive directors (representing Barclays Bank PLC), replacing R A Jenkins and F F Seegers, who both resigned on 11 February 2009.
- F A Sonn retired at the annual general meeting on 21 April 2009.
- N P Mageza retired as Group executive director from the board on 30 June 2009.
- On 19 July 2009, G Marcus resigned as Group Chairperson. D C Brink was appointed as Group Chairman from 19 July 2009.

The directors of Absa Group as at 31 December 2009 were:

Group executive directors: M Ramos (Group Chief Executive), J H Schindehütte[3] (Group Finance Director) and L L von Zeuner (Deputy Group Chief Executive).

Non-executive directors: Y Z Cuba, B C M M de Vitry d'Avaucourt[1], A Jenkins[2] and R Le Blanc[2].

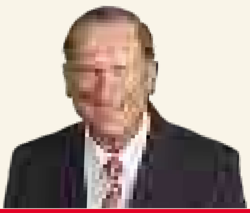
Independent non-executive directors: D C Arnold, D C Brink[4] (Group Chairman), B P Connellan[4], S A Fakie, G Griffin[4], M W Hlahla, M J Husain, T M Mokgosi-Mwantembe, E C Mondlane Jr[5], T S Munday, S G Pretorius and B J Willemse.

The membership of the board committees as at 31 December 2009 were as follows:

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

Notes

[1]*French*
[2]*British*
[3]*Mr Schindehütte resigned from the Group board with effect from 28 February 2010. D W P Hodnett was appointed as Group Finance Director with effect from 1 March 2010. His appointment will be submitted for confirmation at the annual general meeting on 21 April 2010.*
[4]*Has been on the board for more than nine years.*
[5]*Mozambican*



D C (Des) Arnold (69)

Qualifications
- CA(SA)
- FCMA
- AMP

Year appointed: 2003

Independence
Independent director

Absa board committee memberships
GACC (Chairman); GRCMC; DAC; BFC.

Other directorships and trusteeships
- Director of Wits Health Consortium (Proprietary) Limited (Chairman of Audit Committee);
- Chairman of Barlows Pension Fund;
- Trustee of Absa Group Retirement Fund.

Expertise and experience
Des was formerly the Executive Director: Finance and Administration of Barloworld Limited. He joined the Barlows Group in 1967 and held several 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.

Des is a former President of the Eastern, Central and Southern African Federation of Accountants (ECSAFA) and represented ECSAFA on the Council of the International Federation of Accountants (IFAC). He is also a former President of the South African Institute of Chartered Accountants (SAICA) and is also an honorary life member of SAICA. He has represented SAICA on the Financial and Management Accounting Committee of IFAC.

D C (Dave) Brink (70)

Chairman

Qualifications
- MSc Eng (Mining)
- Diploma in Business Administration
- Graduate Diploma in Company Direction

Year appointed: 1992

Independence
Independent director

Absa board committee memberships
DAC (Chairman); GRCMC; GRHRC; CoRC (Chairman); BFC (Chairman); BRC.

Other directorships
- Director of Sappi Limited (Lead Director; member of the Audit Committee and Nominations and Governance Committee; Chairman of the Compensation Committee);
- Trustee of Absa Foundation;
- Chairman of Absa Group Retirement Fund;
- Co-Chairman of Business Trust;
- Director of National Business Initiative;
- Vice-President of South African Institute of Directors;
- Director of Steinhoff International Holdings Limited (Chairman of the Audit Committee).

Expertise and experience
Dave joined Murray & Roberts Limited in 1970 after eight years in the gold industry with Anglo American Corporation of South Africa Limited. He was appointed Chief Executive Officer of Murray & Roberts Holdings Limited in 1986 and Chairman in 1994.

Dave was the Chief Executive Officer of Sankorp Limited from 1994 to 1997. Between 1994 and 2007 he was a director of both BHP Billiton Limited and BHP Billiton Plc, where he was Chairman of the Sustainability Committee and a member of the Audit Committee.

B P (Brian) Connellan (69)

Qualifications
- CA(SA)

Year appointed: 1994

Independence
Independent director

Absa board committee memberships
GRHRC; CoRC; BFC.

Other directorships
- Director of Illovo Sugar Limited;
- Director of Reunert Limited;
- Director of Sasol Limited.

Expertise and experience
After qualifying as a chartered accountant, Brian joined the Barlows Group in 1964. He managed several subsidiaries and was appointed as a director of Barlow Rand Limited in 1985. He 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.

The Absa Group board of directors

Y Z (Yolanda) Cuba (32)

Qualifications
- BCom Stats
- BCom (Hons) Acc
- CA(SA)

Year appointed: 2006

Independence
Non-executive director

Absa board committee memberships
GACC (permanent attendee); BFC.

Other directorships and memberships
- Director of Mvelaphanda Group Limited;
- Non-executive director of Mvelaphanda Resources Limited;
- Non-executive director of Avusa Limited;
- Non-executive director of Steinhoff International Holdings Limited;
- Director – Total Facilities of Management Company (Proprietary) Limited;
- Non-executive director of Life Healthcare (Proprietary) Limited;
- Non-executive director of Reatile Resources (Proprietary) Limited;
- Member of Nelson Mandela Foundation Investment and Endowment Committee.

Expertise and experience
In 1999, Yolanda started her career in marketing with Robertsons Foods. She then moved to Fisher Hoffman, an auditing firm, where she completed her articles in 2002. In January 2003, she joined Mvelaphanda in its Corporate Finance division.

Yolanda was appointed as Deputy Chief Executive Officer before being appointed as Chief Executive Officer of Mvelaphanda Group Limited in July 2007.

B C M M (Benoit) de Vitry d'Avaucourt (47)

Qualifications
- MS in Technology and Policy, MIT (US)
- Diploma of Ingenieur Civil des ponts et Chaussées (France)
- Mathématiques Supérieures and Mathématiques Spéciales (France)

Year appointed: 2009

Independence
Non-executive director

Absa board committee memberships
GRHRC; BFC.

Other directorships and memberships
- Managing Director – Barclays Capital;
- Head of Global Markets Europe;
- Head of Commodities and Emerging Markets;
- Member of the Executive Committee – Barclays Capital;
- Former board member of the International Swaps and Derivatives Association (ISDA);
- Vice Chairman of the Association for Financial Markets in Europe (AFME).

Expertise and experience
Benoit is responsible for trading and risk management for Commodities, Emerging Markets and the Quantitative Analytics Group. He also has regional responsibility for the firm's trading activities. He is a member of the Executive Committee at Barclays Capital and he is responsible for Absa Capital. He is also responsible for Barclays Capital and Barclays Wealth in the Middle East and for Barclays Natural Resource Investments.

S A (Shauket) Fakie (56)

Qualifications
- BCom
- CA(SA)

Year appointed: 2008

Independence
Independent director

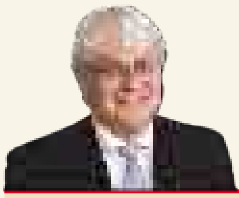
Absa board committee memberships:
GACC.

Other directorships and memberships
- Member of South African Institute of Chartered Accountants;
- Member of Australian Institute of Chartered Accountants;
- Member of Institute of Public Finance and Audit;
- Director of several MTN subsidiary companies in Africa.

Expertise and experience
Shauket was Auditor-General of South Africa for seven years and served as Chairman of the UN Panel of External Auditors. He was also the Secretary General for the Auditors-General Association on the African continent. During his tenure as Auditor-General, he served as External Auditor to the World Health Organisation in Geneva and the United Nations in New York. He was also a member of the Audit Advisory Committee to the World Bank in Washington.

He currently holds an executive position at MTN, responsible for Internal Audit and Business Risk Management.

He serves on the boards of various companies, community and non-profit organisations.



G (Garth) Griffin (60)

Qualifications
- BSc
- FIA
- FASSA

Year appointed: 2001

Independence
Independent director

Absa board committee memberships
GRCMC (Chairman); GACC; DAC; Chairman of Absa Life and Absa Insurance Actuarial Committees. Also serves on the boards of Absa Financial Services and its insurance subsidiaries.

Other directorships and trusteeships
- Director of Swiss Re Life and Swiss Re Africa;
- Chairman of two privately held companies based in Cape Town;
- Trustee of Absa Group Pension Fund;
- Trustee of University of Cape Town Foundation.

Expertise and experience
Garth is an actuary with 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.

He has consulted to many South African and international businesses, including Allan Gray/Orbis, Investec Asset Management and Old Mutual plc. He has also served as a non-executive director on several boards in the South African financial services sector, including Sage Group and Citadel Holdings Limited.

Garth was Group Chief Executive Officer of the Sage Group from April 2003 to May 2005. He was President of the Actuarial Society of South Africa for 2008 and 2009.

M W (Monhla) Hlahla (46)

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

Year appointed: 2005

Independence
Independent director

Absa board committee memberships
GRCMC.

Other directorships and trusteeships
- Managing Director of Airports Company South Africa;
- Non-executive director and Interim Chairman of Industrial Development Corporation.

Expertise and experience
Monhla read for a Bachelor in Economics and Masters in Urban and Regional Planning degrees in the USA. While there, she worked at the Coalition for Women's Economic Development, a provider of microloans to women entrepreneurs in the greater Los Angeles area.

In 1994, she reinvested her expertise in South Africa and joined the Development Bank of Southern Africa (DBSA). At the DBSA, Monhla successfully managed several large infrastructure projects.

In 2000, Monhla joined Old Mutual Employee Benefits as Regional Manager for the Northern Region. She held this position until her appointment as Managing Director and Chief Executive Officer of the Airports Company South Africa (ACSA) in 2001.

M J (Mohamed) Husain (49)

Qualifications
- BProc

Year appointed: 2008

Independence
Independent director

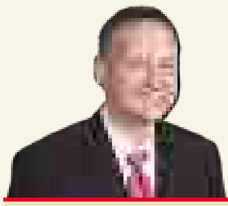
Absa board committee memberships
GRCMC; DAC.

Other directorships and trusteeships
- Member of Law Society of the Northern Provinces;
- Chairman of Attorneys Insurance Indemnity Fund;
- President of International Commonwealth Lawyers' Association;
- Trustee of Wits Law School Endowment Appeal;
- Member of Eskom's Board Tender Committee;
- Chairman of Remuneration Committee of the Law Society of South Africa;
- Director of Knowles Husain Lindsay Incorporated;
- Director of KLH Investments (Proprietary) Limited;
- Councillor of Law Society of South Africa.

Expertise and experience
Mohamed has been an attorney for approximately 25 years, during which time he has represented a diverse range of clients in commercial and corporate litigation, insolvency law and administrative law. He was one of the advisers to the Constitution Assembly on the drafting of the final Constitution. He has also acted as a Judge of the High Court.

Mohamed is listed in various international legal publications, including a listing as Best Lawyer: Litigation (South Africa). He has presented papers on a wide range of legal issues at several international law conferences.

The Absa Group board of directors



A (Antony) Jenkins (48)

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

Year appointed: 2009

Independence
Non-executive director

Absa board committee memberships
GACC (permanent attendee); GRHRC.

Other directorships and memberships
- Director of Barclays Bank Delaware; Barclays Financial Corporation; Visa Europe Limited; Barclays Lead for Equality and Diversity;
- Member of Barclays Group Treasury; Group Recruitment and Promotions Committee.

Expertise and experience
Antony was appointed Chief Executive of Global Retail Banking and joined the Barclays Executive Committee in November 2009. Before that he was Chief Executive of BarclayCard from January 2006 where he led a revival in the fortunes of the business.

Antony is the executive responsible for diversity and inclusion at Barclays and, in February 2009, he became a Barclays-appointed non-executive director of Absa Group Limited. Since October 2008, Antony has been on the board of Visa Europe Limited.

Barclays is where Antony started his career in finance back in 1983, when he completed the Barclays Management Development Programme before going on to hold various roles in retail and corporate banking. He moved to Citigroup in 1989, working in London and New York.

R (Robert) Le Blanc (53)

Qualifications
- MSc
- MBA

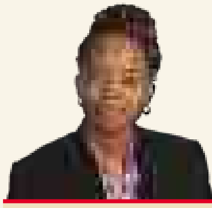
Year appointed: 2007

Independence
Non-executive director

Absa board committee memberships
GRCMC; DAC.

Expertise and experience
Robert has been the Chief Risk Officer for Barclays Group, based in London, since 2004. He joined Barclays in 2002 as the Head of Risk Management at Barclays Capital.

Before joining Barclays, Robert spent most of his career at JP Morgan in the capital markets, fixed income, emerging markets and credit areas, and ultimately in the risk management function.



T M (Thoko) Mokgosi-Mwantembe (48)

Qualifications
- BSc
- MSc Medical Chemistry
- Dip Education

Year appointed: 2008

Independence
Independent director

Absa board committee memberships
GRHRC; BRC.

Other directorships
- Director of Knorr-Bremse (SA) (Proprietary) Limited;
- Director of Vodacom Group Limited;
- Director of Paracon Holdings Limited;
- Director of IFCA Technologies Limited.

Expertise and experience
Thoko started her career as Product Manager for Glaxo (1989 to 1994) and Merck, Sharp and Dohme (1994 to 1996). She was employed in various positions at Telkom from 1996 to 2001 (including Managing Executive: Consumer Sales and Marketing). She was appointed as Divisional Managing Director of Siemens Telecommunications (Proprietary) Limited from 2001 to 2004. In March 2004, she was afforded the opportunity to take on the role of Chief Executive Officer of Alcatel South Africa.

From November 2004 to October 2008, Thoko was the Chief Executive Officer of Hewlett-Packard and achieved significant growth for the organisation. She is currently the Chief Executive Officer of the recently established Kutana Investment Group.

E C (Eduardo) Mondlane, Jr (52)

Qualifications
- Political Science Extension Student UCLA

Year appointed: 2007

Independence
Independent director

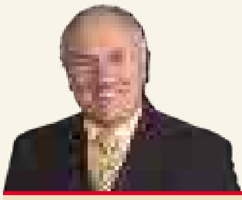
Absa board committee memberships
GRCMC.

Other directorships and positions
- Director of Barclays Bank Mozambique;
- Managing Director of Ninham Shand Mozambique Lda;
- Chairman of Retails Masters SA (Mozambique);
- Advisory Board of Confederation of Economic Associations (Mozambique);
- Advisory Board of Lapdesk (South Africa).

Expertise and experience
Eduardo left university to pursue a passion for African development, which led him to establish and operate an Africa-focused trading company based in New York. He also established the Mozambique Business Council in Washington, DC.

Eduardo worked in the aerospace industry for many years with Boeing Commercial Airplanes, United Technologies and Guinness Peat Aviation. He was an adviser covering various sub-Saharan African Markets. In 1994, he moved to the infrastructure development industry where he advised various multinational contractors in the development of strategically important infrastructure projects in southern Africa.

He serves as an adviser for strategic infrastructure development to various South African and multinational companies.



T S (Trevor) Munday (60)

Qualifications
- BCom

Year appointed: 2007

Independence
Independent director

Absa board committee memberships
GACC; CoRC; BFC; BRC (Chairman); GRCMC; DAC.

Other directorships and positions
- Chairman of Reunert Limited;
- Director of Sasol Petroleum International (Proprietary) Limited; Sasol Synfuels International (Proprietary) Limited; various divisions of Sasol Chemicals Industries Limited (including Sasol Nitro; Sasol Polymers);
- Director of Iron Mineral Beneficiation Services (Proprietary) Limited.

Expertise and experience
Trevor's career began in 1971 and was spent numerous different roles. These included financial and commercial management positions, both in southern Africa and in Europe. In the late 1980s, he was the Finance and Commercial Director of AECI Explosives Chemicals Limited. In the early 1990s, he was appointed as the Managing Director of Dulux Paints.

From 1996 to 2000, Trevor was the Managing Director of Polifin Limited. In 2001, he was appointed as an Executive Director of Sasol Limited, with global responsibility for:
- Finance and accounting;
- Risk management;
- Internal audit;
- Corporate affairs (including communications, brand management, corporate social investment and sport sponsorships);
- Planning.

In 2003, Trevor also assumed responsibility for the Sasol Group's global chemical businesses, with operations in South Africa, Europe, the United States of America, the Middle East, South East Asia and China.

Trevor was appointed as Deputy Chief Executive of Sasol Limited on 1 July 2005. He retired from his executive responsibilities at Sasol on 31 December 2006.

S G (Brand) Pretorius (62)

Qualifications
- MCom (Business Economics)

Year appointed: 2009

Independence
Independent director

Absa board committee memberships
GRHRC (Chairman); DAC.

Other directorships and trusteeships
- Director of the Bidvest Group Limited;
- Director of numerous McCarthy Group companies;
- Board member of National Business Initiative;
- Board of Trustees of READ Educational Trust.

Expertise and experience
Brand started his career at Toyota South Africa in 1973. In 1988, he was appointed Managing Director of Toyota South Africa Marketing and under his leadership Toyota became the market leader in sales and customer satisfaction.

Brand was appointed as Chief Executive Officer of McCarthy Motor Holdings in 1995. He is currently the Chief Executive of the holding company, McCarthy Limited.

Brand has received many national marketing and leadership awards. He holds honorary professorships at the University of Johannesburg and the University of the Free State. He is a Fellow in Leadership at the Gordon Institute of Business Science, as well as a Visiting Executive at the Centre for Responsible Leadership at the University of Pretoria.

The Absa Group board of directors

M (Maria) Ramos (50)

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

Year appointed: 2009

Absa board committee memberships
CoRC.

Areas of responsibility
Maria is the Group Chief Executive.

Expertise and experience
Maria joined the Absa Group at the beginning of March 2009 as Group Chief Executive and is a member of the Barclays PLC Executive Committee.

Before joining the Absa Group, she was Group Chief Executive of Transnet Limited (since 2003). She was successful in leading Transnet through an extensive financial, cultural and operational turnaround, as well as transforming a state-owned enterprise into a modern and agile focused freight, transport and logistics company. Before joining Transnet, she held the position of Director-General of the National Treasury.

Maria is an accomplished academic and has taught at various institutions. She was honoured as the 'Outstanding Businesswoman of the Year' at the 2009 African Business Awards and was also rated as the world's 9th most influential businesswoman by *Fortune* magazine.

Participation in external entities
Maria currently serves on the executive committees of the:
- Business Trust;
- International Business Council;
- World Bank Chief Economist Advisory Panel;
- Business Leadership South Africa;
- Banking Association of South Africa.

J H (Jacques) Schindehütte (50)

Qualifications
- BCom (Hons)
- CA(SA)
- HDip Tax

Year appointed: 2005

Absa board committee memberships
CoRC.

Areas of responsibility
Jacques is responsible for:
- Group Finance;
- Business Performance and Management;
- Group Treasury;
- Corporate Development;
- Group Investor Relations;
- Group Secretariat;
- Sarbanes-Oxley.

Expertise and experience
Jacques started his career with accounting firm Arthur Young and qualified as a chartered accountant. He served in various senior managerial positions at Transnet Limited until 1999.

Jacques joined Absa as Group Executive: Group Finance during 1999. He was appointed as a Group Executive Director in January 2005. He resigned from the board on 28 February 2010.

L L (Louis) von Zeuner (48)

Qualifications
- BEcon

Year appointed: 2004

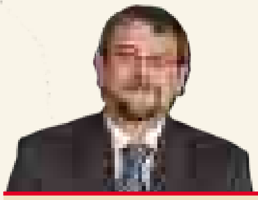
Absa board committee memberships
CoRC.

Areas of responsibility
Louis is the Deputy Group Chief Executive.

Skills, expertise and experience
Louis's 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 to 90), Cape Town (1990 to 91), Old Paarl Road (1991 to 92) and Stellenbosch (1992 to 95).

His appointment as Regional Manager for the Northern Cape in Kimberley (1995 to 96) elevated him to Absa's general management. He then became Provincial General Manager of the Northern Province (1996 to 98) and the Free State (1998 to 99).

In 2000, he moved to Absa's head office, where he became the Operating Executive of Absa Commercial Bank. He was appointed as a Group Executive Director on the Absa Group board in September 2004, and became Deputy Group Chief Executive in 2009.



B J (Johan) Willemse (55)

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

Year appointed: 2008

Independence
Independent director

Absa board committee memberships
GRCMC; CoRC; BRC.

Other directorships and trusteeships
- Vice Chairman of Agricultural Economics Association of Southern Africa;
- Chairman of Department of Agricultural Economics at the University of the Free State;
- Trustee of University of the Free State provident fund.

Expertise and experience
Johan has served as Chief Economist of the South African Agricultural Union (SAAU).
He has also served as Chief Economist of the Maize Board, consulting to Agri-business. In these roles, and as a member of the National Agricultural Marketing Council (NAMC), he has gained experience in a wide variety of economic and agricultural issues, including:
- Price and marketing policies;
- Broad agricultural policy issues;
- Pricing policies and strategies;
- International trade and futures markets.

Johan currently consults to major agricultural businesses in South Africa on agricultural business strategy and markets.

D W P (David) Hodnett (40)

Qualifications
- BCom
- CA(SA)
- MBA

Tenure at Absa: Two years (appointed in January 2008)

Areas of responsibility
David is responsible for Group Risk and currently oversees the Compliance, Credit Risk, Operational Risk, Market Risk, Group Financial Crime, Business Continuity and Data Governance divisions. He was appointed as Group Finance Director on 1 March 2010.

Expertise and experience
David completed his articles of clerkship at KPMG Inc. He was promoted to the position of partner in the Financial Services consulting group and later left to join the Standard Bank Group. He joined Absa Group in January 2008 as Group Risk Officer.

New board appointment in 2010
This appointment will be submitted to shareholders for confirmation at the annual general meeting on 21 April 2010.

The Absa Group Executive Committee (Exco)

Introduction

The Absa Group Exco is chaired by the Group Chief Executive and comprises the Group executive directors, as well as other members of the executive management. This committee meets once a month and deals with all material matters relating to the implementation of the Group's strategy, monitoring of performance and the consideration of Group policies.

Overview of 2009

The following changes to the Absa Group Exco occurred during 2009:

- Robert Emslie resigned from Absa Group on 31 January 2009.
- Steve Booysen (Group Chief Executive) resigned from Absa Group on 28 February 2009. Maria Ramos was appointed as Group Chief Executive on 1 March 2009.
- Alfie Naidoo was appointed as Group Chief Operating Officer on 1 July 2009.
- On 1 October 2009, Stephen van Coller was appointed as the new Chief Executive of Absa Capital, succeeding John Vitalo.

The members of the Absa Group Exco as at 31 December 2009 were:

D W P Hodnett[1], V J Klein, W T Lategan, V Naidoo, H Ntshingila, M Ramos, J H Schindehütte[2], S van Coller and L L von Zeuner.

New appointments in 2010

As part of an extensive programme to enhance and strengthen the Group's senior executive management team, further appointments were made to the Group Exco in January 2010:

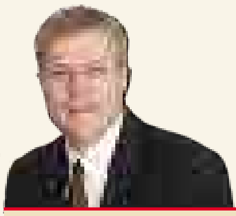
- Gavin Opperman was appointed as Chief Executive, Retail Banking, on 22 January 2010;
- Daphne Motsepe was appointed as Chief Executive, Unsecured Lending, on 22 January 2010;
- Venete Klein (a current member of Group Exco) was appointed as Executive, Corporate Affairs and Sustainability, on 22 January 2010; and
- Bobby Malabie joined Absa Group as Chief Executive, Absa Business Bank (ABB), previously known as Absa Corporate and Business Bank (ACBB), on 1 March 2010.

These newly appointed members' profiles are set out on page 26 of this report.

Notes:

[1]*David Hodnett was appointed as Group Finance Director on 1 March 2010. He will retain his position as Group Risk Officer until a suitable candidate for that position has been appointed.*

[2]*Jacques Schindehütte resigned from Absa on 28 February 2010.*



D W P (David) Hodnett (40)

Qualifications

- BCom
- CA(SA)
- MBA

Tenure at Absa: Two years (appointed in 2008)

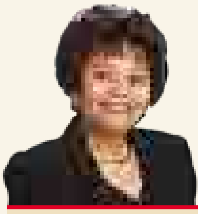
Year appointed as an Executive Committee member: 2008

Areas of responsibility

Dave is Group Finance Director and is also responsible for Group Risk. He oversees several divisions that fall within the risk portfolio.

Expertise and experience

Dave joined Absa Group in 2008 as Group Risk Officer. Before joining Absa, Dave spent seven years involved in group risk and retail credit for the Standard Bank Group. He started his career at KPMG, where he became a partner in the financial services team. He was appointed as Group Finance Director on 1 March 2010.



V J (Venete) Klein (51)

Qualifications

- Graduate of various senior executive programmes (including Harvard, MIT, INSEAD, IMD and Wits University).

Tenure at Absa: Six years (appointed in 2003)

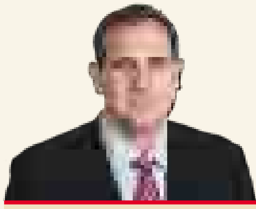
Year appointed as an executive committee member: 2005

Areas of responsibility

Venete is responsible for Corporate Affairs and Sustainability.

Expertise and experience

Venete joined Absa Group in June 2003, after working for various financial institutions. In 2003, Venete was appointed Head of Agriculture and then as Deputy Managing Executive: Business Banking Services in 2005. Later appointed as Group Executive responsible for Retail Sales and Service, Absa Private Bank, AllPay Consolidated Investment Holdings Limited (AllPay) and Meeg Bank Limited. She participates in various external entities, including the Standing Committee for the Revision of the Banks Act 1990.



W T (Willie) Lategan (41)

Qualifications

- BCom (Hons)
- FFA

Tenure at Absa: 14 years (appointed in 1995)

Year appointed as an Executive Committee member: 2007

Areas of responsibility

Willie is Chief Executive: Absa Financial Services, responsible for the Group's bancassurance operations.

Expertise and experience

Willie joined Absa Consultants and Actuaries in 1995 as an actuary. He has served as General Manager of Operations and Managing Director of Absa Life, and as Managing Executive of Absa Financial Services: Corporate. Willie participates in various external entities such as the Association for Savings and Investments SA (ASISA) and the Actuarial Society of South Africa (ASSA) and serves as a trustee of Bankmed.

The Absa Group Executive Committee (Exco)

V (Alfie) Naidoo (41)

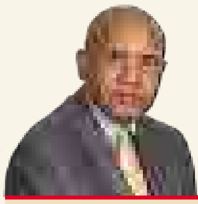
Qualifications
- BSc

Tenure at Absa: Eight years (appointed in 2001)

Year appointed as an Executive Committee member: 2008

Areas of responsibility
Alfie is Group Chief Operating Officer. He is responsible for Group Operations, Group Technology, Human Resources, Cash and Payments, Group Sourcing and Corporate Real Estate Services.

Expertise and experience
Alfie joined Absa Bank in 2001 as Managing Executive: Electronic Channels, and has worked in various leadership roles in the Retail Bank, including Head: Unsecured Lending. Alfie represents Absa's interest in various industry bodies and joint ventures. He was appointed as Group Chief Operating Officer in July 2009.



H (Happy) Ntshingila (49)

Qualifications
- BA (Communications)

Tenure at Absa: Four years (appointed in 2006)

Year appointed as an Executive Committee member: 2008

Areas of responsibility
Happy is Executive Director: Group Marketing and Communications.

Expertise and experience
Happy joined Absa in 2006 as Group Executive: Group Marketing. Before joining Absa, he held tenures at Unilever, IBM, Tiger Oats and Ogilvy and Mather. In 1992, he co-founded HerdBuoys Advertising, South Africa's first black-owned advertising agency. Happy sits on various Absa subsidiary boards and holds directorships in several companies. In 2006, he was voted Marketing Person of the Year by the Marketing Excellence Council.

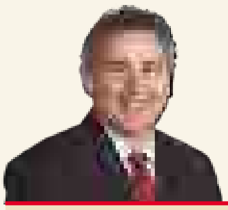
M (Maria) Ramos (50)

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

Tenure at Absa: One year (appointed in 2009)

Areas of responsibility
Maria is the Group Chief Executive.

Expertise and experience
Maria joined Absa Group in March 2009 as Group Chief Executive. She is also a member of the Barclays PLC Executive Committee. Before joining Absa, Maria served as Group Chief Executive of Transnet Limited and Director General of the National Treasury. Maria serves on various other executive committees, including the World Bank Chief Economist Advisory Panel and Banking Association of South Africa. She was honoured as the 'Outstanding Businesswoman of the Year' at the 2009 Africa Business Awards and was also rated as the world's ninth most influential businesswoman by *Fortune* magazine.



J H (Jacques) Schindehütte (50)

Qualifications
- BCom (Hons)
- CA(SA)
- HDip Tax

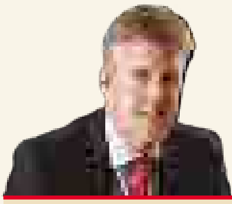
Tenure at Absa: 10 years (appointed in 1999)

Year appointed as an Executive Committee member: 2005

Resigned: 28 February 2010

Areas of responsibility
Jacques is Group Finance Director responsible for Business Performance and Management, Group Treasury, Corporate Development, Group Investor Relations, Group Secretariat and Sarbanes Oxley.

Expertise and experience
Jacques joined Absa as Group Executive: Group Finance in 1999 and was appointed as a Group Executive Director in January 2005. Before joining Absa, Jacques held various senior managerial positions at Transnet Limited. Jacques started his career as chartered accountant at Arthur Young.



S (Stephen) van Coller (43)

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

Tenure at Absa: Three years (appointed in 2006)

Year appointed as an Executive Committee member: 2009

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

Expertise and experience
Stephen joined Absa Capital in 2006 as Head of Primary Markets and was later appointed as Deputy Chief Executive. Before that he held positions at Deutsche Bank, Knox Cropper, Richmond Fellowship Housing Association and Ernst & Young Inc. Stephen is a member of the Absa Group Tax Committee, the South African Institute of Chartered Accountants and the Chartered Institute of Management Accountants.

L L (Louis) von Zeuner (48)

Qualifications
- BEcon

Tenure at Absa: 29 years (appointed in 1981)

Year appointed as an Executive Committee member: 2004

Areas of responsibility
Louis is the Deputy Group Chief Executive.

Expertise and experience
Louis's first position in Absa was that of a branch clerk, in 1981. After working through various branch, Regional and Provincial leadership positions, he became the Operating Executive of Absa Commercial Bank. He was appointed as Group Executive Director in 2004 responsible for Retail banking operations and became Deputy Group Chief Executive in 2009.

The Absa Group Executive Committee (Exco)

B (Bobby) Malabie (49)[1]

Qualifications

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

Tenure at Absa: Appointed in March 2010

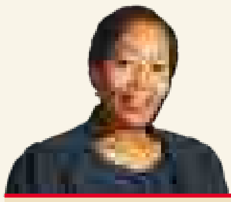
Year appointed as an Executive Committee member: 2010

Areas of responsibility

Bobby is Chief Executive: Absa Business Bank (ABB).

Skills, expertise and experience

Bobby joined Absa Group from Liberty Group, where he held the position of Chief Executive Officer, Marketing and Distribution. Prior to this he held senior positions within Charter Life, Nedcor and South African Breweries.



D R (Daphne) Motsepe (52)[1]

Qualifications

- Bachelor of Accounting Science
- MBA

Tenure at Absa: Four years (appointed in 2005)

Year appointed as an Executive Committee member: 2010

Areas of responsibility

Daphne is Chief Executive: Unsecured Lending. She is responsible for Personal Lending, Absa Card, Small Business, Entry Level Banking and AllPay.

Skills, expertise and experience

Daphne joined Absa in 2005 as the Managing Executive of Absa Small Business and of Absa Flexi Banking. Before joining Absa, she was Managing Director of PostBank and she has held leadership positions at the South African Post Office, Women's Development Banking, Engen Petroleum Limited and National Sorghum Breweries. She has served as a non-executive director at Investec Bank and Land Bank, among others.

GR (Gavin) Opperman (44)[1]

Qualifications

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

Tenure at Absa: 15 years (appointed in 1994)

Year appointed as an Executive Committee member: 2010

Areas of responsibility

Chief Executive: Retail Banking

Expertise and experience

Gavin has 25 years of credit, operations and front-office experience across retail, commerce, corporate and investment banking, locally and abroad.

He joined Absa Group in 1994 and held positions such as Managing Director: Absa Bank Asia and Managing Executive: Secured Lending.

Note

[1]*New Exco appointments in 2010*

Contents

Governance and accountability

⦿ Information available on CD supplied.

Corporate governance statement

Introduction

The global economic crisis has highlighted the importance of sound corporate governance within the financial services industry. Absa's robust corporate governance systems and processes, enabled the Group to weather this crisis and Absa continues to be well positioned for the future.

King II compliance

Absa Group Limited's board of directors (the board) recognises the need to conduct the affairs of the enterprise with integrity and in line with best corporate practices. For that reason, Absa Group Limited is fully committed to the principles of the Code of Corporate Practices and Conduct (the Code) set out in the King Report on Corporate Governance (King II).

The board is of the opinion that the Absa Group has complied with and applied the requirements of King II throughout the year under review.

Barclays requirements

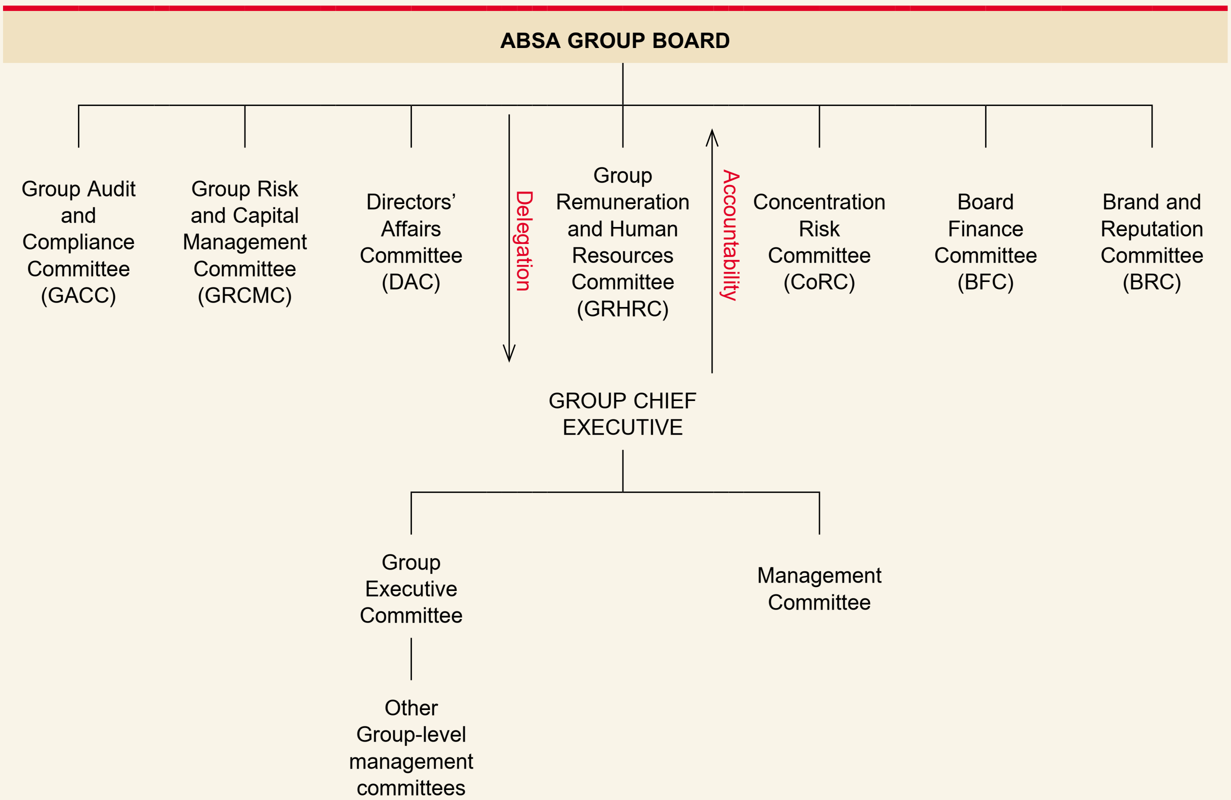
As a subsidiary of Barclays Bank PLC (Barclays), the Group is required to comply with the regulatory requirements applicable to Barclays. From a governance perspective, Absa also follows the international best practice guidelines set out in the UK's Combined Code on Corporate Governance.

Application of King II and approach to corporate governance

The board believes that compliance with the formal standards of governance practice is important and that embracing the spirit and principles of codes such as King II is even more vital.

As such, the board strives to ensure that good governance is practised at all levels in the Group and that it is embedded into Absa's operations. The code is applied to all Absa subsidiary companies.

Governance structure



Status on King III compliance

The King Code of Governance Principles for South Africa 2009 (King III), which was published on 1 September 2009, took effect from 1 March 2010.

Absa Group is assessing the principles of King III with a view to adopting those that have not yet been adopted within the Group. Absa's compliance with, and application of, King III will be fully reported on in the next annual report.

Corporate governance statement

Roles of Group and Company directors

The board takes overall responsibility for the Group's compliance and is the focal point of the Group's corporate governance system. The directors of Group companies are responsible for ensuring compliance by the companies of which they are directors.

Measuring and reporting

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

Interaction between Absa and Barclays

Absa Group and Barclays work together to maximise value for all stakeholders while complying with all relevant laws, regulations and standards. Absa Group and Barclays interact in a way that takes account of the regulations, laws, fiduciary responsibilities and industry standards that apply to both groups. The two groups interact in a manner that is also sensitive to the rights and interests of Absa's minority shareholders.

The approach is reviewed annually by the board, considering recommendations from the Directors' Affairs Committee (DAC).

Boards of directors and board committees

The board composition

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

The Group board

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

The detailed categorisation of the directors appears on page 14 of this report. As at 31 December 2009, there were 19 directors, of which three were executive, four were non-executive and 12 were independent.

The Chairman of the board is an independent director. The Chairman is not currently appointed by the board each year, but this practice will be introduced during 2010.

The directors bring a wealth of skills, knowledge and experience to the board. They are able to discuss and debate Absa's business and matters of strategy, performance, resources, transformation, diversity, employment equity, standards, conduct and policy in a way that is robust, informed and constructive.

Board procedures and related matters

The board has full control over all the companies in the Group. It monitors executive management's implementation of approved plans and strategies.

Board meetings

The board meets regularly. Board meetings are scheduled well in advance according to a forward plan for the year. This plan sets out matters for consideration at each meeting. Additional board meetings, apart from those planned, are convened as circumstances dictate.

Where directors are unable to attend a meeting personally, videoconferencing and teleconferencing facilities are made available to include them in the proceedings. This way, they can participate in discussions and decision-making.

The number of meetings held during 2009 (including meetings of board-appointed committees) and the attendance of each director are set out on page 33 of this report. Reasons for non-attendance are provided to the Group Chairperson.

Agenda and meeting structure

The board agenda and meeting structure focus on strategy, performance monitoring, governance and related matters. This ensures that the board's time and energy are appropriately applied. Directors may propose additional matters for discussion at board meetings.

Board documentation

Management ensures that board members are provided with all relevant information and facts to enable them to reach objective and well-informed decisions. Board documentation is provided to directors in a timely manner and the tabling of documents at board meetings is done only in exceptional circumstances.

Board's access to information

The board has unrestricted access to all Company information, records, documents and property.
The information needs of the board are reviewed annually. Efficient and timely procedures for informing and briefing board members before board meetings have been developed and implemented. All directors are kept informed of key developments affecting the Group between board meetings.

Board interactions with executive management

The board meets with management annually to agree on Group strategy and to consider long-term issues facing Absa as well as the environment in which the Group operates.

Non-executive directors have access to management and may meet with management without executive directors in attendance. Such meetings are facilitated through the office of the Group Secretary.

The non-executive directors meet without the presence of management before and after every scheduled board meeting.

Board oversight of risks and performance

The board identifies and monitors key risk areas, key performance areas and non-financial aspects relevant to Absa, supported by board-appointed committees. The board also considers several key performance indicators, variance reports and industry trends every quarter.

A range of non-financial information is also provided to the board to enable it to consider qualitative performance factors that involve broader stakeholder interests. The directors are empowered to obtain independent professional advice at the Group's expense, should they consider it necessary.

The Absa board charter

Purpose and objectives

The board charter regulates how the board and individual members of the board discharge their responsibilities according to the principles of good governance. The charter aims to ensure that all board members understand their duties and responsibilities as well as the laws, regulations and best practices governing their conduct.

The charter clearly outlines:

- the roles of the Chairman, the Group Chief Executive and individual board members;
- board composition (including qualifications and key competencies for board membership);
- standards for conduct around conflicts of interest;
- the process of determining board remuneration and rewards;
- director orientation, induction and training;
- succession planning and director selection and appointment;
- the role of the board (including adopting strategic plans and monitoring operational performance and management);
- board procedures;
- access to management by non-executive directors;
- matters specifically reserved for the board, including the approval of:
  - the Group's objectives, strategy, strategic financial plans, business plans and annual budgets and the monitoring of performance against agreed criteria;
  - annual financial statements, interim reports and related financial matters;
  - Absa's code of ethics;
  - the appointments to and removals from the board (including the Chairman, Group Chief Executive, and executive and non-executive directors);
  - delegations of authority to the Group Chief Executive;
  - board committee mandates, authorities and membership;
  - Absa's risk appetite;
  - significant Company policies; and
  - Absa's corporate governance philosophy and ongoing governance compliance;
- compliance with laws and regulations;
- risk management and internal controls;
- stakeholder communication; and
- board and individual director performance evaluation.

Corporate governance statement

Board appointments and succession planning

Non-executive directors on the board are appointed for an initial term of office of three years in terms of the articles of association. Reappointment to the board is not automatic, although directors may offer themselves for re-election. A third of the directors retire by rotation annually.

The names of directors eligible for re-election are submitted at the annual general meeting, accompanied by appropriate biographical details set out in this annual report. Non-executive directors are required to retire at the annual general meeting following their 70th birthday, unless they are asked to remain on the board with good cause shown.

Directors who have served for nine years or more

In line with international best practice, all Group directors who have served on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting.

The board also assesses whether the independence of these directors has been impaired. Directors that have served the board for more than nine years are D C Brink, B P Connellan and G Griffin. The board is satisfied that their independence of character and judgement has not been compromised.

Appointment of directors by the board

The board as a whole selects and appoints directors, including the Group chief executive and executive directors based on recommendations from the DAC. Where appropriate, these recommendations are supported by recommendations of the Group Remuneration and Human Resource Committee (GRHRC). Barclays is consulted during the process of director selection and appointment.

All appointments follow a formal and transparent procedure and are subject to confirmation by the shareholders at the annual general meeting. Before appointment, potential board appointees must undergo a 'fit and proper' test in terms of the JSE Listings Requirements and the Banks Act.

Succession planning

The DAC makes recommendations around non-executive director succession planning to the board. The succession planning process encompasses an evaluation of the skills, knowledge and experience required to implement the Group's business plans and strategy, as well as the need to transform the board and ensure greater diversity. The GRHRC makes recommendations around executive director succession planning to the DAC for approval by the board.

Director induction, training and development programmes

Training and orientation workshops are held for both new and existing directors. The workshops cover topics such as the Group's business, corporate governance, fiduciary duties and responsibilities, new laws and regulations and risk management.

Directors (particularly new directors) are encouraged to attend development programmes that focus on the duties, responsibilities, powers and potential liabilities of directors.

Orientation for new board members

All newly appointed directors go through a formal two-day orientation programme with members of management. New directors are also provided with a governance file setting out matters such as:

- important legislation, including the provisions and regulations of the Banks Act;
- the board and committee governance structure;
- the board plan for the year;
- the board charter (which forms part of their letters of appointment); and
- the terms of reference of all board-appointed committees and key Company policies.

The Group Secretary meets with new directors to take them through the governance file and to review recent board documentation.

Ongoing training for directors

Director training is scheduled throughout the year. The training is provided internally or by external service providers. The internal training programme includes sessions before most board meetings. Sessions are also hosted for board committee members on specialist topics such as International Financial Reporting Standards (IFRS) and Basel II Capital Accord (Basel II).

Directors are encouraged to attend external courses such as the Banking Board Leadership Programme presented by the Gordon Institute of Business Science and other courses focusing on banking topics (such as risk management and the responsibilities of bank directors). Director participation in the training that the Group provides is monitored and assessed.

Independence

The DAC assesses the independence of each director against the criteria set out in King II, the JSE Listings Requirements, the Combined Code and other corporate governance principles.

The DAC believes that at 31 December 2009, the following directors met these criteria: D C Arnold, D C Brink, B P Connellan, S A Fakie, G Griffin, M W Hlahla, M J Husain, T M Mokgosi-Mwantembe, E C Mondlane Jr, T S Munday, S G Pretorius and B J Willemse.

Performance assessment: Chairman and non-executive directors

The Group Chairman performs an annual evaluation of individual non-executive directors. The Chairman's findings are presented to the DAC and it makes recommendations to the board based on the information supplied. The DAC is responsible for evaluating the Group Chairman's performance.

The board considers the recommendations of the DAC to determine whether it will endorse a retiring director's re-election. If a director's performance is not satisfactory, the board will not endorse the re-election.

Information on the directors standing for re-election at the annual general meeting can be found in the explanatory notes to resolutions for the annual general meeting (refer to page 339).

Collective board evaluation

The board conducts a collective board evaluation during the first quarter of every year with a view to determining how the board's effectiveness can be improved. The DAC considers the results of the evaluation and makes recommendations to the board for adoption. The Group Chairman meets with each director individually to discuss any matters that arise from the evaluation process.

Board remuneration and share ownership

Details of the Group's remuneration policies and practices and the remuneration paid to the Group directors can be found in the Group remuneration report on pages 47 to 62.

Non-executive directors receive fees for their contributions to the board and to the committees on which they serve. In line with international best practice, proposals on non-executive directors' remuneration are made by the Group chairman and the Group chief executive for review by the board.

The remuneration of non-executive directors is submitted to shareholders for approval at the annual general meeting held before implementation.

Non-executive directors must hold a minimum of 1 000 Absa ordinary shares throughout their tenure. Non-executive directors do not receive share options or incentive awards that are tied to the share price or corporate performance. Details of the shares held by the directors are set out on pages 100 to 102 of this report.

Attendance at board and board committee meetings

The table outlines details of board members' attendance of board and board committee meetings for 2009.

Name	Absa Group and Absa Bank Limited board	GACC	GRCMC	DAC	GRHRC	BFC	BRC	Total
Current directors								
D C Arnold	7/8	8/8*	6/6	5/6		3/4		29/32
D C Brink (Group Chairman)	8/8*	#	3/3	6/6*	6/6*	4/4*	1/2	28/29
B P Connellan	8/8				6/6	3/4		17/18
Y Z Cuba	6/8	#				2/2		8/10
B C M M de Vitry d'Avaucourt	4/5				5/5	3/3		12/13
S A Fakie	6/8	7/8						13/16
G Griffin	8/8	8/8	6/6*	5/6				27/28
M W Hlahla	7/8		5/6					12/14
M J Husain	7/8		5/5	3/5				15/18
A Jenkins	5/5				4/5			9/10
R Le Blanc	6/8	#	6/6	5/5				17/19
T M Mokgosi-Mwantembe	7/8				5/5		2/2	14/15
E C Mondlane, Jr	8/8		5/6					13/14
T S Munday	8/8	8/8	5/5	0/0		4/4	2/2*	27/27
S G Pretorius	7/8			0/0	4/4*			11/12
M Ramos	6/6	#	#	#	#	#		6/6
J H Schindehütte	8/8	#	#		#	#		8/8
L L von Zeuner	8/8	#	#	#	#			8/8
B J Willemse	8/8		5/6				2/2	15/16
Previous directors								
S F Booysen	2/2							2/2
R A Jenkins	2/2							2/2
N P Mageza	4/4							4/4
G Marcus	4/4*			4/4*	2/2*	2/2		12/12
F F Seegers	1/2			1/1	1/1			3/4
F A Sonn	3/3			2/2	1/1			6/6
% attendance		97	93	86	100	83	88	

Notes

**Denotes Chairperson*

#Denotes attendance/standing invitee

Board committees

The board has appointed several committees to help it meet its responsibilities. All board committees operate under written terms of reference that have been approved by the board. The membership and principal functions of these are set out in the pages that follow.

There is transparency and full disclosure from board committees to the board. Committee chairpersons provide the board with a verbal report on recent committee activities. The minutes of committee meetings are available to all board members. Board committees are empowered to take independent outside professional advice when they believe it to be necessary.

The office of the Group Secretary provides secretarial services to each of the committees.

Board and committee checks and balances

The board takes full ownership of certain key decisions to ensure it retains proper direction and control of the Group. A comprehensive framework setting out the authorities and responsibilities of the boards and committees in the Group is in place.

This framework ensures that there is a balance of power and that no individual has unlimited decision-making powers. All board-delegated authorities are reviewed and updated annually by the board. The board evaluates the performance and effectiveness of board committees every year.

The board also makes use of ad hoc board committees to deal with specific matters from time to time. These ad hoc committees also operate under written terms of reference.

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

The role of the subsidiary boards

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

The subsidiary boards usually meet about five times a year, usually before Group board meetings. One of the Group's independent directors, G Griffin, has been appointed to the boards of the major bancassurance subsidiaries because of his expertise in this field.

The board recognises that it is ultimately accountable and responsible for the performance and affairs of the Group. Delegating various functions and authorities to committees and management does not absolve the board and its directors of their duties and responsibilities.

Group Audit and Compliance Committee (GACC) – Report of the Chairman

Dear Shareholder

Set out below is my report in terms of section 270A(f) of the Companies Act, 1973 (as amended). The report provides an overview of the GACC and its activities as well as appropriate information on how the GACC has discharged its responsibilities.

Members: D C Arnold (Chairman), S A Fakie, G Griffin and T S Munday.

Composition and meeting procedures: All the members of the GACC are independent directors. Y Z Cuba (who is a representative of Batho Bonke Capital (Proprietary) Limited) and A Jenkins (a representative of Barclays) are permanent attendees of the committee. The qualifications of the GACC members are set out on pages 15 to 19 of the annual report. They were appointed to the committee on the following dates: D C Arnold (April 2003), S A Fakie (April 2008), G Griffin (May 2007) and T S Munday (April 2007).

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

At every meeting, time is reserved for separate private discussions of committee members only and the committee together with the external auditors and the Absa chief internal auditor (excluding management). Such private discussions provide an opportunity for committee members and the external auditors to communicate candidly. Management is then invited to join the meeting and it proceeds according to the agenda.

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

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

During 2009, the GACC's activities and key decisions included:

- dealing with matters relating to financial and internal control, accounting policies, reporting and disclosure;
- reviewing and recommending to the board interim and annual financial statements and profit and dividend announcements;
- reviewing, together with the external auditors, the conformity of the audited financial statements and related schedules with IFRS and the quality and appropriateness of Absa's accounting policies;
- reviewing and approving internal audit and compliance policies, plans, reports and findings;
- reviewing the effectiveness of the internal audit function;
- ensuring compliance with the applicable legislation and regulations;
- making the necessary enquiries in collaboration with the Group Risk and Capital Management Committee (GRCMC) to ensure that all risks to which the Group is exposed are identified and managed in a well-defined control environment;
- recommending to the board the appointment of external auditors and fees payable to the external auditors;
- evaluating the performance of the external auditors;
- approving the Group's policy on external audit firms providing non-audit services and ensuring compliance with the policy;
- satisfying itself on the appropriateness of the experience and expertise of the Group Financial Director and the adequacy of resources of the finance function and experience of the senior members of management responsible for the finance function;
- ensuring that the appointment of the external auditors complied with the Corporate Laws Amendment Act and any other legislation relating to appointing external auditors;
- considering the impact of significant events and issues and controls in this regard;
- considering tax provisions and related tax matters;

- benchmarking the GACC's activities relative to King III and presenting the outcomes to the South African Reserve Bank (areas for improvement are being addressed – a key one being the GACC's role in regard to integrated reporting);
- reviewing and approving external audit plans, findings, reports and fees; and
- collaborating with the GRCMC and considering issues identified by that committee.

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

- attended all meetings as a member of the GRCMC;
- met separately with the external auditors, Head of Internal Audit, Group Compliance Officer and Group Risk Officer on a regular basis;
- met with executive management on a regular basis;
- reported to the board after each committee meeting;
- attended a Group subsidiary audit committee meeting; and
- attended audit committee forum meetings held under the auspices of the Institute of Directors.

The Group's policy on non-audit services, which is reviewed annually 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. Assignments for allowable services above a certain value must be preapproved by the GACC. Assignments within management's mandate must be pre-approved by the Group Financial Director. All non-audit services fees are reported to the GACC on a quarterly basis and a report is included in the meeting pack.

Absa has a formal external auditor evaluation process which is conducted annually. The evaluation process includes various criteria and standards such as audit planning, technical abilities, audit process and outputs and quality control, business insight, independence and general factors (such as black economic empowerment credentials).

Absa also has an audit partner rotation process according to the relevant legal and regulatory requirements.

The GACC is satisfied with the independence of the external auditors and has nominated the reappointment of Ernst & Young Inc. and PricewaterhouseCoopers Inc. as the independent registered audit firms and the individual registered auditor of those firms, namely E van Rooyen and T Winterboer. This is subject to the board's endorsement and the approval of shareholders.

In assessing the independence of the external auditors, the GACC satisfied itself that the external auditors:

- do not hold any financial interest (either directly or indirectly) in Absa;
- do not hold a position, either directly or indirectly, that gives the right to exert significant influence over the financial or accounting policies of Absa;
- are not economically dependent on Absa having regard to the quantum of audit fees paid by Absa to the external auditors relative to their total fee base; and
- do not provide non-auditing services to Absa which fall outside those described in Absa's non-audit services policy and which could compromise the external auditors' independence.

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

As part of its report to the board, the GACC comments on the financial statements, the accounting practices and the internal financial controls of the Company. The committee stays abreast of current and emerging trends in accounting standards. More information on internal controls is set out on page 46 of the compliance report.

The following external advisers or assurance providers are required to attend meetings of the GACC: Ernst & Young Inc. and PricewaterhouseCoopers Inc.

Committee mandate and performance evaluation

The GACC operates under written terms of reference, reviewed and approved by the board annually. An evaluation of the GACC's performance was conducted and the overall outcome was positive. The GACC is satisfied that it had discharged its responsibilities according to its terms of reference. In addition, the GACC is of the view that it has complied with its legal, regulatory and other statutory responsibilities.

Des Arnold — GACC Chairman

Group Risk and Capital Management Committee (GRCMC) – Report of the Chairman

Dear Shareholder

Set out below is my report covering an overview of the GRCMC and its activities.

Members: D C Arnold, D C Brink, G Griffin (Chairman), M W Hlahla, M J Husain, R Le Blanc, E C Mondlane Jr, T S Munday and B J Willemse.

Composition and meeting procedures: The GRCMC is chaired by an independent director and consists of a further seven independent directors and one non-executive director. Members of executive management attend by invitation. The committee usually meets at least four times a year, but during 2009, six meetings were held.

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

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

- recommending Absa's risk appetite to the board for approval, and monitoring the actual risk taken on against the board-approved appetite on a quarterly basis;
- assisting the board to execute its duties regarding risk and capital management specified in the Banks Act, and in particular to assist the board to:
  - evaluate the adequacy and efficiency of the risk policies, procedures, practices and controls applied in Absa in the day-to-day management of the business;
  - identify the build-up and concentration of risks and to develop a risk-mitigation strategy to ensure Absa manages these risks optimally;
  - oversee the independent risk management function, to coordinate the globalised monitoring of risk management, and to facilitate and promote communication regarding risk policies, procedures, practices and controls or any other related matters; and
  - establish a process that relates capital to risk undertaken and states capital adequacy goals with respect to risk, considering Absa's strategic focus and business plan;
- monitoring the Group's emerging risk profiles and report its findings to the board;
- monitoring the level of available capital, both current and projected, and to report to the board on the adequacy of available capital relative to the emerging risk profile of the Group;
- reviewing the adequacy and effectiveness of the principal risk control frameworks and policies and annually reviewing the effectiveness of implementing the frameworks;
- reviewing, within the framework of the board-approved principal risks policy, the completeness of the principal risks coverage and the ongoing effectiveness of the framework as implemented by the Group;
- assessing Absa's risk management approach and practices in the light of the global financial crisis;
- liaising with the GACC to ensure appropriate oversight of key controls relating to risk management issues;
- ensuring Absa makes appropriate disclosure of its risk management and capital management status and activities; and
- collaborating with the GACC and considering issues identified by that committee.

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

- attended all meetings of the GACC;
- met with the Group Risk Officer regularly;
- met with executive management regularly; and
- reported to the board after each committee meeting.

The following external advisers are invited to attend meetings of the GRCMC: Ernst & Young Inc. and PricewaterhouseCoopers Inc.

Committee mandate and performance evaluation

The GRCMC operates under written terms of reference, reviewed and approved by the board annually. An evaluation of the GRCMC's performance was conducted and the overall outcome was positive. The GRCMC was satisfied that it had discharged its responsibilities according to its terms of reference.

Garth Griffin — GRCMC Chairman

Directors' Affairs Committee (DAC) – Report of the Chairman

Dear Shareholder

Set out below is my report covering an overview of the DAC and its activities.

Members: D C Arnold, D C Brink (Chairman), G Griffin, M J Husain, T S Munday, S G Pretorius and R Le Blanc.

Composition and meetings: The DAC is chaired by the Group Chairperson and the majority of its members are independent directors. Six meetings were held during 2009.

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

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

- reviewing all aspects relating to ongoing corporate governance during the year, including statements about this in the annual report to shareholders and considering the requirements of Regulation 39 (18) of the Banks Act;
- recommending the appointment of the Deputy Group Chief Executive to the board for approval;
- 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 succession planning;
- reviewing Absa's approach to complying with King III;
- considering the Walker Review (United Kingdom);
- establishing and maintaining a board continuity programme encompassing succession planning for the Group Chief Executive and members of the board;
- conducting an effectiveness evaluation of the board to review its performance in meeting its key responsibilities; and
- annually evaluating the directors' performance and making recommendations to the board for consideration.

Committee mandate and performance evaluation

The DAC operates under written terms of reference, reviewed and approved by the board annually. An evaluation of the DAC's performance was conducted and the overall outcome was positive. The DAC was satisfied that it had discharged its responsibilities according to its terms of reference.

Dave Brink — DAC Chairman

Group Remuneration and Human Resources Committee (GRHRC) – Report of the Chairman

Dear Shareholder

Set out below is my report covering an overview of the GRHRC and its activities. Further information on remuneration-related matters is set out in the Group remuneration report, on pages 47 to 62 of this annual report.

Members: D C Brink, B P Connellan, B C M M de Vitry d'Avaucourt , A Jenkins, T M Mokgosi-Mwantembe and S G Pretorius (Chairman).

Composition and meeting procedures: The GRHRC is chaired by an independent director and comprises mainly independent directors. The Group Chief Executive, the Deputy Group Chief Executive, the executive responsible for human resources and the Group Finance Director attend meetings by invitation, but do not participate in discussions and decisions regarding their remuneration and benefits. Meetings are held at least five times a year.

Role, purpose and principal functions: This committee assists with and advises the board on various remuneration and human resource matters.

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

- approving the Group's remuneration philosophy, principles and policy;
- recommending the remuneration of executive directors to the board for approval;
- approving the remuneration of the Group Chief Executive and Group Executive Committee (Exco) members. In addition, it provides oversight regarding the remuneration of the senior leadership of the Group;
- mandating the Group Exco to negotiate conditions of service with relevant trade unions;
- reviewing the operation of the Group's various incentive plans including the approval of new incentive plans and the approval of individual incentive plan awards to Group executive directors and other Group Exco members;
- succession planning for Group executive directors and top management, including the Group Chief Executive, other Group executive directors and other strategic positions, together with the DAC;
- evaluating the Group Chief Executive's performance and reviewing the evaluation of Group Exco members' performance;
- evaluating employment and human resources retention strategies;
- evaluating employment equity and transformation in the Group at all levels; and
- advising on human resource-related black economic empowerment (BEE) issues, Codes of Good Practice (CoGP) scoring and other relevant BEE scoring.

In executing its responsibilities, the GRHRC is empowered to engage independent external consultants. During the year, the following external advisers attended certain meetings of the committee: Global Remuneration Solutions (Proprietary) Limited.

The committee stays abreast of key developments, especially in the light of the global financial crisis and the focus on remuneration practices.

Committee mandate and performance evaluation

The GRHRC operates under written terms of reference, reviewed and approved by the board annually. An evaluation of the GRHRC's performance was conducted and the overall outcome was positive. The GRHRC was satisfied that it had discharged its responsibilities according to its terms of reference.

Brand Pretorius — GRHRC Chairman

Concentration Risk Committee (CoRC)

Members: D C Brink (Chairman), B P Connellan, B J Willemse, T S Munday, M Ramos, L L von Zeuner and J H Schindehütte*. The composition of the committee was approved by the Registrar of Banks in terms of section 73(1)(a) of the Banks Act.

Role, purpose and principal functions: This committee was established pursuant to section 73 of the Banks Act. The committee considers and approves credit applications with financing limits exceeding 10% of the Group's qualifying capital and reserves. For exposures to private sector non-bank persons greater than 25% of qualifying capital and reserves, prior approval is required from the SARB.

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

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

*Resigned from the board effective 28 February 2010 and will be replaced by D W P Hodnett.

Board Finance Committee (BFC)

Members: D J Arnold, D C Brink (Chairman), B P Connellan, Y Z Cuba, B C M M de Vitry d'Avaucourt and T S Munday.

Composition and meeting procedures: The Board Finance Committee is chaired by the Group Chairman, who is an independent director as are the majority of the members of this committee. This committee has a mandate from the board to review and approve investments and divestments and certain defined large transactions, subject to specific limits. Additional non-executive directors may be co-opted as members for meetings where particular expertise is required. Meetings are held on an ad hoc basis. Four meetings were held in 2009.

Role, purpose and principal functions: The committee is mandated by the board to enter into and settle the terms of all transactions for acquiring and disposing of investments, as well as to approve capital-raising and securitisation transactions, subject to limits set by the board. The committee reviews the Group's annual budget before submission to the board for approval. It also finalises the interim and year-end results announcements. It is responsible for reviewing the proposed replacement of infrastructure for strategic systems.

Brand and Reputation Committee (BRC)

Members: D C Brink, T M Mokgosi-Mwantembe, T S Munday (Chairman) and B J Willemse.

Composition and meeting procedures: All members of the BRC are independent non-executive directors. The Group Chief Executive and Group Risk Officer attend the BRC in an ex officio capacity. The committee meets at least once a quarter or more frequently if necessary.

Role, purpose and principal functions: This committee was formerly a management committee and was elevated to a board committee during 2009. The BRC helps the board:

- to protect and enhance the brand and reputation of Absa;
- to promote an environment in which all stakeholders are seen to be treated fairly;
- by giving advice on business decisions and other matters that may impact the Group's reputation; and
- by giving advice on appropriate actions to be taken to maintain robust and ethical business practice, for example, stakeholder relationship management.

Executive directors and the Group Executive Committee (Group Exco)

There are three executive directors on the board and several executive directors on the boards of the Group's main subsidiaries. Executive directors are required to retire from the board (as executive directors) at 60. There is full disclosure in the Group remuneration report of various remuneration matters in respect of Absa's executive directors.

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

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

During the year, changes were made to the structure of Group Exco. An Operations Committee and a Management Committee were established, under the chairmanship of the Deputy Group Chief Executive and Group Chief Executive respectively. The Operations Committee meets bi-monthly and its main functions are:

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

The Management Committee meets weekly and its main functions are to monitor the Group's financial performance, focus on the risk environment and evaluate high-priority issues affecting the Group.

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

Members of Group Exco are generally not permitted to hold any significant external directorships, unless the external appointment is taken up at Absa's request.

Risk management

Absa's risk management approach is outlined in the board-approved risks policy, which identifies 18 principal risks facing the Group. The policy sets out a five-step process for managing risks.

Each risk is managed using a risk control framework and the policies applicable to that particular risk. Details on the approach, policies, methodology and risk governance structure can be found in the risk and capital management report, included in the compact disk accompanying this annual report.

Regulatory compliance

The board of directors is appointed by the shareholders of the Group to lead, control, monitor and govern the business of the Group. The board, through the Group Chief Executive, delegates the authority of legal and regulatory compliance to the Group Compliance Officer. The Group Compliance Officer ensures that the compliance process operates effectively and that the Group adheres to all laws, regulations and supervisory requirements.

The Group Compliance Officer independently monitors the adequacy and effectiveness of internal controls implemented to ensure legal and regulatory compliance. Details of Absa's compliance risk framework and processes are contained in the Group risk and capital management report set out on the compact disk accompanying this annual report.

Group Secretary

All directors have access to a suitably qualified and experienced Group Secretary. The Group Secretary provides guidance to the board as a whole and to individual directors with regard to how their responsibilities should be discharged in the best interests of the Group.

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

Going concern

The board has considered and recorded the facts and assumptions that lead it to conclude that the business will continue as a going concern in the financial year ahead. The board considers this aspect at both interim reporting stage and financial year-end.

The directors are of the opinion that the business will be a going concern in the year ahead. Their statement in this regard is contained in the statement on the responsibility of the directors for the consolidated financial statements on page 95 of this report.

Organisational integrity and the code of ethics

Management ensures that there is appropriate focus on preventing losses arising from unethical behaviour. Absa Group has put various risk control procedures in place to minimise the effects of unethical behaviour.

Absa has appointed the Group Legal Counsel as the ethics officer. Compliance with Absa's code of ethics is monitored by means of annual attestations submitted by every Absa employee. This process is monitored by Absa's Group Compliance function. Absa's code of ethics is constantly refined, taking into account input from stakeholders in the organisation.

Rewards and incentives

Absa enforces its code of ethics by means of appropriate rewards and penalties. Rewards and incentives are in place for ethical behaviour, while unethical or dishonest behaviour is dealt with through disciplinary procedures, including criminal and civil charges.

Newly appointed employees and employees in sensitive positions are assessed for ethical risks. Absa offers training in procedures and laws for preventing crime. Awareness of ethical behaviour is stimulated by regular communication with employees in the Group.

Investigating corruption and fraud

All incidents involving potentially fraudulent activities are formally investigated and corrective actions are taken. Procedures are changed when prudent to prevent further incidence of unethical behaviour. Absa's code of ethics has been provided to all directors under cover of a letter from the Group Chairperson, in terms of which directors undertake to adhere to the code.

The board is satisfied that there are processes in place to monitor adherence to Absa's code of ethics and to act upon any transgressions.

IT governance

As recommended by King III the board will from 2010 provide oversight of IT governance.

Compliance report

Introduction

An amendment to the Banks Act, No 94 of 1990 (the Banks Act), required that all banks establish a compliance function in 2000. The Financial Intelligence Centre Act, No 38 of 2001 (FICA), as well as in the Financial Advisory and Intermediary Services Act, No 37 of 2002 (FAIS), entrenched this requirement. A compliance function is also considered to be a valuable contributor to good corporate governance and is supported by King III.

The increasingly stringent regulatory environment in the financial services sector means that banks face more compliance requirements every year. In addition to South African legal and regulatory requirements, Absa Group must also comply with regulations governing the Barclays Group. Those regulations include the Combined Code on Corporate Governance in the United Kingdom and Sarbanes-Oxley Act of 2002.

Failure to comply may result in:

- reputational risk;
- financial penalties (personal and corporate);
- greater regulatory scrutiny and intervention;
- criminal prosecution of executive officers and employees;
- increased capital requirements; and
- in extreme cases, the loss of or restrictions placed on the Group's licence to perform financial services-related activities.

Compliance governance

Absa Group Compliance helps management at Group companies and business units to carry out their compliance risk management duties. The Group compliance function's structure and approach enables it to support management at all levels by leveraging off specialised technical skills and business knowledge.

Structure of Absa Group Compliance

Absa Group Compliance is structured into centralised and decentralised functions. The former sets standards for the whole Group, takes responsibility for Group-wide monitoring and forms the centre of expertise regarding legislation and compliance policies impacting the Group. The latter comprises business unit compliance officers who are deployed into the various Absa business units. They are responsible for business-specific monitoring, training and advice.

Methodologies and best practices

The Group addresses the compliance roles and responsibilities prescribed in the Banks Act by following methodologies that have been developed and benchmarked with industry and international best practice.

As business unit activities are not static, all regulatory risk profiles are updated every quarter to ensure that the risk of non-compliance with regulatory requirements is addressed.

Regulatory controls are monitored continually to ensure that they are effective and adequate. Any non-compliance identified through monitoring is reported following Absa's governance processes.

African operations (outside of South Africa)

Absa Group Compliance has embedded effective compliance risk management methodologies in African entities in which the Group has a shareholding. During 2009, the theme-based compliance risk management approach was introduced throughout Absa's African operations. Absa Group Compliance now has an overall view of the level of compliance across a given theme at a given timeframe throughout the Group.

Key compliance focus areas

During the 2009 financial year, Group Compliance's key focus areas included the following:

- Anti-money laundering and international sanctions implementation.
- The National Credit Act (NCA).
- The continued identification of, and appropriate response to, new regulatory requirements.
- Driving employee awareness relating to regulatory requirements.
- Combating unethical behaviour.
- Communication with stakeholders.
- The new product approval process.

Anti-money laundering (AML) and sanctions environment

Governments and regulators still have money laundering and terrorist financing on their radars. Financial institutions such as Absa Group are expected to implement robust controls to detect these activities and report them to the authorities as quickly as possible. Regulators may impose substantial fines against financial institutions for failures in controls.

As part of a global organisation in Barclays Plc, Absa has implemented world-class systems and processes to ensure that the risk of money laundering and terrorist financing is mitigated as far as possible. Customer and payments monitoring systems ensure that the risk of entering into a relationship with a sanctioned person or being involved in a payment to a person mentioned on a sanctions list is low.

During the year under review, Absa concentrated on improving its anti-money laundering, terrorist financing and sanctions control environment. Advanced automated transaction monitoring systems have been rolled out to Absa's African subsidiaries, the National Bank of Commerce in Tanzania and Barclays Bank in Mozambique. These systems allow the banks to be proactive in identifying suspicious transactions and reporting them to regulators.

The National Credit Act (NCA)

The NCA became effective on 1 June 2007. It protects consumers of credit by entrenching consumer rights and introducing minimum disclosure requirements. It attempts to curb overindebtedness by prohibiting reckless lending and provides for registering credit providers with the National Credit Regulator. Absa's focus during the 2009 financial year was the monitoring of controls implemented during 2007 to ensure compliance with the Act.

The Group, as far as possible, provides documentation in plain language in line with the provisions of the Act. An Absa Language Statement of Intent Project was launched in 2009 to implement the Absa language proposal that was submitted to, and approved, by the National Credit Regulator (NCR).

Compliance with this Language Statement of Intent is a condition of Absa's registration as a credit provider. Joint ventures within the Absa Group who have elected to adopt the Absa language approach, with approval from the NCR, will form part of the project.

New regulatory requirements

The Group's New Regulatory Requirement Forum (NRRF) has the responsibility of assessing the impact that new regulations as well as changes and amendments to existing regulations will have on Absa Group's business.

The NRRF scans and evaluates the entire regulatory landscape by business area in the Group as well as for the Group as a whole. It assesses changes according to all identified risk components, and then develops and introduces remediation-related controls to mitigate risks.

The governance and approach of the NRRF was amended during 2009 to ensure optimal efficiency. The amended approach will be embedded during 2010.

Employee awareness through the Employee Compliance Conduct Guide (ECCG)

Absa values its reputation for integrity and fair dealing. Through the ECCG and the associated Group-wide attestation process, Absa Group employees are made aware of the compliance-related policies as well as the conduct the Group expects of all employees.

The ECCG is revised annually. All Absa employees and temporary employees are required to acknowledge that they received and understood the ECCG when they first joined Absa and then every year thereafter.

Combating unethical behaviour

Absa has instituted control measures in place to mitigate the risk of corrupt activities of the kind outlined in the Prevention and Combating of Corrupt Activities Act. The Group's Ethics Policy was implemented as a control to address this specific risk. The Group has also adopted an anti-corruption policy, applicable to all employees and aligned to this Act.

Employees and other stakeholders may anonymously report instances of unlawful or unethical behaviour to the Tip-offs Anonymous hotline. Allegations of corruption are investigated by dedicated specialist areas. These investigations are monitored by Absa Group Compliance.

Identified issues and trends are reported to the appropriate forums through the Absa Group governance structures. The process protects whistleblowers from being discriminated against as a result of reporting unlawful or unethical behaviour.

Communication with regulators and key stakeholders

Absa is regulated by several stakeholders including the South African Reserve Bank (SARB) and the Financial Services Board (FSB). The Group seeks to maintain relationships of trust and transparency with all regulators.

Compliance report

The Contact with Regulators Policy provides a framework for prompt and professional ad hoc communication with all financial services regulatory authorities. In terms of this policy, Absa Group Compliance provides guidance to business before and during meetings with regulators. It also maintains a log of all commitments made to regulators and monitors the progress made towards meeting these commitments.

Contact with regulators takes place through identified designated officials on a formal and informal basis, as and when required.

Listed below are several of the key regulators and industry stakeholders of the Absa Group.

Stakeholder	Regulatory environment
South African Reserve Bank (SARB)	The SARB is the lead regulator for the South African banking sector.
Financial Services Board (FSB)	The FSB regulates the non-banking aspects of the financial services industry; this includes pension funds, collective investment schemes, fund management, long-term and short-term insurers, as well as financial advisory and intermediary services.
Department of Trade and Industry (DTI)	The DTI is focused on consumer protection and in this regard develops legislation and regulation to encourage appropriate business practices and enable consumers to exercise their rights.
National Credit Regulator (NCR)	The NCR was primarily established to regulate the South African credit industry.
The Banking Association of South Africa (BASA)	The Banking Association – the mandated representative of the banking sector – addresses banking industry issues through engagement with industry roleplayers.
Financial Intelligence Centre (FIC)	The FIC identifies the proceeds of unlawful criminal activities and combats money laundering.
Bank of Tanzania (BOT)	The BOT is the central bank of Tanzania and the regulator of the banking sector in Tanzania.
Bank of Mozambique	The Bank of Mozambique is the central bank of Mozambique and the regulator of the banking sector in Mozambique.
Competition Commission	The Competition Commission is responsible for enforcing the Competition Act in South Africa in order to ensure effective competition in all sectors, including the banking sector.

New product approval (NPA) process

Absa requires that all new products and services be subject to a standardised process that ensures that any new product or new market (or significant changes to existing products or markets) can only commence after a comprehensive review and sign-off process across all control and logistics functions.

This process ensures the consistency of Absa's offerings in the marketplace according to business strategy. It also ensures that products are only changed or launched after due consideration of all primary and consequential risks (such as financial, compliance and legal), infrastructure and resources. Absa Group Compliance is responsible for the compliance risk evaluation and is a compulsory signatory to any new product approval.

Regulatory developments

Anti-competitive, anti-trust and monopoly behaviour

In August 2006, the Competition Commission launched an enquiry into the transactional aspects of the South African retail banking sector. The enquiry focused on the transparency and level of fees and charges imposed on consumers as well as the need for interchange fees for ATM transactions and the level of interchange fees for card transactions.

The Panel of the Banking Enquiry concluded in June 2008 that transaction charges in South Africa are higher than what they are in more competitive environments due to market structure, information asymmetries and product complexities. To address these concerns, the Panel issued 28 recommendations touching upon many aspects of transactional accounts, such as ATMs, payment cards, EFTs and debit orders.

The recommendations are currently being considered by an intra-governmental Steering Committee comprising representatives from the Competition Commission, the National Treasury and the DTI. The Steering Committee is expected to publish its findings during the first half of 2010.

Financial Advisory and Intermediary Services Act (FAIS)

The Financial Services Board (FSB) introduced new fit and proper requirements that will apply to all representatives and key individuals from 1 January 2010. The Absa Group established a Group-wide project to implement the amendments to the FAIS legislation across the affected business units within the Group. The amended legislation came into effect in 2008, with the majority of amendments only applicable from 2010 onwards.

Future compliance requirements

Several new laws and regulations that will have an impact on the Absa Group are being finalised. The most important of these are the Consumer Protection Act, the Companies Act, the amended fit and proper requirements for financial services providers and potential changes to the Banks Act. All changes and proposed changes to current laws and regulations, as well as proposed bills and regulations, are monitored through the NRRF.

Consumer protection

The Consumer Protection Act aims to promote a fair, accessible and sustainable marketplace for consumer products and services. The Act will entrench national norms and standards relating to consumer protection and provide for improved standards of consumer information.

The Act prohibits certain unfair marketing and business practices and promotes responsible consumer behaviour. This law will harmonise existing laws relating to protecting consumers and promoting a consistent enforcement framework for consumer transactions and agreements.

The DTI is in the process of developing the regulations needed to implement the Act. The Act will become effective in October 2010. A Consumer Protection Act (CPA) Group Project was established in 2009 to ensure effective implementation of the Act.

Companies Act

The new Companies Act is expected to take effect in 2010. The Act aims to simplify the registration of companies, encourage entrepreneurship and high standards of corporate governance, balance the rights and obligations of shareholders and directors, and promote the efficient and responsible management of a company.

It also provides for increased liabilities for directors for breaches of fiduciary duty or for any direct or indirect loss, damage or costs sustained by the company as a result thereof. Absa Group carried out an extensive impact analysis of the Act during 2009 and started a Group-wide project to ensure that the Group effectively addresses the Act's legal and compliance implications.

Competition Amendment Act

The Competition Amendment Act, signed into law in 2009, provides for the regulation of so-called 'complex monopolies'. It introduces criminal liability for directors and managers who are responsible for a company participating in a cartel or who knowingly allowed a company to participate in a cartel.

Absa has been proactive in addressing any risks arising from the Competition Amendment Act since the proposals were first published in 2008. The effective date of the Competition Amendment Act is yet to be promulgated.

Compliance report

Penalties

The reforms mean that directors and managers could be imprisoned for up to 10 years and fined up to R500 000 if they break the law as set out in the Act. Unless the prosecution is abandoned or the individual acquitted, the Company is prohibited from paying the fine or the legal expenses the director or manager incurs defending himself or herself.

New Competition Commission powers

The reforms also introduce wide-ranging powers for the Competition Commission to investigate complex monopolies, defined as highly concentrated sectors where five participants have more than 75% market share. The Competition Commission may intervene where it considers that competitors, without any agreement, are acting in a parallel manner that is detrimental to consumers. Although participants of a complex monopoly may not be fined, they may be ordered to change their business practices.

Protection of Personal Information Bill

The Protection of Personal Information Bill was tabled before Parliament in August 2009. Once enacted, the Bill will regulate the processing of personal information of individuals and juristic entities and will apply to all private and public sector bodies as well as individuals. Absa is monitoring the legislative progress and appropriate action will be taken to implement the requirements of the Bill once it is finalised and enacted.

National Gambling Act (concerning Internet gambling)

The National Gambling Act prohibits Internet gambling in South Africa. Banks are required to implement measures by which they are able to identify the proceeds of Internet gambling and pay them over to the National Gambling Board. Absa is evaluating the ability of its controls to accommodate this requirement and will, if necessary, improve systems to accommodate the Act.

Internal control

The directors are responsible for ensuring that the Group maintains records which disclose, with reasonable accuracy, the financial performance and position of the Group. The investing community, depositors, other banks and the regulatory authorities rely on these records.

To enable the directors to meet these responsibilities, the board sets standards for internal controls comprising policies, standards, systems and information. Management implements systems that support these controls. The controls:

- safeguard assets and reduce the risk of loss, error, fraud and other irregularities;
- ensure the accuracy and completeness of accounting records; and
- ensure timely preparation of reliable financial statements and information in compliance with the relevant legislation and generally accepted accounting policies and practices.

Internal and external audits of internal controls

The Group's internal and external auditors independently appraise the adequacy and effectiveness of the internal controls. The GACC, with extensive input from the internal and external auditors, helps the directors to satisfy themselves about the adequacy and effectiveness of the accounting systems, records and internal controls. The directors' report on this aspect is contained in the statement on the responsibility of directors for annual financial statements on page 95 of this report.

The Internal Audit function must undergo an independent quality review in line with the standards prescribed by the Institute of Internal Auditors. The outcomes of this review are considered by the GACC. The Chief Internal Auditor attends the Group Exco meetings in an ex officio capacity.

Share dealings

Absa Group has a closed period policy in place to govern share trades by Absa directors and employees. Directors, officers, participants in the share incentive scheme and employees who may have access to price-sensitive information are precluded from dealing in Absa shares from two weeks before the end of the interim and year-end financial periods until the release of the Group's interim and final results.

In terms of the policy, 'shares' include options, financial instruments and securities, as defined in the Financial Markets Control Act and the Stock Exchanges Control Act. Where appropriate, additional closed periods, as well as the persons to whom such periods apply, may be invoked by the board.

Details of directors' dealings in Absa shares are disclosed to the board and the JSE through SENS. In addition, details of trades in Absa shares by Group Exco members are disclosed to the GRHRC.

Group remuneration report

Introduction by the Chairman of the GRHRC

The remit of the committee

Absa's Group Remuneration and Human Resources Committee (GRHRC) is a dedicated board committee, with a mandate to govern remuneration matters, including the Group's remuneration policy, executive emoluments (for example, salary, benefits and variable compensation) and service contracts, as well as senior appointments.

The committee's remit, which is set out in a formal Terms of Reference, also covers black economic empowerment (BEE) issues related to human resources, as well as FSC scoring and other relevant BEE scoring. The GRHRC meets a minimum of five times a year and holds special meetings to deal with urgent matters. The GRHRC comprises only non-executive directors, the majority of whom are independent.

2009 focus areas

Apart from attending to its regular business in 2009, the GRHRC had the following focus areas:

- The changing corporate governance, regulatory and legislative landscape both in South Africa and abroad. Of particular importance was the increased focus on compensation in the financial services sector. The UK's Financial Services Authority, the Group of 20 Nations (G20) and the International Financial Stability Board issued Codes of practice for financial services compensation. These Codes were bolstered by the King Report on Corporate Governance (King III), which set out, among other things, the requirements for boards and subcommittees as they relate to executive compensation.
- Attracting and retaining talent in a sustainable manner in the context of market volatility and competition for talent, especially top talent and key specialists.
- Continued alignment across the Group of how performance and remuneration are linked, especially in annual performance bonuses. The GRHRC focused on market benchmarking to ensure robust and commercially sensible decision-making. It aimed to ensure competitive remuneration practices in an environment of difficult trading conditions brought about by the global financial crisis.
- Human resources initiatives, especially in the area of transformation. The committee gave guidance in the areas of culture, performance development, employment equity, talent management and succession planning.

Context for remuneration of Group executives

The remuneration of Group executive directors should be considered in the context of the financial performance of the Group. For 2009:

- the Group experienced earnings growth in a challenging environment, with headline earnings decreasing by 23,5%; and
- attributable earnings decreased by 35,9%.

Notwithstanding the decreases, the Group remained profitable in 2009.

Group remuneration report

The remuneration of Group executive directors should also be considered alongside their performance objectives. Below are the main performance objectives as set for 2009:

- To give clear strategic direction and inspirational leadership.
- To improve the integration of products and services across the Absa business units, to better serve the needs of customers.
- To manage the business.
- To grow the Group's people capability.
- To improve franchise health, aspiring to excellent customer service and high brand affinity among colleagues and communities.
- To improve market position in existing markets by promoting sustainable expansion of the Group's footprint, improving customer attraction and retention and embedding the customer value proposition.
- To continue to build the wholesale and insurance businesses.
- To deliver quality returns and sustainable growth.
- To manage risk appropriately and ensure that adequate controls are in place.
- To create a positive brand image among stakeholders by representing Absa at the local and global level.
- To be an effective Group Executive Committee and board member.

These performance objectives are consistent with those of previous years.

The Group remuneration report provides information on the remuneration policy and the key elements of reward for Group employees, including Group executive directors. It also discloses the remuneration of the individual directors who served the Group in 2009.

Brand Pretorius

Chairman: Group Remuneration and Human Resources Committee

18 March 2010

Remuneration governance

The GRHRC governs remuneration of Absa Group's executive directors and non-executive directors. In line with international best practice, the Group Chief Executive and the Group Chairman have made proposals on non-executive directors' remuneration for the board to review and then for shareholders to approve.

The GRHRC also provides governance and strategic oversight of the Group's human resource activities. It focuses on remuneration and senior management development, transformation, and the legislative, regulatory and governance environment relating to compensation.

Each year, the Absa Group board evaluates the GRHRC's effectiveness.

Committee responsibilities

The GRHRC's responsibilities include:

- approving the Group's remuneration philosophy, principles and policy;
- approving the remuneration of the Group Chief Executive and Group Executive Committee members. It also provides oversight on the remuneration of the senior leadership group and other key resources. Remuneration includes all elements: guaranteed fixed remuneration, performance bonuses, incentive plans and any other form of benefits or perquisites;
- mandating the Group Exco to negotiate conditions of service with relevant trade unions;
- reviewing the operation of the Group's various incentive plans, including the approval of new incentive plans and the approval of individual incentive plan awards to Group executive directors and other Group Exco members;
- succession planning for Group executive directors and top management, including the Group Chief Executive, other Group executive directors and other strategic positions and roles. This responsibility is shared with the Directors' Affairs Committee; and
- evaluating the performance of the Group Chief Executive and reviewing the evaluation of the performance of Group Executive Committee members.

Advisers to the GRHRC

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

In determining remuneration for Group executive directors, Absa uses the services of an independent remuneration consulting company, **Global Remuneration Solutions (Proprietary) Limited**[1]. This company provides detailed survey analysis from general industry and the banking industry specifically on remuneration of Group executive directors and top management.

In determining remuneration for Investment Banking areas, Absa uses the services of **Towers Perrin MGMC**[1], a global remuneration consulting firm based in New York.

Group Human Resources, a Group specialist function, gives advice and assists the GRHRC by providing research, information, documentation and analysis about matters that the GRHRC is dealing with. This includes comparative data and motivations for salaries, bonuses and incentive plans.

The executive responsible for Human Resources also provides professional support to line management about human resources policies and administration, and how to monitor compliance with prescribed policies and programmes across the Group.

Where applicable, the GRHRC calls on specialist units (such as Emerging EMEA Research Analysts within Absa Capital) to advise on issues such as compensation inflation and wage trends.

Members and attendees at meetings

At 31 December 2009, the GRHRC consisted of six members: S G Pretorius (Chairman), D C Brink (Group Chairman), B P Connellan, B C M M de Vitry d'Avaucourt, A Jenkins and T M Mokgosi-Mwantembe. Other members of the committee during 2009 were Ms G Marcus, Mr F F Seegers and Mr F A Sonn.

The Group Chief Executive, the Deputy Chief Executive, the Group Finance Director and the executive responsible for Human Resources attend the meetings by invitation. No Group executive director is present when his or her own remuneration or performance evaluation is discussed.

Remuneration philosophy and policy

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

Absa's remuneration policies aim to build sustainable long-term shareholder value, attract and retain employees of the highest calibre who embrace the Group's values, and to reward success.

Aims of the policy

Absa's overall remuneration policy aims are:

- to promote compliance with global regulatory trends and local requirements, with an emphasis on long-term sustainability;
- to help to align the interests of senior managerial and professional employees, including Group executive directors, with those of the Group's stakeholders;
- to maximise employees' personal contributions to the business unit in which they work as well as to the Group. This will help to ensure that employees make the most of the Group's offerings to better serve customers;
- to help to achieve commercially competitive reward levels, enabling the Group to attract and retain people of proven ability, experience and skills;
- to help to implement reward programmes that are clear and transparent, and to reinforce the Group's strategic positioning;
- to use reward levels to encourage behaviour that is consistent with the Group's values. These are: to value our people and treat them with fairness; to exceed the needs of our customers; to take responsibility for the quality of our work; to display leadership in all we do; and to demonstrate integrity in all our actions; and
- to determine reward levels that are consistent with emerging governance frameworks on executive and managerial compensation.

Note

[1]*Permission was granted to include the name of this company in this report.*

Group remuneration report

A portion of remuneration is performance-based

A substantial proportion of the remuneration of the Group executive directors and other senior leaders is based on performance. The performance-related remuneration is based on a qualitative and quantitative assessment of performance. It is delivered in the short- and longer-term. This ensures that the incentives reflect both short- and medium-term priorities of the business.

Absa's senior managerial and professional employees, including Group executive directors, are rewarded as individuals for the value they add to Absa's success. This takes place through the payment of fixed remuneration and variable remuneration, which includes annual performance bonuses and long-term incentive plans. Refer to the rest of this section for more information.

Review of performance: Group executive directors and senior employees

Performance evaluations which take account of financial and non-financial measures are concluded at least half-yearly for Group executive directors and other senior employees. These reviews focus on the contribution of the individual and his/her business unit to the Absa Group results, and on the underlying sustainability and quality of this contribution.

Group executive directors' performance is subject to detailed review by the GRHRC, as is that of all members of the Group Exco. This includes also a detailed review of the compensation proposals for each member, relative to their contribution.

Performance outcomes for the direct reports to the Group Exco members are reviewed half-yearly by the full Group Exco. In these reviews, each individual's contribution relative to that of his/her peers is discussed and agreed. The Group Exco reviews the detailed compensation proposals for each individual at the year-end, with final proposals being tabled for GRHRC review.

The above approach ensures that sufficient independent oversight is applied to both performance evaluation and the review of compensation. It also ensures appropriate rigour and consistency in the review process.

Remuneration of employees (including Group executive directors)

Absa's remuneration structure has two components, namely:

- fixed remuneration: annual salary and benefits; and
- variable remuneration: annual performance bonus and long-term incentive plans (long-term incentive plans include the Absa Group Performance Share Plan (PSP), and the Executive Share Award Scheme, (ESAS)).

Each component of reward is important and has a role in achieving the aims of the Group's remuneration policy.

Fixed remuneration

Fixed remuneration is reviewed once per year to ensure that those who contribute to the success of the Group are remunerated competitively.

Guaranteed fixed remuneration has a cost-to-company approach

The Group has a cost-to-company approach for all employees, including Group executive directors. Cost-to-company includes all benefits, for example, retirement schemes, death and disability cover, and medical cover. Benefits are consistent with competitive market practices. The basis for remuneration reviews is the market rate of pay for a particular role and the sustainable contribution of the employee.

Variable remuneration

The Group uses variable remuneration schemes to increase focus on important business objectives and to encourage and sustain superior performance. Reviews of variable remuneration components take place at least once a year and the components are adjusted to improve their appropriateness and effectiveness.

Reviews of performance take place at least twice per year through a formalised, well-embedded Performance Development system.

For Group executive directors and key managerial and professional personnel, the combined potential variable remuneration (from the annual performance bonus and long-term incentive) is higher than the fixed remuneration. Performance conditions apply to a portion of this variable remuneration, which places a substantial proportion of the Group executive directors' and other senior leaders' remuneration at risk.

Annual performance bonuses

Annual bonuses are based on a qualitative and quantitative assessment of performance, linked to business achievement of targeted goals. Annual bonuses are not guaranteed or contractual; they are discretionary and vary according to:

- an individual's performance rating;
- the performance of the individual's business unit; and
- the overall Group performance.

An overall performance bonus funding mechanism is used to determine and appropriately accrue for the annual performance incentives for the Group. In 2009, the funding mechanism was based on the Group's:

- attributable earnings; and
- profit before tax (PBT).

Economic profit is considered in determining the bonus pools to ensure that risk weighting is taken into account. The individual business segments are, in turn, assessed based on their relative contributions to the business as a whole. In this way, an appropriate distribution of the overall bonus pool is made.

The bonus multiple for Group executive directors is capped at a maximum possible individual annual performance bonus of 2,5 times cost-to-company remuneration.

Long-term incentive plans

The Group operates long-term incentive plans to align the interests of employees and shareholders through employee share ownership, as well as to retain key personnel. The two long-term incentive plans for Group executive directors and other senior executives have, since 2006, been the Group's Performance Share Plan (PSP) and Executive Share Award Scheme (ESAS).

Neither the PSP nor the ESAS arrangements were utilised on a broad-based basis for the 2009/10 payround.

The Absa Group Performance Share Plan (PSP)

The PSP is aimed at rewarding future performance by incentivising senior Absa employees, including Group executive directors, to achieve Group-level performance targets.

Since 2006, the GRHRC has made an award of PSP shares each year to selected senior managers, professionals and executives. The GRHRC sets performance conditions that apply for a three-year period. An award under PSP is a free share award subject to performance conditions.

The GRHRC ensures that the performance conditions are sufficiently demanding to promote profitable and sustainable growth, capital efficiency, risk management and the creation of shareholder value. The following criteria apply to vesting of the 2009 PSP awards made as part of the 2008/09 payround process:

- A basic financial criterion. The cumulative profit after tax (PAT) for the Group in the three-year performance period attached to each award must be greater than the Group's cumulative PAT for the previous three-year period.
- A performance criterion, which requires that the Group's attributable earnings must be above the average consumer price index (CPI) over the performance period of three years. The arrangements for 2009, which allow for a maximum of a one-time multiple of the award to vest, were different to previous years, where, subject to the performance conditions, a final award of up to three times the initial award could be realised. This applies for all recipients of PSP awards, regardless of level.

The performance shares awarded in 2006 to participants vested in 2009. Based on the achievement against the performance conditions, a multiple of 1,9 times the original award was confirmed. Participants were cash settled in May 2009.

The details of the awards for Group executive directors are listed on page 58 of this report.

Note that there are no awards of the PSP in 2010. This is due to the Total Incentive arrangements, which saw the introduction of the Deferred Award Plan – see below.

Executive Share Award Scheme (ESAS)

Employees, including Group executive directors, whose annual performance bonuses are above a predetermined level, participate in the Group's Executive Share Award Scheme.

From 2006 until the 2008 financial year, under the ESAS, if an employee's total annual bonus exceeds a predetermined level, 25% of the annual performance bonus was automatically converted into a number of nil-cost options (exercisable between three and five years after the award) over shares or phantom shares.

The remaining 75% of a participating employee's bonus (or part of it) could be converted voluntarily by the employee under the Absa Group Voluntary Executive Share Award Scheme (VESAS) – see below.

If the employee is still employed by the Group after three years, he or she will receive 20% bonus (matched) shares and certain dividend shares. A further 10% bonus (matched) shares and dividend shares will be awarded if the participant is still employed by the Group after five years from the original date.

The ESAS is therefore a deferred bonus plan that rewards, and promotes, the retention of participating employees with matched shares and encourages them to invest in Absa to align their interests with those of shareholders. No performance conditions apply to the ESAS.

Awards made in 2009 (for the 2008 financial year) were made under the Phantom ESAS and will be equity-settled no earlier than 2012. The details of the awards for Group executive directors are listed on page 59 of this report.

The ESAS arrangements do not apply in 2010 (for bonuses awarded for 2009 performance). Variable compensation for 2009 was dealt with in terms of the Total Incentive arrangements.

The Absa Group Voluntary Executive Share Award Scheme (VESAS)

Employees who qualified for the ESAS were also invited to participate in the VESAS, which provided employees with the opportunity to defer some or all of the balance of their total annual performance bonus (the portion remaining after the mandatory ESAS) into the VESAS.

If an employee decided to convert part of his or her annual performance bonus through the VESAS, the conversion was done on a net (after-tax) basis. The converted bonus then took the form of an award of Absa shares under the VESAS. The VESAS does not apply to the 2009 awards because ESAS does not apply this year.

Details of awards made to Group executive directors under VESAS are listed on page 60 of this report.

Share Incentive Scheme (last awards made in 2006)

Until May 2006, the Group operated a share incentive scheme (a traditional share option plan). One-third of the options vested on the third anniversary of the date of grant, a further third vested on each of the fourth and fifth anniversaries of the date of grant. These options have a 10-year expiry period.

In addition to the requirement that recipients be in the employ of the Group on vesting dates, earnings-based performance measures were linked to the allocation of share options in 2005.

Since May 2006, when the Group's new incentive plans were introduced, no further awards were made under this share incentive scheme. The scheme is available to be used if it becomes appropriate to do so.

The details of the awards for Group executive directors are listed on pages 56 and 57 of this report.

Other employee incentive plans

Batho Bonke Capital (Proprietary) Limited

Shareholders approved the allocation of cumulative redeemable option-holding preference shares to historically disadvantaged individuals, qualifying employees and black non-executive directors. This is according to the black economic empowerment transaction that the Group entered into with Batho Bonke Capital (Proprietary) Limited in July 2004. The Absa HDSA Employees Trust holds these shares on behalf of the beneficiaries.

Peter Mageza held an interest in approximately 500 000 shares in Batho Bonke Capital (Proprietary) Limited on the date of his retirement (30 June 2009). He held these shares through the Batho Bonke Absa HDSA Employees Trust.

Further details are provided on page 216 of this report.

Absa Group Limited Employee Share Ownership Administration Trust

All employees employed as at 1 July 2004 within South African wholly owned subsidiaries of the Absa Group, including South African employees on secondment elsewhere in the Group, were eligible to participate in a once-off offer of 200 cumulative redeemable option-holding preference shares.

Each employee who elected to participate was issued and allotted 200 redeemable option-holding preference shares against receipt of the R400 subscription price. The final opportunity to exercise these options was 30 June 2009, and all awards were vested to participants.

Options were exercised on behalf of any participants who were eligible for participation but who could not be contacted and were no longer employees. This was following the necessary Board resolution. This ensured that participants did not forfeit their rights and that the spirit of the trust was maintained: to create value for the broad base of internal stakeholders.

Changes to remuneration approach for the 2009 financial year

Absa changed some elements of its compensation approach for the 2009 financial year. This is because:

- governance and regulatory frameworks relating to executive compensation, and more specifically compensation in financial services organisations, changed;
- the global financial crisis had an impact; and
- there were new global norms and standards for compensation, which continue to evolve.

Total incentives link short-term and long-term compensation

In the past, short-term and long-term compensation were decided separately, although still within the context of total compensation. In 2009, they became more closely linked.

The Group adopted a total incentive approach, which involves a single decision being taken on the amount of total variable pay to be awarded to an individual. This is consistent with the Absa philosophy of reviewing Total Compensation. Once this decision is taken, the appropriate distribution between a cash bonus and a forward-looking share-based arrangement is decided.

A general principle is: the higher the value of the initial total incentive recommendation, the greater the proportion to be delivered through the share-based arrangements. In other words, the higher the total variable compensation, the greater the proportion that is dependent on the future performance of the business.

The cash bonus payments were made in the normal course in February 2010. No additional deferral or delayed payments applied for these payments.

The share-based plan (referred to below as the Deferred Award Plan) takes the form of a cash-settled phantom share plan which vests in equal proportions on the first, second and third anniversaries of the date of grant.

Further, vesting will be based on achievement, in each of the three years, of a financial health performance condition to ensure that the ongoing performance and sustainability of the business is taken into account in the release of value to participants. Awards under this plan were conferred in the first quarter of 2010, and the performance conditions will apply for the 2010, 2011 and 2012 financial years respectively.

In the light of these changes, awards were not made in 2010 under the PSP or ESAS arrangements (except, for ESAS, if there was a specific contractual commitment to an individual in respect of bonus guarantees).

Payment of board fees to executive directors

Until 31 March 2010, executive directors receive, in addition to their normal compensation, a standard fee for attendance at board meetings. This practice will end from 1 April 2010, with the amount being included as part of cost-to-company from this date.

Group executive directors' service contracts

The service contracts of Group 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 Group executive directors) at the age of 60.

Group executive directors' severance arrangements

S F Booysen: Contractual arrangements

The material terms of the agreement reached with Dr Booysen in November 2008, were as follows:

- A payment of approximately R19,1 million was made to Dr Booysen in August 2009. This figure was an aggregate of his annual cost-to-company plus 2007 annual bonus award. It was made in consideration of the termination of Dr Booysen's services and the restraints mentioned below.
- Dr Booysen was on six months' special leave from 1 March 2009 to 31 August 2009. The value of this special leave was R3 million.

- He was (and continues to be) from 1 September 2009 subject to a restraint against approaching staff (for 12 months) and against approaching customers (for six months).
- Good-leaver treatment applied to all share and share-based awards.

J H Schindehütte: Contractual arrangements

Mr Schindehütte announced in September 2009 that he was to step down from his position as Group Finance Director and Group executive director on 28 February 2010. From 1 March 2010, he has six months' contractual notice, during which time he will be on special leave.

Mr Schindehütte was under contract to a specific retention agreement reached in November 2008 which provided that, if he leaves the Group after 28 February 2010, certain termination conditions will come into effect. In terms of these, Mr Schindehütte will receive:

- a termination payment of R9 million. This equals one year's compensation (consisting of cost-to-company and a specified annual bonus). This compensation will be paid in September 2010;
- six months' contractual notice on full pay; and
- good-leaver treatment on all share and share-based payments.

L L von Zeuner: Contractual arrangements

Mr von Zeuner was appointed Deputy Group Chief Executive in September 2009. Mr von Zeuner's previous retention contract matured on 28 February 2010 and the following termination benefits apply, should he leave the organisation or be asked to leave:

- A termination payment equal to one year's compensation (currently R11,8 million). This consists of the cost-to-company that applies at the date of termination (currently R3,8 million) plus an amount equal to the 2008 annual bonus award (R8 million).
- Six months' contractual notice on full pay (in the form of special leave).
- Good-leaver treatment on all share and share-based payment awards made up to and including 28 February 2009.

Mr von Zeuner has agreed to remain with the Group and will form part of the executive retention programme effective from 2010.

Non-executive directors

Non-executive directors' remuneration

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

Market practice 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
- fees for ad hoc investigative and consultancy work.

Absa's fee structure, as approved by shareholders, is indicated in the table on page 61 of this report.

Absa shares held by non-executive directors

Certain executive and non-executive directors have an interest in the Group. This is disclosed in the directors' report as indicated below:

- Absa Group ordinary shares (beneficial and non-beneficial interests): Pages 100 and 101.
- Absa Bank Limited preference shares: Page 102.

Non-executive directors' terms of employment

Non-executive directors do not have service contracts. Letters of appointment confirm the terms and conditions of their service. In terms of Absa's articles of association, one-third of the directors are required to retire at each AGM and may offer themselves for re-election. In line with international best practice, Absa has introduced a requirement that all directors on the board for longer than nine years are subject to annual re-election by shareholders at the AGM.

Group executive directors' guaranteed fixed remuneration and performance bonuses

Group executive director	Note	Directors' fees Absa Group R	Salaries R	Additional vehicle benefit R	Retirement fund contributions R	Total guaranteed remuneration R	Performance bonuses (Note 8) R	Deferred Award Plan (Note 9) R	Other R
Year ended 31 December 2009									
M Ramos	1 & 6	**124 974**	**4 712 272**	**—**	**376 582**	**5 213 828**	**2 916 550**	**5 416 450**	**—**
L L von Zeuner	2 & 6	**168 424**	**3 431 926**	**37 747**	**274 074**	**3 912 171**	**3 500 000**	**6 500 000**	**—**
J H Schindehütte	3 & 6	**168 424**	**2 783 778**	**2 820**	**222 222**	**3 177 244**	**6 000 000**	**—**	**14 273**
S F Booysen	4 & 6	**43 450**	**942 454**	**—**	**75 316**	**1 061 220**	**—**	**—**	**22 153 938**
N P Mageza	5 & 6	**92 581**	**1 160 407**	**13 738**	**92 593**	**1 359 319**	**—**	**—**	**23 051**
Total		**597 853**	**13 030 837**	**54 305**	**1 040 787**	**14 723 782**	**12 416 550**	**11 916 450**	**22 191 262**

Group executive director	Note	Directors' fees Absa Group R	Salaries R	Additional vehicle benefit R	Retirement fund contributions R	Total guaranteed remuneration R	Performance bonuses (Note 8) R	PSP award (refer to page 58) R	Other R
Year ended 31 December 2008									
L L von Zeuner	2 & 6	160 167	3 385 630	64 366	270 370	3 880 533	8 000 000	6 599 944	—
J H Schindehütte	3 & 6	160 167	2 731 162	—	218 013	3 109 342	7 000 000	3 999 995	—
S F Booysen	4, 6, 7 & 10	140 567	5 556 203	11 905	444 016	6 152 691	12 000 000	—	16 409
N P Mageza	5, 6 & 7	160 167	2 274 519	15 300	181 481	2 631 467	6 000 000	—	—
Total		621 068	13 947 514	91 571	1 113 880	15 774 033	33 000 000	10 599 939	16 409

Notes

(1) Appointed to the board on 1 March 2009. Performance bonus to be deferred in full to February 2011.

(2) Appointed to the board on 1 September 2004.

(3) Appointed to the board on 1 January 2005. Received a long-service award to the value of R14 273 in October 2009.

(4) Appointed to the board on 1 August 2004. Resigned as Group Chief Executive and from the board on 28 February 2009, with six months' special leave from 1 March 2009 to 31 August 2009. The value of his termination benefits amounted to R19,1 million. The value of the special leave was R3 million.

(5) Appointed to the Absa Group board on 10 September 2007. Took early retirement on 30 June 2009. The value of his retirement gift was R23 051.

(6) Group executive directors' guaranteed remuneration and performance bonuses are paid by Absa Bank Limited.

(7) The remuneration tabled above relates only to the period that an individual is or was a Group executive director.

(8) Performance bonus for performance during the applicable financial year.

(9) Long-term award made in respect of the period 2010 to 2012, with vesting subject to the fulfilment of performance conditions based on one-third on each of the first, second and third anniversaries of the award grant date.

(10) Long-service award made to Dr Booysen in August 2008, in respect of 20 years' service.

Group executive directors' share incentive scheme options – composition of opening balances at 1 January 2009

		Share options granted			
Name	Note	**Date of grant**	**Expiry date of options**	**Number of options granted**	**Price per share R**
L L von Zeuner	1	5 Jun 03	5 Jun 13	63 334	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
				251 334	
J H Schindehütte	2	31 May 04	31 May 14	124 571	46,56
		18 Aug 05	18 Aug 15	30 000	91,70
				154 571	
S F Booysen	3	7 Jun 04	7 Jun 14	300 000	48,73
		18 Aug 05	18 Aug 15	180 000	91,70
				480 000	
N P Mageza	4	19 Jun 01	19 Jun 11	16 668	37,43
		7 Jun 02	7 Jun 12	17 334	33,67
		5 Jun 03	5 Jun 13	17 500	35,01
		7 Jun 04	7 Jun 14	88 000	48,73
		18 Aug 05	18 Aug 15	43 000	91,70
				182 502	

Notes

(1) Appointed to the board on 1 September 2004.

(2) Appointed to the board on 1 January 2005.

(3) Appointed to the board on 1 August 2004. Resigned as Group Chief Executive and from the board on 28 February 2009, with six months' special leave from 1 March 2009 to 31 August 2009.

(4) Appointed to the board on 10 September 2007. Took early retirement on 30 June 2009.

Group executive directors' share incentive scheme option – movements during 2009

Name	Note	Opening balance (number of shares)	Share options exercised (Note 5) Number	Purchase date/ exercise date (Note 6)	Price per option R	Shares purchased/ gains on share options exercised (Note 7) R	Balance of share options (number)
Year ended 31 December 2009							
L L von Zeuner	1	**251 334**	**63 334**	**27 Feb 09**		**Shares purchased at share option price of R35,01**	
			26 000	**9 June 09**		**Shares purchased at share option price of R48,73**	**162 000**
J H Schindehütte	2	**154 571**	**124 571**	**19 Aug 09**		**Shares purchased at share option price of R46,56**	**30 000**
S F Booysen	3	**480 000**	**—**	**—**		**—**	**480 000**
N P Mageza	4	**182 502**	**88 000**	**3 Aug 09**		**Shares sold at share option price of R48,73**	**94 502**

Name	Note	Opening balance (number of shares)	Share options exercised (Note 5) Number	Purchase date/ exercise date (Note 6)	Price per option R	Shares purchased/ gains on share options exercised (Note 7) R	Balance of share options (number)
Year ended 31 December 2008							
L L von Zeuner	1	271 334	20 000	7 Mar 08		Shares purchased at share option price of R33,67	251 334
J H Schindehütte	2	164 571	10 000	21 Aug 08		Shares purchased at share option price of R35,01	154 571
S F Booysen	3	610 000	40 000	5 Mar 08		Shares purchased at share option price of R33,67	
			45 000	5 Mar 08		Shares purchased at share option price of R35,01	
			45 000	20 Aug 08		Shares purchased at share option price of R35,01	480 000
N P Mageza	4	182 502	—	—		—	182 502

Notes

(1) Appointed to the on 1 September 2004.

(2) Appointed to the board on 1 January 2005.

(3) Appointed to the Absa Group board on 1 August 2004. Resigned as Group Chief Executive and from the board on 28 February 2009, with six months' special leave from 1 March 2009 to 31 August 2009.

(4) Appointed to the board on 10 September 2007. Took early retirement on 30 June 2009.

(5) The share incentive scheme has not been used for new allocations to Group executive directors since 2006, because of the introduction of the PSP.

(6) Options are exercisable at any date from the vesting date. When the activity reported on is a purchase of shares, the purchase date is shown. In this case, a preceding exercise of the options would already have taken place.

(7) A 'gain' arises where the options have been exercised at a price higher than the grant date price during the year under review. Where no cash gain has been realised in circumstances where a purchase of the shares has taken place, the details of this purchase have been disclosed instead.

Group executive directors' share award movements during 2009 – Phantom PSP (Note 1)

Name	Note	Opening balance as at 1 January (number of shares)	Number issued 2009	Price per share R (Note 2)	Expiry date	Number of shares issued 2006 – released May 2009	Closing balance as at 31 December (number of shares)	Number of shares vested May 2009 (Note 3)	Share price (Note 4)	Value
Year ended 31 December 2009										
L L von Zeuner	5	**125 341**	**69 349**	**95,17**	**20 Feb 2012**	**33 617**	**161 073**	**74 094**	**98,64**	**7 308 632**
J H Schindehütte	6	**87 884**	**42 030**	**95,17**	**20 Feb 2012**	**23 464**	**106 450**	**51 714**	**98,64**	**5 101 069**
S F Booysen	7	**168 790**	**—**	**—**	**—**	**51 194**	**117 596**	**112 837**	**98,64**	**11 130 242**
N P Mageza	8	**63 143**	**—**	**—**	**—**	**15 529**	**47 614**	**34 222**	**98,64**	**3 375 658**

Name	Note	Opening balance as at 1 January (number of shares)	Number issued 2008	Price per share R (Note 2)	Expiry date	Closing balance as at 31 December (number of shares)
Year ended 31 December 2008						
L L von Zeuner	5	65 313	60 028	104,95	23 Feb 2011	125 341
J H Schindehütte	6	48 342	39 542	104,95	23 Feb 2011	87 884
S F Booysen	7	95 422	73 368	104,95	23 Feb 2011	168 790
N P Mageza	8	30 271	32 872	104,95	23 Feb 2011	63 143

Notes

(1) The first allocations of the Phantom PSP Scheme took place in 2006. One Phantom PSP share has a value equivalent to one Absa ordinary share. The scheme is subject to the following performance measures: for 2006 profit after tax and earnings; 2007 profit after tax and earnings; 2008 a combination of total shareholders' return and earnings per share and for 2009 profit after tax and earnings.

(2) The price is the volume-weighted average price for the 20 trading days immediately preceding the grant date.

(3) A multiple of 1,9 was achieved. This was the final number of shares plus "dividends" shares that vested per participant for the performance period 2006 to 2009, in respect of outstanding awards granted in 2006.

(4) The price is the volume-weighted average price for the 20 trading days immediately preceding the vesting date.

(5) Appointed to the board on 1 September 2004.

(6) Appointed to the board on 1 January 2005.

(7) Appointed to the board on 1 August 2004. Resigned as Group Chief Executive and from the board on 28 February 2009, with six months' special leave from 1 March 2009 to 31 August 2009.

(8) Appointed to the board on 10 September 2007. Took early retirement on 30 June 2009.

Group executive directors' holdings under ESAS

Name	Note	Opening balance as at 1 January (number of shares)	Number issued 2009	Price per share R (Note 5)	Expiry date (Note 6)	Number of shares issued 2006 – released 2009	Closing balance as at 31 December (number of shares)	Number of vested shares taken up 2009 (Note 7)	Share price (Note 8)	Value R
Year ended 31 December 2009										
L L von Zeuner	1	**62 112**	**21 015**	**95,17**	**20 Feb 2012**	**23 653**	**59 474**	**32 920**	**102,53**	**3 375 698**
J H Schindehütte	2	**40 148**	**18 388**	**95,17**	**20 Feb 2012**	**—**	**58 536**	**—**	**—**	**—**
S F Booysen	3	**86 138**	**—**	**—**	**—**	**32 934**	**53 204**	**45 842**	**102,53**	**4 700 180**
N P Mageza	4	**18 554**	**—**	**—**	**—**	**—**	**18 554**	**—**	**—**	**–**

Name	Note	Opening balance as at 1 January	Number issued 2008	Price per share R (Note 5)	Expiry date (Note 6)	Closing balance as at 31 December
Year ended 31 December 2008						
L L von Zeuner	1	38 292	23 820	104,95	23 Feb 2011	62 112
J H Schindehütte	2 & 9	25 856	14 292	104,95	23 Feb 2011	40 148
S F Booysen	3	55 171	30 967	104,95	23 Feb 2011	86 138
N P Mageza	4	7 597	10 957	104,95	23 Feb 2011	18 554

Notes

(1) Appointed to the board on 1 September 2004.

(2) Appointed to the board on 1 January 2005.

(3) Appointed to the board on 1 August 2004. Subsequently resigned as Group Chief Executive and from the board on 28 February 2009, with six months' special leave from 1 March 2009 to 31 August 2009.

(4) Appointed to the board on 10 September 2007. Took early retirement on 30 June 2009.

(5) The volume-weighted average share price over the 20 trading days up to and including the date of grant.

(6) 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.

(7) The number of shares that was taken up on the third anniversary plus the 20% bonus shares. Participants who did not elect to take up the shares on the third anniversary may still do so at the fifth anniversary.

(8) The volume-weighted average share price over the 20 trading days up to the vesting date.

(9) In addition J H Schindehütte holds 276 370 Barclays ESAS shares, which he obtained when he deferred his Barclays Special Incentive Plan Award into Barclays ESAS shares.

Group executive directors – holdings under the VESAS

		VESAS shares					
Name	Note	**Opening balance as at 1 January (number of shares)**	**Date of grant**	**Number issued**	**Price per share (R) (Note 3)**	**Expiry date (Note 4)**	**Closing balance as at 31 December (number of shares)**
Year ended 31 December 2009							
J H Schindehütte	1	**23 224**	—	—	—	**28 Feb 2011**	**23 224**
N P Mageza	2	**4 340**	—	—	—	**27 Feb 2010**	**4 340**
Year ended 31 December 2008							
J H Schindehütte	1	—	28 Feb 08	23 224	116,27	28 Feb 2011	23 224
N P Mageza	2	4 340	—	—	—	27 Feb 2010	4 340

Notes

(1) Appointed to the board on 1 January 2005.

(2) Appointed to the board on 10 September 2007. Took early retirement on 30 June 2009.

(3) The price is the actual volume-weighted average share price at which the shares under VESAS were purchased on a collective basis for all VESAS scheme participants.

(4) 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.

Non-executive directors' fee structure as approved by shareholders (Note 1)

Category	Note	Remuneration for the 12-month period from 1 May 2009 to 30 April 2010 R	Remuneration for the 12-month period from 1 May 2008 to 30 April 2009 R
Chairman	2	**3 500 000**	3 500 000
Board member	3, 4 & 11	**151 686**	143 100
Group Audit and Compliance Committee (GACC) member	5 & 11	**141 192**	133 200
Group Risk and Capital Management Committee (GRCMC) member	6 & 11	**141 192**	133 200
Group Remuneration and Human Resources Committee (GRHRC) member	7 & 11	**75 048**	70 800
Directors' Affairs Committee (DAC) member	8 & 11	**51 622**	48 700
Concentration Risk Committee (incorporating Credit Committee: Large Exposures and Group Credit Committee)	9 & 11	**51 622**	48 700
Group Credit Committee member		**R1 000 per facility reviewed**	R1 000 per facility reviewed
Brand and Reputation Committee (per meeting)	10 & 11	**13 356**	12 600
Special board meeting (per meeting)		**20 776**	19 600
Special Board Committee meetings (including Board Finance Committee) (per meeting)		**13 356**	12 600
Ad hoc board fees:			
■ per ad hoc board committee meeting attended		**13 356**	12 600
■ consultancy work		**R3 000 per hour**	R3 000 per hour

Notes

(1) *The proposed remuneration payable to the Chairman and non-executive directors from 1 May 2010 is shown on page 338 of this report.*

(2) *The Chairman's remuneration is on an all-in basis.*

(3) *The Deputy Chairman receives fees equal to twice the fee payable to a board member.*

(4) *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. Effective 1 April 2010, these will be incorporated into fixed compensation.*

(5) *The GACC Chairman receives fees equal to three times the fee payable to a GACC member.*

(6) *The GRCMC Chairman receives fees equal to twice the fee payable to a GRCMC member.*

(7) *The GRHRC Chairman receives fees equal to twice the fee payable to a GRHRC member.*

(8) *As the Group Chairman is Chairman of the DAC, this fee is covered by the Group Chairman's fee.*

(9) *As the Group Chairman is also the Chairman of the Concentration Risk Committee, this fee is covered by the Group Chairman's fee.*

(10) *The Brand and Reputation Committee Chairman receives fees equal to twice the fee payable to a Brand and Reputation Committee member.*

(11) *The fees payable to non-executive directors of the Group in respect of subsidiary companies are not included as these fees are approved by the shareholders of the relevant subsidiaries.*

Non-executive directors' emoluments

Name	Note	2009 (Note 10) Absa Group Limited R	Absa Bank and its subsidiaries R	Ad hoc fees R	Committees R	Total R	2008 (Note 10) Total R
Directors at 31 December 2009							
D C Brink (Group Chairman)	1	**1 605 726**	**147 393**	**210 276**	**231 167**	**2 194 562**	970 783
D C Arnold		**148 824**	**148 824**	**218 428**	**662 838**	**1 178 914**	882 767
B P Connellan		**148 824**	**148 824**	**215 664**	**136 046**	**649 358**	483 800
Y Z Cuba		**148 824**	**148 824**	**66 780**	**189 176**	**553 604**	487 008
B C M M de Vitry d'Avaucourt	2 & 9	**113 049**	**113 049**	**79 380**	**55 932**	**361 410**	—
S A Fakie		**148 824**	**148 824**	**40 068**	**150 703**	**488 419**	445 242
G Griffin		**148 824**	**148 824**	**112 336**	**729 065**	**1 139 049**	1 002 333
M W Hlahla		**148 824**	**148 824**	**19 600**	**138 528**	**455 776**	397 733
M J Husain		**148 824**	**148 824**	**59 668**	**185 118**	**542 434**	23 850
A Jenkins	2 & 9	**113 049**	**113 049**	**40 068**	**161 160**	**427 326**	—
R Le Blanc	9	**148 824**	**148 824**	**53 424**	**210 301**	**561 373**	544 400
T M Mokgosi-Mwantembe		**148 824**	**148 824**	**59 668**	**67 732**	**425 048**	23 850
E C Mondlane Jr	11	**148 824**	**148 824**	**525 983**	**150 294**	**973 925**	1 504 850
T S Munday		**148 824**	**148 824**	**357 916**	**316 604**	**972 168**	720 067
S G Pretorius	3	**148 824**	**148 824**	**98 252**	**43 778**	**439 678**	—
B J Willemse		**148 824**	**148 824**	**72 268**	**189 176**	**559 092**	480 042
Past directors							
G Marcus (former Group Chairperson)	4	**2 041 667**	**—**	**6 355**	**—**	**2 048 022**	3 198 937
R A Jenkins	5 & 9	**23 850**	**23 850**	**19 600**	**—**	**67 300**	295 700
F F Seegers	5 & 9	**23 850**	**23 850**	**32 200**	**19 917**	**99 817**	406 600
F A Sonn	6	**47 700**	**47 700**	**56 714**	**39 833**	**191 947**	418 500
L N Angel	7	**—**	**—**	**—**	**—**	**—**	163 600
L N Jonker	7	**—**	**—**	**—**	**—**	**—**	96 533
P E I Swartz	8	**—**	**—**	**—**	**—**	**—**	116 625
Total		**5 903 603**	**2 403 603**	**2 344 648**	**3 677 368**	**14 329 222**	12 663 220

Notes

(1) Appointed Chairman of the board on 20 July 2009; was the Deputy Chairman until 19 July 2009. Received board and committee fees according to the non-executive directors' fee structure up to 31 July 2009; changed to Chairman's fixed remuneration of R3,5 million per year (payable on a monthly basis) from 1 August 2009. Previous Chairperson (G Marcus) paid up to 31 July 2009.

(2) Appointed to the board on 23 March 2009.

(3) Appointed to the board on 1 January 2009.

(4) Resigned from the board on 19 July 2009.

(5) Resigned from the board on 11 February 2009.

(6) Retired from the board on 21 April 2009. He remains a member of the Batho Bonke HDSA Trust.

(7) Retired from the board on 22 April 2008.

(8) Retired from the board on 11 March 2008.

(9) These fees are paid to Barclays and not to the individuals.

(10) All emoluments to Group non-executive directors are paid by Absa Bank Limited, except as disclosed in note 49.2 to the financial statements.

(11) The level of Mr Mondlane, Jr's ad hoc fees is significantly higher owing to membership of the Africa boards (Angola and Mozambique) on behalf of the Group.

Contents

Business reviews

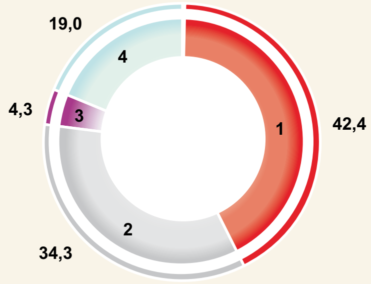
Information available on CD supplied.

Profit contribution by business area

For the year ended 31 December

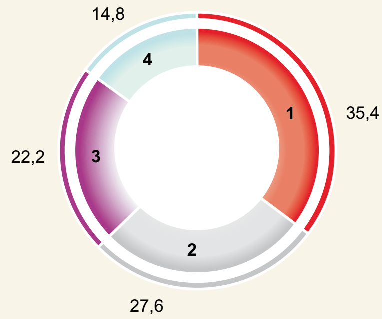
Attributable earnings (%)

2009[1]



Attributable earnings (%)

2008[1]



1. Retail banking **2.** Absa Corporate and Business Bank **3.** Absa Capital[2] **4.** Bancassurance

Notes

[1] *Calculated after the allocation of capital, funding and corporate centre.*
[2] *If calculated based on headline earnings, Absa Capital's contribution would be 16,9% (December 2008: 23,9%).*

	2009 Rm	2008[1] Rm	Change %
Banking operations			
Retail banking	**2 863**	3 628	(21,1)
Retail Bank	**3 086**	2 635	17,1
Absa Home Loans	**(1 299)**	140	>(999,9)
Absa Card	**811**	554	46,4
Absa Vehicle and Asset Finance	**265**	299	(11,4)
Absa Corporate and Business Bank (ACBB)	**2 317**	2 823	(17,9)
Absa Capital	**288**	2 276	(87,3)
Underlying performance	**1 275**	2 276	(44,0)
Single stock futures impairment	**(987)**	—	(100,0)
Corporate centre[2]	**544**	877	(38,0)
Capital and funding centre	**(35)**	4	(975,0)
Minority interest – preference shares	**(421)**	(457)	7,9
Total banking	**5 556**	9 151	(39,3)
Bancassurance	**1 284**	1 515	(15,2)
Profit attributable to ordinary equity holders of the Group	**6 840**	10 666	(35,9)
Headline earnings adjustments	**781**	(701)	211,4
Total headline earnings	**7 621**	9 965	(23,5)

Notes

[1] *The comparatives have been restated for the following:*
- *Repossessed Properties was moved from Corporate centre to Retail banking during the year under review.*
- *ACBB, to account for the fair value adjustments on acquisition of the minority share of two CPF subsidiaries in 2008.*
- *Absa Wealth was moved from Retail banking to Absa Capital during the year under review.*
- *Absa Manx Insurance Company Limited was moved from Bancassurance to Corporate centre during the year under review.*
- *The change in accounting policy regarding the retirement benefit assets and liabilities.*

[2] *Corporate centre's comparatives include the profit on Visa initial public offering (IPO) shares.*

Retail banking

Introduction

Absa's leading retail banking operations services individuals and small businesses in South Africa by offering customised banking solutions through various business divisions. A comprehensive suite of retail banking products and services are provided through an extensive branch and ATM network as well as through relationship managers, Internet and cellphone banking.

Retail banking business divisions

The Retail banking divisions in Absa are:

- Retail Bank including Retail Africa, Transactions and Deposits, Personal Loans and Small Business. The Small Business division is a segment-led, relationship-based business, providing products and services, including value-added business offerings to businesses with a turnover below R10 million per annum. Small business services around 450,000 customers. This division also provides micro-enterprise finance to entrepreneurs with turnovers between R15 000 and R300 000 per annum.

  Personal Loans offers unsecured, instalment loans to individuals to finance personal needs, including our micro-loans offering. Personal Loans services around 600 000 customers.
- Absa Home Loans.
- Absa Vehicle and Asset Finance.
- Absa Card including Woolworths Financial Services. Absa Card offers credit and debit cards as well as a merchant acquiring network across South Africa. Absa Card services close to 2 million customers.

Summary results

Attributable earnings for Absa's Retail banking declined by 21,1% to R2 863 million. Despite the general economic downturn, income increased by 4,9% while cost was contained at 0,8% growth. The cost-to-income ratio improved to 52,3% from 54,4%.

Lending declined by 3,1% as a result of a changed risk appetite and customer affordability. Customer deposits grew by 3,9%. There was, however, a sharp increase in impairments of 40,8%, resulting in the decline in earnings.

Business overview

2009 was a challenging year for Retail banking

Customers experienced considerable pressure with high levels of debt, high real interest rates, unprecedented job losses, higher electricity and fuel costs and higher inflation generally. House prices and second-hand vehicle prices decreased. The result was an increase in defaults on borrowing and reduced security values.

Absa assisted customers experiencing financial difficulties through services such as the Debt Repair Line. The Debt Repair Line provides customers the opportunity to obtain advice and possibly restructure their debt in a proactive manner. Absa experienced a general decrease in banking volumes and in transaction numbers. An increasing number of customers turned to more affordable channels such as mobile and Internet banking. The economic environment also impacted consumers appetite for credit thereby placing pressure on new account sales, advances growth and utilisation.

Absa responded to the economic challenges of 2009 by tightening the credit approval criteria and adopting a more conservative risk appetite while attempting to preserve its existing customer balances. Discretionary spend was curbed with cost constraints applied, taking cognisance of investment opportunities required to ensure sustainable profitability in future years. There was a strong focus on both collections and customer service. This was done to ensure the profitability of Absa's Retail banking franchise.

Achievement of 2009 objectives

2009 objectives	Performance
Focus on cost control, tighten credit and maintain quality at the right price.	▪ Improved cost-to-income ratio to 52,3% for 2009 (54,4% for 2008). ▪ Reduced risk appetite and tightened credit approval criteria. This led to a decline in advances balances and an increase in the interest margin on new business.
Improve customer retention through cross-selling, superior service and an aspirational brand.	▪ Decline in product holding per customer because of economic downturn and strong growth in new customers with single product offerings. Cross-selling remains a high priority. ▪ Launched latest credit card technology, the chip card, for greater security for our customers. ▪ Won an international award for ATM safety from the ATM Industry Association conference.
Attract new customers through recommendations and by providing the most innovative financial solutions.	▪ 9,6% growth in customer numbers to 11,4 million. ▪ Launched various new product offerings including the Western Union Money transfer, CashSend, the 90/10 deposit product and ATM loans. ▪ Implemented many online initiatives such as personal loan applications via mobile banking and online sales. Awarded 'Most Innovative Bank in Africa' for this achievement. ▪ 'ConnectZone' (Absa's contact centre) also won a 'Business Process Enabling South Africa Gauteng' award for top external innovative solution.
Instil world-class risk management practices. Lead in regulatory compliance.	▪ Complied with all regulations set for the financial institutions industry.
Maintain a leading position in the market and have highly motivated and talented employees.	▪ During 2009, Retail banking staff numbers decreased by 731 to 21 031. This was achieved through normal staff attrition and a freeze on new appointments. Investment was focused towards the collections and risk management capabilities, and staff numbers in frontline customer services areas were not reduced. ▪ Achieved largest presence in the retail banking industry in South Africa with 7 919 ATMs (owned and third party) and 929 outlets (figures as at 31 December 2009). ▪ Continued to attract and retain talented employees through various initiatives. This was in spite of the challenges posed by the 2009 financial year.

Awards in 2009

- 'African Banker 2009 Most Innovative Bank in Africa'.
- 'Most Promising New Product' awarded for Absa's multi-channel CashSend offering by the Financial Innovation awards 2009.
- The IFS award for 'Outstanding Innovation' awarded for the CashSend offering.
- The Banking Technology award for the 'Most Innovative use of IT'.
- 'Best Islamic Bank in Middle East and Africa' award by *Global Finance* magazine.
- 'Best Islamic Bank in Africa' awarded by *Islamic Finance News.*

Outlook for 2010

Solid foundation for growth

Absa believes it has a solid foundation for growth in 2010 after last year's downward cycle and a slow economic recovery. Our focused consolidation, together with the factors mentioned below, will help Absa continue to move forward:

- A solid brand.
- A strong and resilient customer base.
- An extended distribution footprint.
- Exceptional people.
- Innovative solutions.

Absa's Retail banking operations aspires to earn more of its customers' business over their lifetime. It aims to do this by offering customers a full range of financial products and services and through rewarding them for sourcing more products and services from Absa. Customers remain the focus of everything Absa does. The passion, commitment and engagement of staff who deal directly with customers are essential in achieving this objective.

There is a clear and focused strategy towards servicing the needs of different customer segments:

Entry-level customers:

- Decrease cost of delivery.
- Competitive offering to retain customers.
- Packaged offering of transactional products, insurance, savings and lending.

Core middle market:

- Extract value by cross-selling and innovative new product offerings.
- Differentiate through service.
- Channel: footprint and electronic.
- Insurance opportunities outside SA.

Small business customers:

- Subsegmented offering based on customer classification.
- Differentiated relationship-based approach through relationship managers, business managers and telephone support through ConnectZone.

Success in 2010 will be built on 10 themes and initiatives in support of the Group strategy

The focus for 2010, in support of the Absa Group strategic themes, is as follows:

1. Extracting real value from Absa's customer base.
2. Delivering products that meet our customer needs.
3. Offering and delivering great value in all areas.
4. Ensuring true integration and collaboration within the Absa Group.
5. Managing the relationship between channels.
6. Delivering a differentiated and consistent customer experience.
7. Enabling and inspiring employees.
8. Developing and embedding new emerging market offerings, thereby increasing our customer base.
9. Leading in the delivery of new forms of simple payment.
10. Leveraging third-party corporate relationships to facilitate lending to previously excluded entrepreneurs.

Absa Capital (including Absa Wealth)

Introduction

Absa offers investment banking services through Absa Capital. Absa Capital is an intermediary between, and adviser to, suppliers and users of various forms of capital.

Absa Capital has a unique business model, which reflects local specialist knowledge (as part of Absa Group) and global expertise (through its alliance with Barclays Capital).

At the core of the business model is the delivery of specialist investment banking, financing, risk management and advisory solutions. These are delivered across asset classes to corporations, financial institutions and government clients. The approach is client-centric, with an emphasis on origination and distribution of risk.

Absa Wealth: for individuals and families

Absa Wealth provides a full range of onshore and offshore wealth management services to individuals and families in the high and ultra-high net worth market. Absa Wealth was previously reported as part of the Retail banking segment.

Four main divisions

Absa Capital provides products and services through four main divisions:

1. **Markets** (previously called **Secondary Markets and Investor Services**):
   - Offers expertise in trading, hedging and pricing activities across various asset classes to a global client base.
2. **Investment Banking** (previously called **Primary Markets**):
   - Structures innovative solutions to suit clients' strategic acquisition, financing and risk management requirements across industry sectors in South Africa and the sub-Saharan region.
   - Offers expertise in loans, bonds, equity capital markets, advisory and structured products (such as project finance, structured equity finance, leveraged finance and debt capital markets);
3. **Private Equity and Infrastructure Investments** (previously called **Equity Investments**):
   - Private Equity acts as a principal by investing in equity exposures to companies and other entities.
   - Infrastructure Investments acts as a principal in equity exposures in entities focused on infrastructure development in sub-Saharan Africa;
4. **Absa Wealth**:
   - Provides comprehensive wealth management services to the high and ultra-high net worth market.

Absa Capital's differentiators

The following differentiators drive Absa Capital's strong position:

- The alliance with Barclays Capital. (Barclays Capital recently acquired Lehman Brothers, which gave it new equities capability.)
- Strong talent across all areas.
- Continued investment in support infrastructure and robust controls.
- Diversified earnings streams and continued diversification of earnings.
- Strong focus on risk management and control environment.
- Focus on cost efficiency.
- Increased collaboration with other Absa Group segments to increase clients' share of wallet.

Absa Capital (including Absa Wealth)

Summary results

Attributable earnings	Attributable earnings for Absa Capital (including Absa Wealth) declined by 87,3% to R288 million.
Headline earnings	Headline earnings declined by 44,1% to R1 272 million, from R2 276 million in December 2008.
Markets	The Markets business continued to grow, with revenue increasing by 1,9% to R3 264 million, from R3 204 million in 2008.
Investment Banking	The fee business of the Investment Banking division grew by 33,0% as a result of a strengthening client franchise. Margin revenue declined by 11,0%, mainly as a result of improving credit quality of the assets and higher funding costs.
Private Equity and Infrastructure Investments	The Private Equity and Infrastructure Investments division recorded a negative revenue of R1 191 million.
Absa Wealth	Absa Wealth's net revenue declined by approximately 6,4% to R263 million.

The 2009 earnings have been negatively affected by single stock futures and private equity fair value adjustments. The difficult economic conditions had an impact on deal flows and trading volumes. However, despite these conditions, both the institutional and corporate businesses showed growth on 2008 figures.

Markets

Revenue growth of 1,9%, revenue increase in fixed income and equities products

Markets continued to grow from an already high base, with revenue increasing by 1,9% to R3 264 million, from R3 204 million in 2008. Increased customer flows in derivative products, together with proactive risk management, generated exceptional growth in revenues from fixed income and equity products.

Foreign exchange revenue was negatively affected by reduced client activity, as well as fewer trading opportunities. This is because of market volatility being lower than in 2008.

The sub-Saharan Africa franchise continued to develop, generating increased trading and client revenues. The franchise's revenues grew 11,4% year on year.

Awards in 2009

Several high-profile accolades were awarded to the franchise during 2009, for example, 'Fixed Income House of the Year' (JSE Spire Awards).

Driving growth in 2010

The Markets division is strongly positioned to grow in the current market conditions. Growth will be driven by two key factors:

1. **Increased demand:** Increased macro-economic uncertainty will continue to drive demand for risk management products;
2. **Increased market penetration:** The local and global client franchise and business model, together with the relationship with Barclays, will increase market penetration of existing products and add new revenue streams through setting up new businesses (for example, cash equities).

Investment Banking

Overall revenue decline but growth in fee business

The fee business of the Investment Banking division grew by 33,0% as a result of a strengthening client franchise. Margin revenue declined by 11,0% mainly as a result of improving credit quality of the assets and higher funding costs. As a result, the overall revenue of the Investment Banking division during the period declined by 6,2% to R1 794 million.

Awards in 2009

Several high-profile awards were won during the year, for example, 'Best Primary Markets House' (JSE Spire Awards) and 'Best Debt House in Africa' (Euromoney).

Driving growth in 2010

While there may be risks of increased impairments, there are opportunities for growth: the division's loan portfolio is small compared to that of competitors.

The division aims to continue to actively manage the size and quality of its loan book, and use a client-centric approach to deliver comprehensive international and local solutions. This will ensure that Absa Capital is well positioned to capitalise on growth opportunities in the current credit conditions as economic conditions improve.

The division aims to improve its mergers and acquisitions capability and to roll out a product suite relating to equity capital markets.

Private Equity and Infrastructure Equity Investments

Negative impact of the equity markets

The Private Equity and Equity Investments division was most affected by the state of equity markets in 2009. This division recorded a negative revenue of R1 191 million, mainly due to a decline of R623 million in the value of the portfolio and funding costs of R607 million.

The global recession negatively affected the performance and valuation of investments. Already constrained performance was further worsened by depressed listed equity markets (which affected valuations) and higher funding costs with no realisations.

The division continues to manage its exposures in this asset class very closely.

Absa Wealth

Absa Wealth was previously reported under the Retail banking segment and is now included under Absa Capital.

Solid growth of gross revenue; drop in net revenue

Gross revenue showed solid growth at approximately 8,0% for the year under review. Impairments increased because of the deteriorating economic conditions and the slower property market. This resulted in a drop of 6,4% in net revenue for the year under review. The value of client funds under advice increased despite falling equity markets. This evidences a strengthening client franchise.

Driving growth in 2010

The business will continue to invest in talent, products and infrastructure to drive future growth.

Awards in 2009

- **Project Finance:** Absa Capital received the ‘Deal of the Year’ award in the ‘Project Finance Africa Telecoms’ category (R6,45 billion syndicated loan).
- **Africa Energy Awards:** ‘The best renewable project in Africa’ for the Bujagali Hydropower Project.
- **Euromoney:** Second in ‘Best for Currencies: South African Rand’.
- **Euromoney Awards for Excellence:** Recognised as the ‘Best Debt House in Africa’.
- **Africa Investor Awards:** First runner-up for the ‘Best African Investment Bank’ award.
- **Risk Magazine Survey:** Absa Capital maintained second ranking in the Risk Magazine Survey, edging towards market leadership.
- **The Banker Awards:** The judges singled out Absa Capital as a key factor in the award to Barclays Capital of ‘Most Innovative for Inflation Linked Products’ at the 2009 Banker Investment Banking Awards. This is the second consecutive year that Barclays Capital has won this award.
- **JSE Spire Awards:** Absa Capital was ranked first in nine of the 15 categories at JSE Spire Awards.
- **Dealogic:** Top South African Bookrunner (Barclays Capital – USD1 500 million).
  Top African Bookrunner (Barclays Capital – USD1 618 million).

Absa Capital (including Absa Wealth)

Achievement of 2009 objectives

	2009 objectives	Performance
Absa Capital	Invest in the support infrastructure and in robust controls to manage all the types of risk inherent in the investment banking business	▪ Foreign exchange revenue was negatively affected by reduced client activity, as well as fewer trading opportunities. This is because of market volatility being lower than in 2008. ▪ Successfully concluded a firm-wide 'Cleanslate' control review and redress programme. ▪ Introduced a process for ongoing business and control reviews. The aim is to embed a control awareness and risk sensitivity, while providing a process to expose hidden and unknown risks.
	Further grow client distribution franchise and optimise the usage of balance sheet and capital	▪ Placed innovative transactions into the market, such as inflation-linked deals. ▪ Recognised as the top distribution house in the Spire Awards.
	Retain the best talent and entrench position as employer of choice for top talent	▪ Continued to attract talent across all levels. ▪ Absa Capital's world-class graduate programme saw the largest graduate intake to date.
	Increase risk management penetration with clients, by providing tailor-made and innovative products	▪ Implemented tailor-made solutions for both asset- and liability-driven clients, including structured inflation-linked swaps to both investors and corporates.
	Develop and pursue opportunities jointly with other Absa Group businesses	▪ Successfully worked together with more Absa Group businesses, including: transactions with Absa Wealth to offer innovative investment ideas; inflation-linked trades with ACBB clients; and initiatives to align a Groupwide foreign exchange platform.
	Increase Absa Capital's presence in selected sub-Saharan markets	▪ Expanded product portfolio and improved governance frameworks for treasury business in Mozambique and Tanzania. ▪ Strengthened working relationships with Barclays Global Retail and Commercial Banking (GRCB) countries (Absa Capital jointly executed key transactions in Kenya, Uganda and Zambia). ▪ Applied to open a representative office in Nigeria. (This is subject to SARB and Central Bank of Nigeria approval.)
Absa Wealth	Deliver proprietary advice tools and package customised investment solutions	▪ Developed Absa Wealth Portfolio and cash flow modelling tools. ▪ Developed and launched Absa Wealth Core Portfolio.
	Use the Barclays Wealth offshore proposition	▪ Realigned Absa Wealth International to make better use of Barclays Wealth International's offshore proposition. ▪ Used the Barclays high-net worth offshore capabilities to conclude various offshore transactions.
	Launch the Absa Wealth brand.	▪ Successfully developed and implemented the Absa Wealth brand.
	Build Absa Wealth support infrastructure and robust controls	▪ Aligned the Infrastructure area to Barclays Wealth and Absa Capital, and built it out to ensure functional discipline and expertise. ▪ Governance structures fully integrated with Absa Capital. ▪ Through the 'Cleanslate project', successfully reviewed and revised all processes and controls that could lead to material risk.

Outlook for 2010

Growth through existing and new products

There are two themes that make Absa Capital well positioned for growth:

1. Taking best advantage of the existing platform. This involves growing volumes by increasing franchises and deepening the product offering.
2. Step-change growth initiatives through new business lines, for example:
   - Mergers & Acquisitions, Cash Equities, Equity Capital Markets, Prime Services (making use of the capabilities gained from the acquisition by Barclays of Lehman Brothers).

Growth through talent

Growth is not possible without people. Attracting, developing and retaining top talent will continue to be a critical strategy.

Collaboration and partnerships with Absa and Barclays businesses

Absa Capital will continue to solidify the current base by increasing clients and improving collaboration with other business units within Absa Group and Barclays Capital.

Best use of international and local expertise

In 2010, Absa Capital will continue to be the only investment bank to be fully local and fully global. Through its affiliation with Barclays Capital, its ability to deliver comprehensive international and local solutions to its clients will continue to differentiate it from its competitors in the South African market.

Absa Corporate and Business Bank (ACBB)

Introduction

Absa Corporate and Business Bank (ACBB) offers a comprehensive range of corporate and commercial banking products and specialised services for corporates, large and medium businesses as well as Agri-business, Public Sector and ACBB Africa. ACBB's offerings range from off-the-shelf transactional products to complex financial solutions. The products and services aim to meet corporate and commercial customer needs. They are designed to make banking – whether local or international – convenient and efficient. As from 2010 this business area will be referred to as Absa Business Bank (ABB).

Deep understanding of customers' needs differentiates ACBB in the market

Absa provides sector specialisation in eight sectors. This enables ACBB to distinguish the needs of customers in each sector and to meet those needs. By combining a relationship banking model with deep sector specialisation, ACBB has built a strong differentiated position in the market. It also reshaped its business model by increasing the focus on value and non-interest revenue.

Business overview

ACBB faced a number of challenges in 2009 in the face of the economic downturn. Nevertheless, it achieved the targets it had set for the year. ACBB faces the future well positioned.

Summary results

Attributable earnings decreased by 17,9% to R2 317 million and rising impairments in all sectors had a significant impact on profits.

Net interest income decreased by 3,6% to R5 609 million, resulting from higher funding costs, lower advances growth and downward pressure on deposit margins.

However, ACBB remained committed to growing deposits and achieved year-on-year growth of 4,6%, despite the lack of market liquidity. Competition remained high and margins consequently decreased during the year.

2009 saw several achievements

ACBB achieved the following:

- It embedded financial models to enable it to make appropriate risk versus reward decisions;
- The business prepared to compete with the best-in-class in electronic banking, cash handling, account services and card offerings;
- It established primary banking relationships and deepened the customer share of wallet, using current balance sheet product relationships with high-cross holdings of transactional banking relationships;
- It made significant strides towards becoming a more customer-centric organisation. It achieved this by focusing on the needs of customers in various sectors, deepening its sector expertise, establishing itself visibly on industry forums and associations and reaching out to customers through the customer expo and forum held during the third quarter of the year.

Awards in 2009

ACBB received the 'Euromoney African Transport deal of the year' award for the Bakwena Toll Road refinancing transaction in 2009.

The recession meant considerable challenges

Three consecutive quarters of negative economic growth and the worst recession since 1992 impacted considerably on ACBB's markets. All sectors experienced rising impairments. The profitability of the transport and real estate sectors suffered significantly. ACBB had to tighten credit criteria for several sectors, including transport, construction, commercial real estate, automotive manufacturing and automotive and steel retail.

During this period, it was able to optimise balance sheets and proactively manage risk. It was also able to identify quick-win factors that affected the income statement and to reduce the dependence on capital-intensive products and Commercial Property Finance. ACBB closely managed financially distressed customers and implemented a recovery capability.

These actions will ensure that ACBB is correctly placed for the next upswing in the market.

Achievement of 2009 objectives

2009 objectives	Performance
Provide innovative solutions and service to customers	Excelled with the launch of a new electronic banking product, Business Integrator Online. Introduced a new product-approval forum to monitor, track and implement new products.
Use Absa Capital's international syndication and distribution capabilities and its expertise in structuring complex transactions	Gained new corporate customers through collaborating with Absa Capital.
Manage efficiencies and optimise operating models to drive costs down	Maintained cost-to-income ratio at 50% despite the tough economic conditions.
Close the funding gap through driving deposits and responsibly limiting advances	Limited advances growth by setting minimum hurdle rates and establishing a strategic liability drive to increase deposits.
Focus on growing non-interest revenue	Achieved favourable underlying transactional non-interest revenue growth. Exceeded expectations for earnings from electronic products.
Diversify advances growth and penetrate the sub-Saharan Africa market	Established a sub-Saharan presence.
Drive operating income and recover leakage	Focused on being the primary banker.
Retain and build a strong agent for trust and future business with customers by reframing the relationships	Increased cross-sell ratios and defined the markets to be able to provide better service to customers. This enables the segments to determine the best products, services and delivery mechanisms to offer each customer.
Build future resilience through a drive for transformation and talent, as well as through emphasising communication	Developed and piloted highly successful workshops which were attended by ACBB Exco and the diversity forum. Met the required milestones.
Drive deeper collaboration with Barclays, Absa Capital and Absa Group	Continuously used opportunities to onsell Absa Capital's derivative and foreign exchange products to ACBB's customers.
Provide 100 000 residential units in sustainable integrated developments in all nine provinces and the six metropolitan municipalities	Partnered with government at local, provincial and national level in a number of 'Breaking New Ground' projects. Contracted to build more than 45 000 houses within the next three years.
Transfer knowledge to municipal and provincial roleplayers to establish a common framework for sustainable development efforts	Concluded several memorandums of understanding with various tiers of government. Some agreements deal with sustainable integrated developments in general on a country-wide basis. Others are project-specific. Concluded memorandums of understanding with the National Housing Finance Corporation and the Development Bank of Southern Africa.

Outlook for 2010

In the year ahead, ACBB will focus on:

- driving differentiation on Cash Management and Payments products by delivering a full banking proposition. This will establish a secure base for future competitiveness;
- promoting Specialised Finance as a future differentiator; and
- continuing to increase its primary banking relationships by using the current customer base to help establish a broader transactional banking relationship.

Beyond 2010, ACBB's strategy is to continue growing customer share of wallet by further cross-selling the Group's products. ACBB aims to extract more value from its top corporate and investment banking customers and to offer a world-class foreign exchange service.

ACBB aims to be the preferred bank of the agricultural and public sectors because of its extensive knowledge of these sectors. It will also provide thought leadership for other key sectors.

ACBB is developing end-to-end customer value propositions for most of the important sectors and subsectors it has targeted. This will allow ACBB to:

- improve non-commercial property finance;
- gain non-interest revenue growth opportunities;
- increase thought leadership for customers in these sectors and subsectors;
- develop appropriate solutions for customers; and
- increase the number of customers.

ACBB will continue to refine customer satisfaction indexes. It will ensure continuity in service and service recovery to establish itself as the best commercial bank in South Africa.

Bancassurance

Introduction

Absa Financial Services (AFS) is the custodian in the Absa Group for providing non-banking products and services, for example, insurance, investments and fiduciary services. There is a well-established and unique bancassurance operating model within Absa: it combines the strengths of a traditional bancassurance model with a pure distributor model. This integrated model enables Absa to efficiently provide the Absa bancassurance products and services to all market segments in South Africa.

Five business units make up Absa Financial Services

The bancassurance operations include the following business units and businesses:

	Business unit		Businesses
Absa Financial Services	Life insurance	➡	Absa Life Limited
	Short-term insurance	➡	Absa Insurance Company Limited Absa *idirect* Limited Absa Insurance Risk Management Services Limited
	Absa Investments	➡	Absa Fund Managers Limited Absa Investment Management Services (Proprietary) Limited Absa Stockbrokers (Proprietary) Limited Absa Portfolio Managers (Proprietary) Limited Absa Asset Management (Proprietary) Limited Absa Mortgage Fund Managers (Proprietary) Limited
	Fiduciary services	➡	Absa Trust Limited Absa Consultants and Actuaries (Proprietary) Limited Absa Healthcare Limited
	Distribution	➡	Absa Insurance and Financial Advisers (Proprietary) Limited

Summary results

In 2009, the bancassurance operations recorded a return on equity (RoE) of 37,9% (from 42,4% in 2008). There was a decline in attributable earnings of 15,2% to R1 284 million (from R1 515 million in 2008). This was due to a lower net operating income of R1 426 million (11,4% less than in 2008). The increase in short-term insurance claims in the second half of the year negatively affected operating performance. The lower interest rates in the period under review contributed to the 11,4% drop in investment income on shareholders' funds to R317 million.

Business overview

2009 saw some notable successes

Absa Investments had a breakthrough year. It continued to develop its core competencies, drawing on the strength of the Absa brand to secure and grow several significant investment mandates.

Absa Life successfully launched a prepaid funeral product on selected Absa ATMs countrywide. It also expanded into the rest of Africa with a new funeral product (Rambi Rambi Plus) in partnership with the National Bank of Commerce (NBC) in Tanzania.

Fiduciary services secured mandates to administer several pension funds.

Nevertheless, 2009 was a challenging year

The tough economic climate meant more customers lapsed or surrendered their policies. Adverse weather conditions had a negative impact on short-term insurance claims. Fire-related claims for commercial property increased in the second half of the year.

Achievement of 2009 objectives

2009 objectives	Performance
Diversify income streams	Made significant progress in diversifying earnings from traditional embedded products. Achieved higher uptake of stand-alone products, most notably Absa *idirect* and Absa@Ease.
Improve cross-sell ratios	Marginal drop in overall cross-sell ratio to 0,88 from 0,90 in 2008.
Retain customers	More customers lapsed or surrendered their policies. This was due to the tough economic climate.
Grow assets under management	Absa Investments secured several multi-management mandates. Total assets under management (AUM) increased from R212 billion to R254 billion since December 2008.

Outlook for 2010

In 2010, the bancassurance operations will focus on accelerating organic growth through the provision of a compelling customer value proposition. The longer-term goals are to improve cross-sell ratios in the Absa customer base and to retain existing assets and customers.

Absa Life Limited

Absa Life is a long-term insurer focusing on insurance and investment products that complement Absa's offerings to various market segments. It insures many Absa customers through various channels, including Absa Financial Advisers, the branch infrastructure and direct delivery channels.

Absa Life – Products and services

Product	Description
Home mortgage protection (HMP)	Life Assurance covering death, disability and retrenchment on mortgages. It is distributed mainly through insurance and financial advisers.
Credit Life	Life Assurance covering death, disability and retrenchment directly linked to the granting of a credit facility. It is distributed mainly through the branch network.
Absa Life@Ease	Stand-alone life Assurance covering death, disability and retrenchment, plus an investment option.
Funeral Cover	Funeral insurance, focusing on the mass market segment.
Investments	Customised local and offshore investment products.

Summary results

Absa Life recorded a 14,8% increase in gross premiums to R1 386 million (up from R1 207 million in 2008). This increase is attributed to:

- diversifying the product range;
- delivering stand-alone risk products for the affluent segment;
- improving penetration rates on most product lines; and
- establishing new distribution channels.

Net operating income declined by 13,7% to R644 million (from R746 million in 2008) because of general increases in disability and retrenchment claims and surrenders.

The embedded value of new business (EVNB) declined by 11,2% to R294 million (from R331 million in 2008). Strengthening the persistency and expense valuation bases as well as the increased cost of capital requirements put pressure on margins.

Achievement of 2009 objectives

2009 objectives	Performance
Distribution channels for mass market products	Launched white-label funeral schemes and prepaid funeral products using digital channels. Expanded tied-agents base to ensure sustained sales growth.
Grow Absa Financial Advisers' market share	Positive growth in most segments.
Increase penetration into Africa	Launched new funeral product (Rambi Rambi Plus) in the National Bank of Commerce (NBC) in Tanzania.
Improve current product offerings	Improved the design and competitiveness of existing offerings and distribution channels.
Implement new administration system and improve operational efficiencies and customer service	Started implementing new administration system. Improved operational efficiency and customer service through introducing workflow systems and remuneration models, based on variable incentives.

Outlook for 2010

In the year ahead, Absa Life will focus on:

- growing the customer base by executing current initiatives. This includes implementing the new administration system to improve operational efficiencies and customer service;
- improving existing products and introducing new products;
- expanding the Africa bancassurance operations;
- growing distribution channels for mass market products; and
- increasing market share in the Financial Adviser channel.

Short-term Insurance

The Short-term Insurance businesses provide short-term insurance products primarily to Absa's customers. The businesses are Absa Insurance Company, Absa *idirect* and Absa Insurance Risk Management Services. These businesses provide products that are marketed and delivered through various channels, including Absa Insurance and Financial Advisers, the branch infrastructure and direct delivery channels. Customised short-term cover for corporate customers (called cell captive facilities) is also available to third parties.

Short-term insurance – Products and services

Products	Description
Homeowners insurance	Insurance cover for damage to residential buildings.
Personal lines insurance	Individual short-term insurance products for private motor insurance, household insurance and miscellaneous cover.
Absa *idirect*	Flexible motor and household insurance products direct to the public.
Personal accident, health and travel insurance	Range of products that provide cover for accidental death, permanent disability and hospitalisation.
Commercial insurance (including agricultural assets and crops)	Short-term insurance products for the commercial market.
Warranties and other niche insurance products	Specialist short-term insurance products.
Cell captives	Customised short-term solutions for corporate customers.

Summary results

Absa Insurance and Absa *idirect* produced a robust performance, with growth in the personal lines and commercial businesses. This contributed to growth in gross premium income of 10,1% to R3 042 million (up from R2 764 million in 2008). The impact of poor weather conditions and the increase in fire-related claims for commercial property in the second half of the year contributed to the deterioration of the loss ratio to 69,9% (from 66,0% in 2008). Although the underwriting performance declined, the business remains profitable: it achieved an underwriting margin of 3,8% (from 10,2% in 2008).

Achievement of 2009 objectives

2009 objectives	Performance
Grow profitable lines of business with specific focus on retention	Exceeded targeted growth in certain lines of business.
Focus on controlling the cost of claims	Improved claims cost controls through insourcing specific functions.
Superior risk pricing	Continued to make good progress in developing pricing models.
Design and develop new administration system	The project is on track and the initial phases will be implemented in 2010.
Focus on customer centricity	Customer satisfaction remained a key focus and some progress has been made.

Outlook for 2010

The focus for the short-term insurance business in 2010 will be on growing profitable lines of business. The specific focus will be on:

- retaining customers;
- controlling the cost of claims; and
- superior risk pricing.

The new administration solution will be implemented to improve efficiencies and customer service.

Absa Investments

Absa Investments is the preferred provider of investment and wealth products to the Absa Group. It offers high-quality investment products developed in-house and selected third-party products through its linked investment platform. The core offerings of the Absa Investments group of companies include asset management, private client asset management, multi-management, unit trusts, stockbroking, participation bonds and linked investments. Absa Investments distributes its products and services to the retail market through the various Absa channels and through independent financial advisers. An in-house sales team handles distribution to the institutional market.

Absa Investments businesses

Business	Nature of business
Absa Asset Management (Proprietary) Limited (ABAM)	An institutional asset management company that manages most of Absa Fund Managers' unit trusts, as well as several segregated mandates for the Absa Group and external customers.
Absa Portfolio Managers (Proprietary) Limited	Trading as Absa Asset Management Private Clients, it manages segregated share portfolios for private clients, distributed mainly through the Absa branch network.
Absa Mortgage Fund Managers (Proprietary) Limited	Manager of Absa Participation Bond Fund, a collective investment scheme in participation bonds. The fund holds a portfolio of first mortgage bonds over commercial and industrial properties.
Absa Stockbrokers (Proprietary) Limited	Offers telephone and online trading services, as well as direct market access (DMA) trading to private and institutional customers. It also provides administration and custodial services.
Absa Fund Managers Limited	Offers various unit trust investment products both in South Africa and internationally. These products range from low-risk fixed-interest funds to higher-risk equity funds.
Absa Investment Management Services (Proprietary) Limited (AIMS)	Offers a way for clients to choose in-house and third-party unit trusts and other investment products. It also provides financial needs analysis advisory tools and risk-profiled investment portfolios.

Summary results

Absa Investments continued to develop its core offerings, using the strength of the Absa brand to grow its market share. The performance of several Absa unit trusts is rated in the first quartile over one- and three-year periods. (This means their performance is in the top 25% of the unit trusts in their sector.) Absa Investments grew assets under management and administration (AUM) by 31,3% to R153 billion. Total net inflows amounted to R24,9 billion, mostly from acquiring significant institutional mandates in the period under review. Operational efficiencies in the Absa Investments operations led to improved profit margins: 31,4 basis points (from 26,0 basis points in 2008).

Achievement of 2009 objectives

2009 objectives	Performance
Build profile in the retail and institutional investment environments	Achieved continued growth of ABAM's profile. Secured several multi-management mandates leading to growth in assets under management by 31,3% from R117 billion to R153 billion since December 2008.
Broaden the product contribution in total assets under management	Achieved significant growth in assets of the Absa Absolute Fund as it attracted new inflows.
Drive consistent investment performance	Achieved consistent results from the investment process. Achieved success with many Absa unit trusts consistently winning Raging Bull Awards.
Implement technology solution	Successfully implemented the new AIMS core administration system.

Outlook for 2010

In the year ahead, Absa Investments will continue to build its profile in the retail and institutional investment environments. The key focus will continue to be on providing a range of excellent investment solutions that offer investors value for money and consistent performance.

Absa Fiduciary Services

Absa Fiduciary Services is the custodian in the Absa Group for providing fiduciary services. The operations include Absa Trust, Absa Consultants and Actuaries (ACA) and Absa Health Care Consultants (AHCC).

Absa Fiduciary Services – Products and services

Products and services	Description
▪ It made comprehensive range of fiduciary services (Absa Trust)	▪ Drafting and safe custody of wills. ▪ Administration of deceased estates. ▪ Trustee services for personal, family, charitable and employee benefit trusts. ▪ Estate planning services. ▪ Administration of beneficiary funds.
Employee benefits (Absa Consultants and Actuaries)	▪ Retirement fund administration and consulting services (including for small businesses, farm workers and domestic workers). ▪ Preservation retirement funds. ▪ Actuarial services. ▪ Asset consulting services. ▪ Domestic workers' payroll processing.
Healthcare and managed-care solutions (Absa Health Care Consultants)	▪ Risk identification and management services to employers on medical schemes and options. ▪ Affordable, good quality healthcare funding products and services to employees and retail customers. ▪ Comprehensive absenteeism management to employers to improve productivity. ▪ Wellness programmes for employees.

Summary results

The operating earnings of Absa Consultants and Actuaries was R53 million. This was slightly down on the R54 million earned in 2008. Although the business continued to secure new retirement fund administration mandates during the year, the decline in economic activity in 2009 and resulting job losses negatively affected the performance.

The drop in the asset values of estates and trusts under administration meant asset value fee earnings declined to R93 million in 2009 from R96 million in 2008.

Bancassurance

Achievement of 2009 objectives

2009 objectives	Performance
Active interaction between retirement fund trustees and retirement fund consultants	Formed and strengthened strategic relationships which helped retain the existing book of business in tough economic conditions.
New Employee Benefits customer acquisitions, especially in the large corporate market	ACA appointed to administer the Private Security Sector Provident Fund (approximately 150 000 members).
New Beneficiary Fund customer acquisitions	Absa Trust grew the Beneficiary Fund to R1,2 billion by adding 104 new fund participants. This was a 16% growth from 2008 figures.
Expanding market share for Healthcare consulting and intermediary services	Decided to delay this because of the expected regulatory changes in the healthcare industry. This will be rolled out in 2010.
Customer service and customer retention	Developed the asset consulting capability which led to expanding on services to existing customers and greater acquisition of new customers.

Outlook for 2010

In 2010, the Fiduciary operations will focus on:

- implementing the new mandates it has secured;
- capitalising on opportunities to grow inorganically;
- retaining customers and improving customer service; and
- acquiring new customers in the large corporate and smaller to mid-sized markets.

Special focus will be given to insourcing estates work and further expanding the Beneficiary Fund and Employee Benefit Trust.

Over the longer term, Fiduciary operations will concentrate on continually developing services and products to meet the needs of retirement fund customers and their members. This is especially important in an environment of significant regulatory changes set out in the government retirement and healthcare reform proposals.

Fiduciary operations also plan to concentrate on the fiduciary needs (for example, estate planning) of high net-worth customers.

Absa Africa

Introduction

Africa remains an area of growth for the Absa Group and the association with the wider Barclays group offers Absa a cost-effective opportunity to roll out solutions and expertise into Africa using existing infrastructure, both in countries where Absa has a presence as well as in the nine countries where Barclays is represented. In particular, Absa has the mandate to drive all investment banking and bancassurance activities for the Barclays Group on the continent.

The African operations offer banking and financial products and services to a broad customer base through an extensive branch and ATM network and Internet banking capabilities. Outlets are situated in major cities and rural communities, in keeping with the Group's social and business imperatives to provide banking services to the majority of the population.

Coverage of Africa is being enhanced continually, resulting in greater knowledge transfer, improved customer solutions and an enhanced offering that marries best-in-class solutions to strong local transactional banking capabilities. Absa Africa leverages off the Group for technology support, infrastructure, governance and the wider projection of specialist skills and services.

Business composition and products

Absa Africa acts as a coordination point for the African-focused entities that are embedded in the main Group functional areas, comprising Retail banking, Absa Financial Services (bancassurance), Absa Corporate and Business Bank, and Absa Capital (which includes treasury operations). Hence, significant activities undertaken on the continent are mentioned in the reviews of the various other business units.

In particular, Absa Africa (through the Group's primary divisions) offers the following products and services:

Absa Capital

- Markets (previously called Secondary Markets and Investor Services). This includes the treasury operations.
- Investment Banking.
- Private Equity and Infrastructure Investments.

Absa Corporate and Business Bank

- Specialised finance, including trade and commodity finance.
- Commercial property finance.
- Asset and working capital finance.
- Sector specialists including agriculture and public sector.

Retail banking

- Transactional banking services.
- Personal loans and investments.
- Absa Card.

Absa Financial Services

- Short-term insurance services.
- Agri insurance.
- Funeral cover.

Summary results

Consolidated performance in Absa Group's two operating entities (National Bank of Commerce Limited (NBC) in Tanzania and Barclays Bank Mozambique) resulted in:

- attributable income growing by 41,2% to R162 million;
- headline earnings growing by 20,4% to R138 million; and
- cost-to-income ratio improving from 71,0% to 63,0%.

Loans and advances in NBC grew by 1,8% to TZS 677 billion. Loans and advances in Barclays Bank Mozambique grew by 83,4% to MZN 4,4 billion.

Deposits due to customers in NBC grew by 15,8% to TZS1 051 billion. Deposits due to customers in Barclays Bank Mozambique grew by 22,7% to MZN 6,5 billion.

Absa Africa

Achievements in 2009

The African operations did not escape the impact of the global economic downturn but was able to achieve a number of notable successes in addition to its solid financial performance outlined above:

- NBC was the recipient of the 'Best Local Bank' award at the African Banker awards ceremony in London.
- In keeping with Barclays Bank of Mozambique's vision to become the leading bank in Mozambique, the Pemba branch was nominated as the best bank in the Cabo Delgado province.
- Absa Africa was able to sell its interests in Banco Comercial Angolano successfully.
- The successful introduction of a number of new bancassurance and lending products.
- The establishment of a representative office in Namibia. This office opened in mid-2009; current business pipelines are material and confirm the Group's view that Namibia is an attractive market for Absa.
- Continued participation in a number of CSR initiatives in both Mozambique and Tanzania.
- Significant progress in aligning the Africa businesses to Group risk and governance standards.
- The Group's network in Africa increased to 61 branches and 91 ATMs at Barclays Mozambique and 53 branches and 192 ATMs at NBC, as at 31 December 2009.

Outlook for 2010

It does appear that the markets in which Absa operates are slowly emerging out of the global economic downturn. Following on this, in 2010 Absa Africa will continue to enhance its contribution to sustainable Group earnings through a focus on the following areas:

- To support business growth in Barclays Africa countries through an agreement on the provision of specialised solution capabilities from Absa Capital, Absa Corporate and Business Bank and Absa Financial Services to Barclays customers.
- To establish life assurance businesses in sub-Saharan Africa.
- To expand the employee benefits offered in presence countries.
- To conclude the base IT replatforming exercise.
- To expand the Group's business offering into new markets and segments.
- To deepen the product and services offered by Retail banking, Absa Capital and Absa Corporate and Business Bank.
- To grow the African lending and deposit books.
- Continue to invest in staff and improve performance.
- To focus on improving the understanding of customers' needs and ensuring that a customer-centric approach is applied to doing business.
- To leverage off the wider Absa Group's capabilities, skills and networks.
- To further embed governance and risk management capabilities.

Contents

Sustainability review

○ Information available on CD supplied.

Integrated sustainability reporting

Introduction

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

Absa has voluntarily aligned its reporting with the GRI standards, which represent the most advanced international standard for sustainability reporting. According to the GRI, the goal of sustainable development is to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Absa is firmly committed to advancing the principles and practice of sustainable development. Absa's sustainability review for the year ended 31 December 2009 can be found on the compact disk accompanying this annual report.

The Group has sought external advice about how to enhance its overall approach to sustainable development. One outcome of this will be formulating an independent assurance review process.

Black economic empowerment: Codes of Good Practice

Absa is aware of the role it has to play in growing the economy, and has developed a BEE strategy that supports the transformation objectives of the country. Absa is measured under the generic scorecard in terms of the Department of Trade and Industry's (DTI) Codes of Good Practice on BEE (the official standard for measuring transformation within South Africa). The Group currently qualifies as BEE compliant at Level 4. Absa's intent is to achieve a Level 3 BEE recognition status by 2011.

The table below demonstrates Absa's empowerment status as at 31 December 2009:

Absa's broad-based BEE performance as measured by the DTI Codes of Good Practice

Element	**DTI target up to 2012**	**Actual CoGP – 2008 (Verified)**	**Actual CoGP – 2009 (Verified)**
	Maximum points to be earned	Points earned	Points earned
Ownership	23	14,04	8,79
Management control	11	7,6	5,58
Employment equity	18	8,54	9,24
Skills development	15	8,16	10,52
Preferential procurement	20	13,71	15,42
Enterprise development	15	14,31	15
Socio-economic development	5	5	5
Total points	**107**	**71,36**	**69,55**
Rating/Level		Level 4	Level 4

JSE Socially Responsible Investment (SRI) Index

Absa was one of 30 JSE-listed organisations to be awarded a 'Best Performer' certificate in the 2009 JSE Socially Responsible Investment (SRI) Index survey. The Group was one of only 10 listed companies in the index to be recognised as a 'Best Performer' for three consecutive years.

Stakeholder communications and relationships

Policies

Absa has various policies in place to govern communications, relationships and conduct with its stakeholders. These policies balance the diverse needs and expectations of the Group's stakeholders and ensure that Absa engages with them in a fair and transparent manner.

Absa's stakeholders include shareholders, employees, customers, the community, government and regulators, and various suppliers and service providers. Absa reports on the nature and extent of its social transformation, ethical, safety (including HIV/Aids) and environmental policies and practices.

Disclosure to shareholders and investors

Absa recognises the importance of full, equal and timely disclosure to all shareholders as prescribed by the JSE Listings Requirements. Apart from annual and interim reports, Absa communicates with shareholders using a broad range of channels, including the Securities Exchange News Service (SENS), print, radio and television media and the Absa website.

Absa's Investor Relations department is responsible for communicating with shareholders and the investor community. It maintains regular contact with domestic and international institutional shareholders, fund and asset managers, and analysts through a comprehensive investor relations programme. The programme includes meetings with executive management, investor road shows, presentations to the investor community, and liaison with private shareholders.

Annual general meeting

The Group encourages shareholders to attend the annual general meetings, where shareholders have opportunities to take part in discussions and raise relevant issues with the directors. Explanatory notes detailing the effects of all proposed resolutions accompany the notice of each meeting.

The chairmen of the board-appointed committees attend annual and other general meetings to respond to questions from shareholders. Shareholders' meetings are conducted on the basis of a poll. The results of shareholders' meetings are posted on SENS. Shareholders also have access to the minutes of meetings in line with the provisions of the Companies Act.

Democracy Support Programme

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

The board annually approves the policy and budget for the Democracy Support Programme. A total of R2,56 million was granted to qualifying political parties through this programme in 2009. About R2,6 million was disbursed in 2008 and R2,4 million was distributed through the programme in 2007.

Selecting qualifying parties

Parties that receive funding from the Democracy Support Programme are chosen using verified provisions from the Independent Electoral Commission. To qualify for the programme, political parties must be registered in terms of section 15 of the Electoral Commission Act, No 57 of 1996, and must have parliamentary representation. Absa gives donations to national offices of all political parties who have three or more seats in Parliament. All democracy support donations are publicly declared.

Funds allocated to qualifying political parties are donated at the beginning of each calendar year. In an election year, funding is granted only after the election in the interests of impartiality and inclusiveness. This policy is reviewed by the board as and when required.

Stakeholder engagement

Stakeholder group	Mechanisms and channels of engagement	Feedback
Shareholders Analysts Investors Rating agencies	General communication with shareholders is undertaken via: ▪ The Group's annual report; ▪ Absa's website (www.absa.co.za); ▪ media releases; ▪ television; ▪ results and dividend announcements; ▪ conferences and road shows; ▪ Absa's annual general meeting; and ▪ the JSE Limited's Stock Exchange News Service (SENS). Shareholder queries are dealt with one-on-one by senior management in the Group, Group Secretariat and Group Investor Relations. Additional information for the investor community is provided through: ▪ one-on-one meetings and conference calls with executive management; ▪ road shows, investor conferences and conference calls; and ▪ financial and subject-specific presentations.	Core topics included: ▪ an overview of how Absa found the operating environment and the impact it had on business; ▪ an understanding of the Group's strategy, especially related to Africa; ▪ an understanding of the sectors available for growth in Absa; ▪ an interest in Absa management changes and make-up; ▪ the impact of regulatory changes to Absa's balance sheet and capital levels; ▪ the sustainability of cost-cutting measures; and ▪ the sustainability of the investment bank's growth.
Customers Consumers (potential customers)	Absa uses various mechanisms and channels to continuously engage with customers, to ensure that the Group is truly customer-centric in all its business operations. Normal business interaction mechanisms include: ▪ points of presence (sales and service employees); ▪ personal bankers; ▪ private bankers; ▪ relationship managers and financial advisers; ▪ self-service centres and ATMs; ▪ Internet banking feedback facility; ▪ customer call centres (including Action Line); ▪ customer focus groups; ▪ marketing and advertising; ▪ media releases; and ▪ Absa's Internet site (www.absa.co.za).	To understand the dynamics of the market in terms of actual and potential size, growth, trends, developments, threats, opportunities and key success factors, the Group undertakes market research. The Group also continuously undertakes customer analysis to evaluate the effect of Absa's marketing activities and those of competitors. This is done to understand customer behaviour and perceptions. Various projects have been undertaken in specific market segments to understand existing customer behaviour, purchase decisions, drivers and detractors and unmet needs. In addition to this, the Group has an automated complaints management system providing access to all employees to log complaints to ensure that customers receive fair and just treatment. All complaints not resolved or handled satisfactorily are logged onto the system and escalated to a dedicated central help desk focusing on the resolution of customer complaints. The help desk facilitates the process of resolution and manages the customer experience during the resolution process. Core topics included: ▪ enhancing the Group's service levels to customers; ▪ infrastructure availability; ▪ turnaround times; ▪ customer recognition; ▪ consumer indebtedness; ▪ brand awareness; ▪ brand strength; ▪ image perceptions; ▪ customer expectations and needs; ▪ customer frustrations (dislikes); and ▪ communication/advertising effectiveness.

Stakeholder engagement

Stakeholder group	Mechanisms and channels of engagement	Feedback
Employees	A variety of broad-based communication media are used to continuously engage with staff, including: ▪ Absa's intranet site, which provides employees with online access to information; ▪ a contact centre providing an email and telephonic contact point regarding employee issues; ▪ face-to-face representation per business unit; ▪ television broadcasts; ▪ an employee magazine; ▪ email; and ▪ a communication champion network.	Absa participates in an employee opinion survey (EOS), which is designed and administered by International Survey Research and is used by many major global organisations. Absa's participation allows the Group to benchmark the perceptions and overall satisfaction of its employees against some of the world's leading organisations. The EOS is undertaken annually to ensure insight into employee satisfaction and whether leadership actions have had the desired impact. Absa has an extensive communication system in place to ensure that meaningful, transparent information reaches employees in a timely fashion. Core areas pertaining to the EOS survey were as follows: ▪ Business unit leadership. ▪ Customer focus. ▪ Employee engagement. ▪ Corporate responsibility. 80% of Absa's employees participated in the survey in 2009.
The community	Obtaining and understanding of the socio-economic needs and expectations of the South African community is achieved through a two-way communication process. Communication mechanisms include: ▪ personal interactions; ▪ community forums; ▪ community-related events; ▪ Absa CSI stakeholder open day; ▪ partnership announcements and dialogue sessions; ▪ Specialised publications; ▪ Community newspapers; ▪ Absa's annual report; ▪ exhibitions; and ▪ Absa's website (www.absa.co.za).	Absa obtains feedback from the community with regard to funding needs and the likely impact of this funding. Absa strongly believes in partnerships to engage with the communities in which it operates. Through a provincial network of consultants, Absa engages directly with community members through formal and informal meetings on national developmental priorities and local community needs. Identification of these needs enables grant funding to impact on the area identified. Core focus areas of involvement included: ▪ early childhood development (ECD) in partnership with training organisations who offer accredited training to community-based ECD practitioners; ▪ mathematics, science and technology education, specifically the training of educators with the intention of upgrading their qualification levels and thereby providing them with an increased ability to teach their subject matter; ▪ entrepreneurship development and job creation by engaging disadvantaged and developing communities in sustainable job creation activities and promoting a culture of entrepreneurship; and ▪ community-based HIV and Aids interventions committed to improving the quality of life, and building the capacity of the community to care for those affected and infected.

Stakeholder group	Mechanisms and channels of engagement	Feedback
Suppliers and other resource providers	Absa Group Sourcing has established formal communication mechanisms with Absa's suppliers. Keeping these suppliers informed and updated is part of Absa's partnership approach. A quarterly electronic newsletter is sent to suppliers. A supplier Internet site has been set up to communicate Absa's ethics, policies and procedures pertaining to suppliers. The website is also used to inform current and prospective suppliers of the Absa sourcing calendar. In addition to this, it offers tools such as a BBBEE self-assessment toolkit to assist suppliers as well as the Supply Chain Corporate Responsibility (SCCR) questionnaire.	The Group issues a supply chain corporate responsibility questionnaire as part of the tender process for all medium- and high-risk categories. All of the Group's key suppliers are required to complete a questionnaire on an annual basis. The questionnaire was updated during 2008, in conjunction with other members of the Chartered Institute of Purchasing and Supply (CIPS) financial services purchasing forum. In addition, a dedicated supplier share call number is available for suppliers to contact Absa directly, as well as for complaints handling. Core topics included: ▪ health and safety; ▪ environment; ▪ labour standards; ▪ equality and diversity; ▪ service excellence; ▪ business integrity; ▪ supply chain sustainability; and ▪ business continuity.

Stakeholder engagement

Stakeholder group	Mechanisms and channels of engagement	Feedback
Governments and regulators	**Governments** At a business level: - The Absa process consists of a multi-business-unit delivery matrix enabling networking structures at various levels in the Group. - Supporting this process is a dedicated provincial and local banking presence, as well as access to Absa's provincial leadership and decision-making structures. At a community level: - Through a provincial network of consultants, Absa engages directly with the government through formal and informal meetings on national developmental priorities and local community needs. It is important that open and regular dialogue takes place across all spheres of government, not only to share information but to use government strategy to inform and, where possible, create synergy between Absa and government programmes. **Regulators** Dialogue with regulators takes the form of briefing sessions and one-on-one interactions with the relevant management and executive management in the Group.	The central communication platform is face-to-face interactions at various events, dialogue sessions and meetings. Core topics included: - education; - skills development and shortages; - human security; - infrastructure; - small medium business development; - crime; - health; - support of Africa and globalisation; - growing the first economy, reducing the second economy; - preparing for climate change and conserving the environment; and - government priorities and legislative requirements.

Contents

Financial performance

⭘ Information available on CD supplied.

Contents

Directors' approval

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' report on their responsibilities set out in their report on page 96, is made to distinguish for shareholders the respective responsibilities of the directors and auditors in relation to the financial statements.

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

To enable the directors to meet these responsibilities:

- The board and management set standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The Group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the Group Audit and Compliance Committee (GACC), appraises, evaluates and, when necessary, recommends improvements in the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.
- The GACC, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure. The GACC is satisfied that the external auditors are independent.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

The Group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

The financial statements of the Group and the Company have been prepared in accordance with the provisions of the Companies Act, No 61 of 1973 (as amended), of South Africa, and the Banks Act, No 94 of 1990 (as amended), and comply with International Financial Reporting Standards (IFRS).

The directors have no reason to believe that the Group and the Company will not be going concerns in the year ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on that basis.

It is the responsibility of the independent auditors to report on the consolidated and separate financial statements. Their report to the members of the Group and Company is set out on page 96 of this report.

The directors' report on pages 97 to 104 and the financial statements of the Group and the Company, which appear on pages 105 to 326, were approved by the board of directors and are signed by:

D C Brink
Group Chairman

M Ramos
Group Chief Executive

Johannesburg
15 February 2010

Company Secretary's certificate to the members of Absa Group Limited

In accordance with the provisions of the Companies Act, No 61 of 1973 (as amended), of South Africa, I certify that, in respect of the year ended 31 December 2009, the Company has lodged with the Registrar of Companies, all returns prescribed by the Act and that all such returns are true, correct and up to date.

S Martin
Company Secretary

Johannesburg
15 February 2010

Independent auditors' report to the members of Absa Group Limited

Report on the financial statements

We have audited the Group and Company financial statements of Absa Group Limited, which comprise the directors' report, the statement of financial position and the consolidated statement of financial position as at 31 December 2009, the statement of comprehensive income and the consolidated statement of comprehensive income, the statement of changes in equity and the consolidated statement of changes in equity, the statement of cash flows and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 97 to 311 and pages 314 to 326, excluding the sections marked as 'unaudited' in notes 62.4 and 64.2 and the directors' report.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with IFRS, and in the manner required by the Companies Act, No 61 of 1973 (as amended), of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Company as at 31 December 2009, and their financial performance and their cash flows for the year then ended in accordance with IFRS, and in the manner required by the Companies Act, No 61 of 1973 (as amended), of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: T Winterboer
Registered Auditor

Ernst + Young Inc.

Ernst & Young Inc.
Director: E van Rooyen
Registered Auditor

Johannesburg
15 February 2010

Directors' report

General information and nature of activities

The Group, which has a primary listing on the JSE Limited, is incorporated and domiciled in South Africa and provides retail, commercial, corporate and investment banking, bancassurance and wealth management products and services. The Group operates primarily in South Africa and employs over 36 000 people. The address of the Group's registered office is 3rd Floor, Absa Towers East, 170 Main Street, Johannesburg, 2001.

The Group's parent company is Barclays Bank PLC, which is incorporated and domiciled in the United Kingdom. The address of its registered office is 1 Churchill Place, Canary Wharf, United Kingdom.

The Group is one of South Africa's largest financial services organisations, serving retail, commercial and corporate customers in South Africa.

The Group also provides products and services to selected markets in the United Kingdom, Angola up to the date of its disposal, Mozambique and Tanzania.

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

The consolidated and separate financial statements were approved for issue by the board of directors on 15 February 2010.

The financial statements set out fully the financial positions, results of operations and cash flows for the Group and the Company for the year ended 31 December 2009.

Group results

Main business and operations

The Group recorded a decline of 23,5% in headline earnings to R7 621 million for the year ended 31 December 2009. Headline earnings per share (HEPS) decreased by 25,5% to 1 099,4 cents per share and fully diluted HEPS decreased by 24,5% to 1 072,0 cents per share.

Rising credit impairments and a decline in the performance of the Group's investment portfolios were the primary reason for the decline in earnings. The decline in the investment portfolios is as a result of the write-down of the carrying value of associate investments acquired after the single stock futures trading default by a broker; as well as a decline in the value of the private equity portfolio. Within the context of a demanding economic environment, total revenues declined while good cost control enabled the Group to cushion the effect of the increase in impairments. Customer numbers and transaction volumes continued to grow; and interest margins improved during the second half of 2009. The capital position of the Group remains sound.

Headline earnings were derived from the following activities:

	2009 Rm	2008[1] Rm
Banking operations		
Retail banking	**2 863**	3 628
Retail Bank	**3 086**	2 635
Absa Home Loans	**(1 299)**	140
Absa Card	**811**	554
Absa Vehicle and Asset Finance	**265**	299
Absa Corporate and Business Bank (ACBB)	**2 317**	2 823
Absa Capital	**288**	2 276
Underlying performance	**1 275**	2 276
Single stock futures impairment	**(987)**	—
Corporate centre[2]	**544**	877
Capital and funding centre	**(35)**	4
Minority interest – preference shares	**(421)**	(457)
Total banking	**5 556**	9 151
Bancassurance	**1 284**	1 515
Profit attributable to ordinary equity holders of the Group	**6 840**	10 666
Headline earnings adjustments	**781**	(701)
Total headline earnings (refer to note 44)	**7 621**	9 965

Notes

[1]*The comparatives have been restated for:*

- *Repossessed properties was moved from Corporate centre to Retail banking during the year under review.*
- *ACBB, to account for the fair value adjustments on acquisition of the minority share of two Commercial Property Finance (CPF) subsidiaries in 2008.*
- *Absa Wealth was moved from Retail banking to Absa Capital during the year under review.*
- *Absa Manx Insurance Company Limited was moved from Bancassurance to Corporate centre during the year under review.*
- *The change in accounting policy regarding the retirement benefit assets and liabilities.*

[2]*Corporate centre's comparatives includes the profit on VISA Inc.'s initial public offering (IPO) shares.*

A general review of the business and operations of major subsidiaries is given in the section titled 'Financial analysis' of this report.

Directors

The directors of the Company during the year and to the statement of financial position date are as follows:

D C Brink[1] (Group Chairman) (appointed as Chairman on 19 July 2009)

G Marcus (Former Group Chairperson) (resigned as Chairman and as a director on 19 July 2009)

M Ramos[2] (Group Chief Executive) (appointed as Group Chief Executive on 1 March 2009)

S F Booysen[2] (Former Group Chief Executive) (resigned as Group Chief Executive on 28 February 2009)

L L von Zeuner[2] (Deputy Group Chief Executive)

D C Arnold

B P Connellan[1]

Y Z Cuba

B C M M de Vitry d'Avaucourt[3] (appointed on 23 March 2009)

S A Fakie

G Griffin[1]

M W Hlahla

M J Husain

A Jenkins[4] (appointed on 23 March 2009)

R A Jenkins[4] (resigned on 11 February 2009)

R Le Blanc[4]

N P Mageza[2] (retired on 30 June 2009)

T M Mokgosi-Mwantembe

E C Mondlane, Jr[5]

T S Munday

S G Pretorius (appointed on 1 January 2009)

J H Schindehütte[2]

F F Seegers[6] (resigned on 11 February 2009)

F A Sonn[1] (retired on 21 April 2009)

B J Willemse

Notes

[1]*Has been on the board for more than nine years.*
[2]*Executive director.*
[3]*French.*
[4]*British.*
[5]*Mozambican.*
[6]*Dutch.*

Re-election of retiring directors (resolution number 4 – ordinary resolutions)

In line with international best practice, Absa Group has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting (AGM). The directors who retire in terms of the above arrangement at the 2010 AGM are D C Brink, B P Connellan and G Griffin. These directors are eligible for re-election and have made themselves available for re-election. The Absa Group board recommends the re-election of these directors.

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

The directors who retire in terms of the above arrangement at the 2010 AGM are D C Arnold, S A Fakie, M J Husain, R Le Blanc, S G Pretorius, L L von Zeuner and B J Willemse. The Absa Group board recommends the re-election of these directors.

Directors' interest in Absa Group Limited ordinary shares

The directors' interests in the issued shares of the Company as at the date of the statement of financial position are disclosed in the tables to follow. Non-executive directors are required to hold a minimum shareholding of 1 000 Absa Group Limited ordinary shares as required by a past directors' resolution. These shares have to be paid in full. The share options held by executive directors are disclosed separately in the Group remuneration report.

	Direct number of shares			
	Beneficial		Non-beneficial	
	2009	2008	**2009**	2008
Present directors				
L L von Zeuner (Deputy Group Chief Executive)[1]	**226 061**	136 727	—	—
D C Arnold	**2 000**	2 000	—	—
B P Connellan	**1 000**	1 000	—	—
Y Z Cuba	**1 000**	1 000	—	—
B C M M de Vitry d'Avaucourt[2,3]	**1 000**	n/a	—	n/a
S A Fakie	**1 000**	1 000	—	—
G Griffin	—	8 000	—	—
M W Hlahla	**1 000**	1 000	—	—
M J Husain	**1 000**	—	—	—
A Jenkins[3,4]	**1 000**	n/a	—	n/a
R Le Blanc[4]	**1 000**	1 000	—	—
T M Mokgosi-Mwantembe	**1 000**	—	—	—
E C Mondlane, Jr[5]	**1 000**	1 000	—	—
T S Munday	**1 000**	1 000	—	—
S G Pretorius[6]	**1 000**	n/a	—	n/a
J H Schindehütte[1]	**338 280**	273 709	—	—
Past directors				
G Marcus (former Group Chairperson)[7]	**n/a**	1 000	**n/a**	—
S F Booysen (former Group Chief Executive)[1,8]	**n/a**	261 667	**n/a**	—
R A Jenkins[4,9]	**n/a**	1 000	**n/a**	—
N P Mageza[1,10]	**n/a**	4 340	**n/a**	—
F F Seegers[9,11]	**n/a**	1 000	**n/a**	—
F A Sonn[12]	**n/a**	95	**n/a**	—
	578 341	696 538	**—**	—

	Indirect number of shares			
	Beneficial		Non-beneficial	
	2009	2008	**2009**	2008
Present directors				
D C Brink (Chairman)	**25 000**	25 000	**10 000**	10 000
G Griffin	**8 000**	—	**—**	—
J H Schindehütte[1]	**—**	—	**13 600**	13 600
B J Willemse	**1 000**	1 000	**—**	—
Past directors				
G Marcus (former Group Chairman)[7]	**n/a**	—	**n/a**	100
F A Sonn[12]	**n/a**	—	**n/a**	1 200
	34 000	26 000	**23 600**	24 900

Notes

[1]*Executive director.*
[2]*French.*
[3]*Appointed as a director on 23 March 2009.*
[4]*British.*
[5]*Mozambican.*
[6]*Appointed as a director on 1 January 2009.*
[7]*Resigned as Chairperson and as a director on 19 July 2009.*
[8]*Resigned as a director on 28 February 2009.*
[9]*Resigned as a director on 11 February 2009.*
[10]*Retired as a director on 30 June 2009.*
[11]*Dutch.*
[12]*Retired as a director on 21 April 2009.*

	Total direct and indirect number of shares			
	Beneficial		Non-beneficial	
	2009	2008	**2009**	2008
Present directors				
D C Brink (Group Chairman)	**25 000**	25 000	**10 000**	10 000
L L von Zeuner (Deputy Group Chief Executive)[1]	**226 061**	136 727	**—**	—
D C Arnold	**2 000**	2 000	**—**	—
B P Connellan	**1 000**	1 000	**—**	—
Y Z Cuba	**1 000**	1 000	**—**	—
B C M M de Vitry d'Avaucourt[2,3]	**1 000**	n/a	**—**	n/a
S A Fakie	**1 000**	1 000	**—**	—
G Griffin	**8 000**	8 000	**—**	—
M W Hlahla	**1 000**	1 000	**—**	—
M J Husain	**1 000**	—	**—**	—
A Jenkins[3,4]	**1 000**	n/a	**—**	n/a
R Le Blanc[4]	**1 000**	1 000	**—**	—
T M Mokgosi-Mwantembe	**1 000**	—	**—**	—
E C Mondlane, Jr[5]	**1 000**	1 000	**—**	—
T S Munday	**1 000**	1 000	**—**	—
S G Pretorius[6]	**1 000**	n/a	**—**	n/a
J H Schindehütte[1]	**338 280**	273 709	**13 600**	13 600
B J Willemse	**1 000**	1 000	**—**	—
Past directors				
G Marcus (former Group Chairperson)[7]	**n/a**	1 000	**n/a**	100
S F Booysen (former Group Chief Executive)[1,8]	**n/a**	261 667	**n/a**	—
R A Jenkins[4,9]	**n/a**	1 000	**n/a**	—
N P Mageza[1,10]	**n/a**	4 340	**n/a**	—
F F Seegers[9,11]	**n/a**	1 000	**n/a**	—
F A Sonn[12]	**n/a**	95	**n/a**	1 200
	612 341	722 538	**23 600**	24 900

Notes

[1]*Executive director.*
[2]*French.*
[3]*Appointed as a director on 23 March 2009.*
[4]*British.*
[5]*Mozambican.*
[6]*Appointed as a director on 1 January 2009.*
[7]*Resigned as Chairperson and as a director on 19 July 2009.*
[8]*Resigned as a director on 28 February 2009.*
[9]*Resigned as a director on 11 February 2009.*
[10]*Retired as a director on 30 June 2009.*
[11]*Dutch.*
[12]*Retired as a director on 21 April 2009.*

Directors' interest in Batho Bonke Capital (Proprietary) Limited preference shares

As at the statement of financial position date, the following directors held Absa redeemable cumulative option-holding preference shares indirectly through their direct or indirect holdings of ordinary shares in Batho Bonke Capital (Proprietary) Limited:

	Number of shares	
	2009	2008
Present directors		
Y Z Cuba	**91 600**	91 600
S A Fakie	**40 000**	—
M W Hlahla	**50 000**	50 000
M J Husain	**40 000**	—
T M Mokgosi-Mwantembe	**40 000**	—
Past directors		
N P Mageza[1,2]	**n/a**	500 000
F A Sonn[3]	**n/a**	500 000
	261 500	1 141 600

Notes

[1] *Executive director.*

[2] *Retired as a director on 30 June 2009.*

[3] *Retired as a director on 21 April 2009.*

Directors' interest in Absa Bank Limited preference shares

As at the statement of financial position date, the direct and indirect preference shareholding of directors in Absa Bank Limited was as follows:

	Number of shares			
	2009		2008	
	Direct	**Indirect**	Direct	Indirect
Present directors				
D C Arnold	**400**	**—**	400	—
B P Connellan	**300**	**—**	300	—
L L von Zeuner[1] (Deputy Group Chief Executive)	**562**	**—**	562	—
Past directors				
S F Booysen[1,2] (former Group Chief Executive)	**n/a**	**n/a**	—	11 000
N P Mageza[1,3]	**n/a**	**n/a**	—	140
	1 262	**—**	1 262	11 140

Notes

[1] *Executive director.*

[2] *Resigned as a director on 28 February 2009.*

[3] *Retired as a director on 30 June 2009.*

There has been no change in the interest of directors between the statement of financial position date and 15 February 2010.

Directors' and officers' interest in contracts

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

Transactions with directors are entered into in the normal course of business under terms that are no more favourable than those arranged with third parties.

Directors' emoluments

Directors' emoluments in respect of the Company's executive directors are disclosed in the directors' remuneration report and note 49.2 of the consolidated financial statements.

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 49 to the financial statements.

Acquisitions

The following interests were acquired since the date of the previous directors' report:

Equity accounted associates and/or joint ventures

- On acquisition of Abseq Properties (Proprietary) Limited, Absa Bank Limited also effectively acquired a 50,0% interest in Kilkishen Investments (Proprietary) Limited and 50,0% interest in Stand 1135 Houghton (Proprietary) Limited, both property investment companies.
- Absa Bank Limited acquired a further 2,2% interest in Blue Financial Services Limited, a micro-finance company, at a cost of R62 million during May 2009. The Group's shareholding is now 20,2%.
- Absa Bank Limited acquired a 50,0% interest in Meadowood Investments 8 (Proprietary) Limited, a security special purpose vehicle, for R1,00 on 1 January 2009. The acquisition resulted from the Group exercising its rights in terms of a collateral agreement upon default by a client on loans.

Associates classified at fair value through profit or loss

- Absa Bank Limited acquired a 50,0% interest in Tembisa Mall (Proprietary) Limited, a property development company, at a cost of R29 million on 1 November 2009.

Subsidiaries

- On 31 January 2009, Absa Bank Limited acquired an additional 35,2% interest in Abseq Properties (Proprietary) Limited, a property and investment company, increasing its shareholding to 85,0% at a total cost of R166 million.
- Absa Group Limited acquired a 100,0% interest in Blue Age Properties 60 (Proprietary) Limited on 1 June 2009 at a total cost of R100.
- Absa Bank Limited acquired an additional 50,0% interest in Ngwenya River Estate (Proprietary) Limited, a property development company, increasing its shareholding to 100,0% on 1 October 2008 (subject to South African Reserve Bank approval). As at 31 December 2008, the investment was fully consolidated and minority interest of 50,0% was provided for. The acquisition became effective from April 2009 after receiving Reserve Bank and Competition Commission approval.

Disposals

The following interests have been sold or discontinued since the date of the previous directors' report:

- Absa Group Limited sold its 50,0% interest in Banco Commercial Angolano during June 2009 at a profit of R15 million, net of the reimbursement costs.
- ApexHi Limited acquired 34,9% of Ambit Properties Limited in November 2008 and indicated their intention to acquire all of Ambit Properties Limited's (previously an equity accounted associate) equity. Absa Bank Limited held 34,5% of Ambit Properties Limited's equity and indicated its support of the scheme proposed by ApexHi Limited whereby ApexHi Limited would acquire the entire equity of Ambit Properties Limited in exchange for a 6,0% shareholding in ApexHi Limited. As part of the swap transaction, Absa Bank Limited, through its subsidiary Ambit Management Services (Proprietary) Limited (a subsidiary of the Group), committed to sell their property management contractual rights over Ambit Properties Limited to ApexHi Limited. At 30 June 2009 Absa Bank Limited was considered to be unconditionally bound to the transaction and previously gave an irrevocable undertaking to elect the option to be awarded ApexHi Limited shares at the conversion ratio. The transaction resulted in a net loss of R30 million which was recognised at 30 June 2009.

Refer to notes 13 and 56 for additional information on the above acquisitions and disposals.

Directors' report

Special resolutions

The following special resolutions were passed by Absa Group Limited:

- Special resolution number 1: To authorise the Company to repurchase 36 503 000 redeemable preference shares from Batho Bonke Capital (Proprietary) Limited.
- Special resolution number 2: To provide financial assistance to Batho Bonke Capital (Proprietary) Limited.
- Special resolution number 3: To authorise the Company to repurchase Absa Group Limited subscription shares on redemption of Newco 'C' preference shares.
- Special resolution number 4: To authorise the Company to effect a general buy-back of shares if such a need arises.

Secretary

The secretary of the Company is S Martin. Her contact details are as follows:

3rd Floor, Absa Towers East
170 Main Street
Johannesburg, 2001
Telephone: 011 350 4828
Telefax: 011 350 4009
Email: sarita.martin@absa.co.za

Authorised and issued share capital

Authorised

The authorised share capital of the Company of R1 760 935 000 consists of 880 467 500 ordinary shares of R2,00 each.

The authorised share capital has increased during the year in terms of article 177.4 of the articles of association (refer to note 27.1).

Issued

- On 17 March 2009, 93 900 ordinary shares were issued at R64,80 per share, in favour of the Absa Group Limited Employee Share Ownership Administrative Trust.
- On 15 June 2009, 36 649 300 ordinary shares were issued at R68,30 per share, in favour of Batho Bonke Capital (Proprietary) Limited.
- On 24 June 2009, 434 900 ordinary shares were issued at R68,30 per share, in favour of the Absa Group Limited Employee Share Ownership Administrative Trust.
- On 24 June 2009, 753 642 ordinary shares were issued at R41,97 per share, in favour of the Absa Group Limited Share Incentive Trust.

Following the above share issues of ordinary shares and redemption of preference shares, the total issued share capital as at the statement of financial position date, was made up as follows:

- 718 210 043 ordinary shares of R2,00 per share.
- No preference shares are in issue by the Company.

Dividends

- On 9 February 2009, a dividend of 330,0 cents per ordinary share was announced to ordinary shareholders registered on 6 March 2009.
- On 3 August 2009, a dividend of 225,0 cents per ordinary share was announced to ordinary shareholders registered on 28 August 2009.
- On 16 February 2010, a dividend of 220,0 cents per ordinary share will be announced to ordinary shareholders registered on 12 March 2010. This dividend is payable on 15 March 2010.

Events subsequent to statement of financial position date

- As at 31 December 2009 Absa Bank Limited held 1,26 billion shares (23,0%) in an associate, Pinnacle Point Group (PPG). On 8 February 2010 Absa Bank Limited concluded a transaction in terms of which it would subscribe for a further 1,47 billion shares in PPG and then sell the entire investment of 2,73 billion shares (39,0%) for R150 million of which R55 million is deferred.
- It was announced on 12 February 2010 that D W P Hodnett has been appointed as Group Finance Director with effect from 1 March 2010.

Auditors

PricewaterhouseCoopers Incorporated and Ernst & Young Incorporated have been recommended for re-appointment by the GACC and will continue in office in accordance with section 270(2) of the Companies Act, No 61 of 1973 (as amended), of South Africa.

Code of Corporate Practices and Conduct (unaudited)

The board is of the view that the Company complies with the recommendations of the Code of Corporate Practices and Conduct included in the King II Report on Corporate Governance. The Company is currently evaluating the King III recommendations.

Consolidated statement of financial position

As at 31 December

		Group		
	Note	**2009 Rm**	2008[1] Rm	2007[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**20 597**	24 828	20 629
Statutory liquid asset portfolio	3	**33 943**	33 043	22 957
Loans and advances to banks	4	**36 032**	44 662	54 025
Trading portfolio assets	5	**61 779**	78 879	25 824
Hedging portfolio assets	5	**2 558**	3 139	725
Other assets	6	**17 777**	16 925	24 408
Current tax assets	7	**234**	23	185
Non-current assets held for sale	8	**—**	2 495	—
Loans and advances to customers	9	**503 630**	532 144	455 958
Reinsurance assets	11	**719**	903	485
Investments	12	**29 564**	26 980	29 792
Investments in associates and joint ventures	13	**487**	2 144	1 004
Goodwill and intangible assets	14	**1 245**	963	301
Investment property	15	**2 195**	661	—
Property and equipment	16	**6 606**	6 127	4 610
Deferred tax assets	17	**374**	241	111
Total assets		**717 740**	774 157	641 014
Liabilities				
Deposits from banks	18	**39 616**	54 633	58 033
Trading portfolio liabilities	19	**53 722**	72 737	34 919
Hedging portfolio liabilities	19	**565**	1 080	2 226
Other liabilities	20	**12 212**	12 618	9 953
Provisions	21	**1 684**	2 113	2 366
Current tax liabilities	7	**59**	385	183
Non-current liabilities held for sale	8	**—**	408	—
Deposits due to customers	22	**350 757**	382 281	310 512
Debt securities in issue	23	**171 376**	165 900	156 424
Liabilities under investment contracts	24	**12 446**	10 377	7 908
Policyholder liabilities under insurance contracts	25	**3 136**	3 076	3 318
Borrowed funds	26	**13 530**	12 296	9 949
Deferred tax liabilities	17	**2 147**	2 960	2 600
Total liabilities		**661 250**	720 864	598 391
Equity				
Capital and reserves				
Attributable to ordinary equity holders of the Group:				
Share capital	27	**1 432**	1 354	1 350
Share premium	27	**4 784**	2 251	2 292
Other reserves	28	**1 178**	3 010	384
Retained earnings		**43 153**	40 992	33 612
		50 547	47 607	37 638
Minority interest – ordinary shares		**1 299**	1 042	341
Minority interest – preference shares	29	**4 644**	4 644	4 644
Total equity		**56 490**	53 293	42 623
Total equity and liabilities		**717 740**	774 157	641 014

Note

[1]*Reclassified and restated (refer to note 1.26).*

Consolidated statement of comprehensive income

For the year ended 31 December

		Group	
	Note	2009 Rm	2008[1] Rm
Net interest income		21 854	22 106
Interest and similar income	30	65 247	76 260
Interest expense and similar charges	31	(43 393)	(54 154)
Impairment losses on loans and advances	10	(8 967)	(5 839)
Net interest income after impairment losses on loans and advances		12 887	16 267
Net fee and commission income		14 289	13 343
Fee and commission income	32	16 301	15 064
Fee and commission expense	32	(2 012)	(1 721)
Net insurance premium income	33	3 787	3 511
Net insurance claims and benefits paid	34	(2 215)	(1 890)
Changes in investment and insurance liabilities	35	(560)	(70)
Gains and losses from banking and trading activities	36	2 575	3 331
Gains and losses from investment activities	37	1 464	1 064
Other operating income	38	892	1 532
Operating profit before operating expenditure		33 119	37 088
Operating expenditure		(23 227)	(21 856)
Operating expenses	39	(20 857)	(21 114)
Other impairments	40	(1 457)	(18)
Indirect taxation	41	(913)	(724)
Share of retained (losses)/earnings from associates and joint ventures	13.1	(50)	73
Operating profit before income tax		9 842	15 305
Taxation expense	42	(2 340)	(3 988)
Profit for the year		7 502	11 317
Other comprehensive income			
Exchange differences on translation of foreign operations		(668)	241
Movement in cash flow hedging reserve		(665)	2 660
Fair value (losses)/gains arising during the year		(148)	2 054
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		(776)	1 636
Deferred tax	17	259	(1 030)
Movement in available-for-sale reserve		(326)	(89)
Fair value losses arising during the year		(306)	(240)
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		(205)	—
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income		104	85
Deferred tax	17	81	66
Movement in retirement benefit assets and liabilities		52	190
Increase in retirement benefit surplus		104	252
(Increase)/decrease in retirement benefit liabilities		(33)	14
Deferred tax	17	(19)	(76)
Total comprehensive income for the year		5 895	14 319

		Group	
	Note	**2009 Rm**	2008[1] Rm
Profit attributable to:			
Ordinary equity holders of the Group		**6 840**	10 666
Minority interest – ordinary shares		**241**	194
Minority interest – preference shares		**421**	457
		7 502	11 317
Total comprehensive income attributable to:			
Ordinary equity holders of the Group		**5 238**	13 675
Minority interest – ordinary shares		**236**	187
Minority interest – preference shares		**421**	457
		5 895	14 319
Earnings per share:			
• basic earnings per share (cents)	43.1	**986,7**	1 578,5
• diluted earnings per share (cents)	43.2	**962,2**	1 519,9

Note

[1]*Reclassified and restated (refer to note 1.26).*

Consolidated statement of changes in equity

For the year ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	General credit risk reserve Rm
Balance at 1 January 2009	**676 972**	**1 354**	**2 251**	**47**
Total comprehensive income	—	—	—	—
Profit for the year	—	—	—	—
Other comprehensive income	—	—	—	—
Dividends paid	—	—	—	—
Shares issued	37 932	76	2 495	—
Repurchase of preference shares held by Batho Bonke Capital (Proprietary) Limited	—	—	3	—
Costs incurred	—	—	(0)	—
Elimination of gains from derivative instruments on own shares	—	—	2	—
Share buy-back in respect of Absa Group Limited Share Incentive Trust	—	—	(86)	—
Elimination of treasury shares held by the Absa Group Limited Share Incentive Trust	559	1	15	
Options exercised by employees		3	55	—
Shares issued to the trust		(2)	(40)	—
Elimination of treasury shares held by Absa Life Limited	360	1	37	—
Elimination of treasury shares held by the Absa Group Limited Employee Share Ownership Administrative Trust	—	0	0	—
Options exercised by employees		0	0	—
Shares issued to the trust		—	(0)	—
Movement in share-based payment reserve	—	0	67	—
Transfer from share-based payment reserve		0	67	—
Value of employee services		—	—	—
Movement in general credit risk reserve	—	—	—	(23)
Movement in insurance contingency reserve	—	—	—	—
Share of associates' and joint ventures' retained losses	—	—	—	—
Disposal of associates and joint ventures – release of reserves	—	—	—	—
Acquisition of subsidiary	—	—	—	—
Balance at 31 December 2009	**715 823**	**1 432**	**4 784**	**24**
Notes	27	27	27	28

Comparatives have been restated, refer to note 1.26.

Note

All movements are reflected net of taxation, refer to note 17.

Group

2009

Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Insurance contin-gency reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Retained earnings Rm	Minority interest – ordinary shares Rm	Minority interest – preference shares Rm	Total Rm
(36)	1 771	342	225	319	342	40 992	1 042	4 644	53 293
(326)	(665)	(663)	—	—	—	6 892	236	421	5 895
—	—	—	—	—	—	6 840	241	421	7 502
(326)	(665)	(663)	—	—	—	52	(5)	—	(1 607)
—	—	—	—	—	—	(3 800)	(51)	(421)	(4 272)
—	—	—	—	—	—	—	—	—	2 571
—	—	—	—	—	—	(1 089)	—	—	(1 086)
—	—	—	—	—	—	—	—	—	(0)
—	—	—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	—	—	(86)
									16
—	—	—	—	—	—	—	—	—	58
—	—	—	—	—	—	—	—	—	(42)
—	—	—	—	—	—	—	—	—	38
—	—	—	—	—	—	—	—	—	0
—	—	—	—	—	—	—	—	—	0
—	—	—	—	—	—	—	—	—	(0)
—	—	—	—	(21)	—	1	—	—	47
—	—	—	—	(68)	—	1	—	—	—
—	—	—	—	47	—	—	—	—	47
—	—	—	—	—	—	23	—	—	—
—	—	—	25	—	—	(25)	—	—	—
—	—	—	—	—	(50)	50	—	—	—
—	—	—	—	—	(109)	109	—	—	—
—	—	—	—	—	—	—	72	—	72
(362)	1 106	(321)	250	298	183	43 153	1 299	4 644	56 490
28	28	28	28	28	28			29	

Consolidated statement of changes in equity

For the year ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	General credit risk reserve Rm
Balance at 1 January 2008 as previously reported	675 108	1 350	2 292	481
Restatement of opening balance (refer to note 1.26)	—	—	—	—
Restated balance at 1 January 2008	675 108	1 350	2 292	481
Total comprehensive income	—	—	—	—
Profit for the year	—	—	—	—
Other comprehensive income	—	—	—	—
Dividends paid	—	—	—	—
Shares issued	1 705	3	72	—
Elimination of losses from derivative instruments on own shares	—	—	(97)	—
Share buy-back in respect of Absa Group Limited Share Incentive Trust	—	(0)	(63)	—
Elimination of treasury shares held by the Absa Group Limited Share Incentive Trust	278	1	7	—
Options exercised by employees		(2)	56	—
Shares issued to the trust		3	(49)	—
Elimination of treasury shares held by Absa Life Limited	(187)	(0)	(6)	—
Elimination of treasury shares held by the Absa Group Limited Employee Share Ownership Administrative Trust	68	0	5	—
Options exercised by employees		0	5	—
Shares issued to the trust		—	—	—
Movement in share-based payment reserve	—	—	41	—
Transfer from share-based payment reserve		—	41	—
Value of employee services		—	—	—
Movement in general credit risk reserve	—	—	—	(434)
Movement in insurance contingency reserve	—	—	—	—
Share of associates' and joint ventures' retained earnings	—	—	—	—
Disposal of associates and joint ventures – release of reserves	—	—	—	—
Acquisition of subsidiary	—	—	—	—
Balance at 31 December 2008	676 972	1 354	2 251	47
Notes	27	27	27	28

Comparatives have been restated, refer to note 1.26.

Note

All movements are reflected net of taxation, refer to note 17.

Group
2008

Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Insurance contin-gency reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Retained earnings Rm	Minority interest – ordinary shares Rm	Minority interest – preference shares Rm	Total Rm
53	(889)	94	203	170	272	33 549	341	4 644	42 560
—	—	—	—	—	—	63	—	—	63
53	(889)	94	203	170	272	33 612	341	4 644	42 623
(89)	2 660	248	—	—	—	10 856	187	457	14 319
—	—	—	—	—	—	10 666	194	457	11 317
(89)	2 660	248	—	—	—	190	(7)	—	3 002
—	—	—	—	—	—	(3 974)	(34)	(457)	(4 465)
—	—	—	—	—	—	—	—	—	75
—	—	—	—	—	—	—	—	—	(97)
—	—	—	—	—	—	153	—	—	90
—	—	—	—	—	—	—	—	—	8
—	—	—	—	—	—	—	—	—	54
—	—	—	—	—	—	—	—	—	(46)
—	—	—	—	—	—	—	—	—	(6)
—	—	—	—	—	—	—	—	—	5
—	—	—	—	—	—	—	—	—	5
—	—	—	—	—	—	—	—	—	—
—	—	—	—	149	—	3	—	—	193
—	—	—	—	(44)	—	3	—	—	—
—	—	—	—	193	—	—	—	—	193
—	—	—	—	—	—	434	—	—	—
—	—	—	22	—	—	(22)	—	—	—
—	—	—	—	—	73	(73)	—	—	—
—	—	—	—	—	(3)	3	—	—	—
—	—	—	—	—	—	—	548	—	548
(36)	1 771	342	225	319	342	40 992	1 042	4 644	53 293
28	28	28	28	28	28			29	

Consolidated statement of cash flows

For the year ended 31 December

		Group	
	Note	**2009 Rm**	2008 Rm
Cash flow from operating activities			
Interest, fee and commission income		**81 261**	87 342
Interest, fee and commission expense		**(46 184)**	(53 095)
Insurance premiums and claims		**1 611**	3 657
Net trading and other income		**936**	11 539
Cash payments to employees and suppliers		**(19 756)**	(20 192)
Income taxes paid		**(3 662)**	(4 559)
Cash flow from operating profit before changes in operating assets and liabilities		**14 206**	24 692
Net decrease/(increase) in trading and hedging portfolio assets		**19 125**	(56 589)
Net decrease/(increase) in loans and advances to customers		**16 276**	(74 516)
Net decrease in other assets		**11 656**	5 321
Net increase/(decrease) in insurance and investment contracts		**2 090**	(4 392)
Net (decrease)/increase in trading and hedging portfolio liabilities		**(19 825)**	36 575
Net (decrease)/increase in amounts due to customers and banks		**(28 556)**	69 708
Net (decrease)/increase in other liabilities		**(9 961)**	2 435
Net cash generated from operating activities		**5 011**	3 234
Cash flow from investing activities			
Purchase of investment property	15	**(145)**	(276)
Purchase of property and equipment	16	**(2 170)**	(2 439)
Proceeds from sale of property and equipment		**476**	210
Purchase of intangible assets	14	**(427)**	(187)
Proceeds from sale of intangible assets		**65**	—
Acquisition of subsidiaries, net of cash	56.1 & 56.2	**(166)**	(148)
Disposal of subsidiaries, net of cash	56.3	**—**	(44)
Acquisition of associates and joint ventures, net of cash	13.5	**(61)**	(1 089)
Disposal of associates and joint ventures, net of cash		**78**	68
Net increase in loans to associates and joint ventures	13.1	**(4)**	(10)
Net decrease in investments		**136**	2 147
Net cash utilised from investing activities		**(2 218)**	(1 768)
Cash flow from financing activities			
Issue of ordinary shares		**2 625**	81
Share buy-back		**(1 172)**	—
Proceeds from borrowed funds		**4 500**	1 886
Repayment of borrowed funds		**(3 100)**	—
Dividends paid		**(4 272)**	(4 431)
Net cash utilised from financing activities		**(1 419)**	(2 464)
Net increase/(decrease) in cash and cash equivalents		**1 374**	(998)
Cash and cash equivalents at the beginning of the year		**5 600**	6 596
Effect of exchange rate movements on cash and cash equivalents		**2**	2
Cash and cash equivalents at the end of the year	54	**6 976**	5 600

1. Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies comply with IFRS, Interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the requirements of the Companies Act, No 61 of 1973 (as amended), of South Africa.

New Standards, Interpretations and amendments to published Standards and Interpretations effective in 2009

IFRS 8 Operating segments was early adopted in 2008.

IFRS 2 Share-based Payment – Vesting Conditions and Cancellations

The Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures

The amended Standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by observability and significance of source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures are presented in note 66, and the liquidity risk disclosures are not significantly impacted by the amendments.

IAS 1 Presentation of Financial Statements (Revised)

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

IAS 23 Borrowing Costs (Revised)

The Standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the Standard this has been adopted as a prospective change. Borrowing costs have been capitalised on qualifying assets from 1 January 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed.

IAS 27 Consolidated and Separate Financial Statements

The amended Standard removes the cost method definition. The distinction between pre- and post acquisition dividends is therefore no longer required and all dividends are recognised in the statement of comprehensive income. The impact of this amendment on the Group is not considered to be significant.

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

The Standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

IFRIC 9 amended for embedded derivatives on reclassification

The amendments to IFRIC 9 and IAS 39 clarify the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment to IAS 39. The reclassification amendment allows entities to reclassify particular financial instruments out of the 'fair value through profit or loss' category in specific circumstances. These amendments to IFRIC 9 and IAS 39 clarify that on reclassification of a financial asset out of the 'fair value through profit or loss' category, all embedded derivatives have to be assessed and, if

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

necessary, separately accounted for. The impact of this amendment on the Group is not considered to be significant.

IFRIC 13 Customer Loyalty Programmes

This Interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The impact of this Interpretation on the Group is not considered to be significant.

IFRIC 15 Agreement for the Construction of Real Estate

The Interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the Interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The impact of this Interpretation on the Group is not considered to be significant.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 provides guidance on the accounting for a hedge of a net investment including:

- identification of the foreign currency risks that qualify for hedge accounting;
- which entity within a group can hold a hedging instrument in a hedge of a net investment in a foreign operation and in particular whether the parent entity holding the net investment in a foreign operation must also hold the hedging instrument; and
- how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item when the entity disposes of the investment.

The Group has elected to recycle the gain or loss that arose from the direct method of consolidation, which is the method the Group uses to complete its consolidation. As the Group did not dispose of any net investment, the Interpretation has had no impact on the financial position or results. The Interpretation is to be applied prospectively.

IFRIC 18 Transfers of Assets from Customers

The Interpretation should be applied prospectively to all transactions from 1 July 2009 and applies to agreements for the transfer of property, plant and equipment from a customer that must be used to connect the customer to a network or provide the customer with an ongoing supply of goods or services. The Interpretation states that the contributed assets will be recognised initially at fair value, and the related income will be recognised immediately or over the relevant service period. It also provides new guidance for the separation and recognition of the different components of a transaction.

IFRIC 18 does not have a significant impact on the consolidated financial statements of the Group.

Improvements to IFRSs

In May 2008 the International Accounting Standards Board issued its first omnibus of amendments to its Standards, primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- *IAS 1 Presentation of Financial Statements:* Assets and liabilities classified as held for trading in accordance with *IAS 39 Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Group amended its accounting policy accordingly and analysed whether its expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.
- *IAS 16 Property, Plant and Equipment:* The amendment replaces the term 'net selling price' with 'fair value less costs to sell'. The accounting policy was amended accordingly. This did not result in any change in the financial position of the Group.

- *IAS 23 Borrowing Costs:* The definition of borrowing cost is revised to align with IAS 39 by referring to the use of an effective interest rate, as described by IAS 39, as a component of borrowing costs. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.
- *IAS 38 Intangible Assets: Expenditure on advertising and promotional activities* is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

The amendments to the following Standards below did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*
- *IFRS 7 Financial Instruments: Disclosures*
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors*
- *IAS 10 Events after the Reporting Period*
- *IAS 16 Property, Plant and Equipment*
- *IAS 18 Revenue*
- *IAS 19 Employee Benefits*
- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 28 Investment in Associates*
- *IAS 31 Interest in Joint Ventures*
- *IAS 34 Interim Financial Reporting*
- *IAS 36 Impairment of Assets*
- *IAS 39 Financial Instruments: Recognition and Measurement*
- *IAS 40 Investment Property*

AC 504 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction in the South African Pension Fund Environment

This Interpretation has been issued to provide guidance on the application of *IFRIC 14 – IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* in South Africa in relation to defined benefit pension obligations (governed by the Pension Funds Act, 1956), within the scope of *IAS 19 – Employee benefits.* This Interpretation is effective for the 31 December 2010 financial year but was early adopted by the Group. Refer to note 1.26 for the impact on the Group's results.

1.1 Basis of presentation

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

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

1.2 Use of estimates, assumptions and judgements

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those current estimates reported. The accounting policies that are deemed critical to the Group's results and financial position, in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgement including the use of assumptions and estimation, are discussed below.

Impairment of loans and advances

The Group's accounting policy for losses arising from the impairment of customer loans and advances is described in note 1.7.7. Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the statement of financial position date.

Management is required to exercise judgement in making assumptions and estimations when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

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

The Group uses two alternative methods to calculate collective impairment allowances on homogeneous groups of loans that are not considered individually significant:

- when appropriate empirical information is available, the Group utilises roll-rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the likelihood that loans will progress through the various stages of delinquency and ultimately prove irrecoverable. The estimated loss is the difference between the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio; and
- in other cases, when the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll-rate methodology, the Group adopts a formulaic approach which allocates progressively higher percentage loss rates the longer a customer's loan is overdue. Loss rates are based on historical experience.

Both methodologies are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis because of the large number of individually insignificant loans in the portfolio.

In addition, the use of statistically assessed historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the statement of financial position date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected in the statistical models. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment allowances derived solely from historical loss experience.

This key area of judgement is subject to uncertainty and is highly sensitive to factors such as loan portfolio growth, product mix, unemployment rates, bankruptcy trends, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, account management policies and practices, changes in laws and regulations, and other factors that can affect customer payment patterns. These judgement areas are included in models which are used to calculate impairments. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. For example, roll-rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Goodwill impairment

The Group's accounting policy for goodwill is described in note 1.14.1.

The process of identifying and evaluating goodwill impairment is inherently uncertain because it requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used. The review of goodwill impairment represents management's best estimate of the factors below:

- the future cash flows of the cash-generating units (CGUs) are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data in future years; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects at the time of the assessment; and
- the discount rate used to discount the future expected cash flows is based on the Group's weighted average cost of capital. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions

outside of management's control and are therefore established on the basis of significant management judgement and are subject to uncertainty.

When this exercise demonstrates that the expected cash flows of a CGU have declined and/or that its cost of capital has increased, the effect is to reduce the CGUs estimated recoverable amount. If this results in an estimated recoverable amount that is lower than the carrying value of the CGU, a charge for impairment of goodwill will be recognised in the profit and loss component of the Group's statement of comprehensive income for the year.

The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. In such market conditions, management retests goodwill for impairment more frequently than annually to ensure that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.

Note 14 includes details of the CGUs with significant balances of goodwill, states the key assumptions used to assess the goodwill in each of those CGUs for impairment, and provides a discussion on the sensitivity of the carrying value of goodwill to changes in key assumptions.

Valuation of financial instruments

The Group's accounting policy for determining the fair value of financial instruments is described in note 66.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The main assumptions and estimates which management considers when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. Management bases the determination of this rate on its assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the unobservable inputs are significant.

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

Impairment of available-for-sale financial assets

The Group's accounting policy for impairment of available-for-sale financial assets is described in note 1.7.3.

Available-for-sale financial assets are measured at fair value, and changes in fair value are recognised in equity in the available-for-sale reserve until the financial assets are either sold or become impaired. An impairment loss is recognised if there is objective evidence of impairment as a result of loss events which have an impact on the estimated future cash flows of the financial asset that can be reliably estimated. If an available-for-sale financial asset becomes impaired, the entire balance in equity relating to that asset is removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income as an impairment loss.

Management is required to exercise judgement in determining whether there is objective evidence that an impairment loss has occurred. Once an impairment has been identified, the amount of impairment loss is measured in relation to the fair value of the asset. More information on assumptions and estimates requiring management judgement relating to the determination of fair values of financial instruments is provided above in 'Valuation of financial instruments'.

The objective evidence required to determine whether an available-for-sale debt security is impaired comprises evidence of the occurrence of a loss event and evidence that the loss event results in a decrease in estimated future cash flows. Where cash flows are readily determinable, a low level of judgement may be involved. Where determination of estimated future cash flows requires consideration of a number of variables, some of which may be unobservable in current market conditions, more significant judgement is required.

There is no single factor to which the Group's charge for impairment of available-for-sale debt instruments is particularly sensitive, because of the range of different types of securities held, and the wide range of factors which can affect the occurrence of loss events and the cash flows of securities, including different types of collateral.

Impairment of investment in associates and joint ventures

When indications exist that the carrying amount of the investment in associates and joint ventures would not be recoverable, an impairment is recognised. The recoverable amount is the higher of value in use and fair value less cost to sell and is based on the Group's best estimate of the price the Group would achieve in a sale transaction of the investment.

Deferred tax assets

The Group's accounting policy for the recognition of deferred tax assets is described in note 1.23.2. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

The amount of deferred tax assets recognised is based on the evidence available about conditions at the statement of financial position date, and requires significant judgements to be made by management. Management's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, future reversals of existing taxable temporary differences, and the availability of assessed losses. The recognition of the deferred tax asset is mainly dependent upon the projection of future taxable profits.

Management's projections of future taxable income are based on business plans, future capital requirements and ongoing tax planning strategies.

Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax assets.

Consolidation of special purpose entities (SPEs)

The Group consolidates certain SPEs, which may or may not be directly or indirectly owned subsidiaries. These SPEs are consolidated when they are controlled by the Group. Judgement is required in assessing and determining if the Group controls SPEs.

Post-retirement benefits

The contribution towards the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See note 45 for the assumptions used.

All permanent employees are members of the Absa Group Pension Fund (the fund), with the exception of employees that have commenced employment within the Group at the age of 55 or older. All members, at 31 March 1997, had the option to convert to the defined contribution structure, of which the majority did.

Provisions

Various assumptions are applied in arriving at the carrying value of provisions that are recognised in terms of the requirements of *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*. The carrying amounts of the liabilities are disclosed in note 21.

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

Share-based payments

Where the fair value of share options relating to share-based payments is not based on the Group's share price with a zero strike price, it is determined using option pricing models. The inputs to the option pricing models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The valuation of share options is described in more detail in note 55.

The ultimate liability arising from claims made under insurance contracts

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

- uncertainty as to whether an event has occurred which would give rise to an insured loss;
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring; and
- uncertainty as to the extent of policy coverage and limits applicable.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder.

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence of the uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. The Group makes estimates and assumptions to provide appropriate levels of claims provision and provision for unexpired risks. Estimates and judgements are regularly adjusted as changes in facts and experience are identified. For more details on the liability arising from claims made under insurance contracts, refer to note 25.

Absa Life insurance liability

Insurance risk for any one life insurance contract is the possibility that the insured event occurs. For a portfolio of insurance contracts probability is applied to pricing and provisioning and the principal risk that the Group faces is that the actual exposure to mortality, disability and medical payments in respect of policyholder benefits will exceed prudent expectation of the exposure (ie the carrying amount of the insurance liabilities). Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The value of the insurance liability is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the best estimate assumptions used in determining the liabilities. These assumptions are based on recent experience investigations. The risk discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from that assumed. For more details on the Absa Life insurance liability, refer to note 25.

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

1.3 Consolidation

The consolidated financial statements include those of Absa Group Limited and all its subsidiaries, associates, special purpose entities and joint ventures. Accounting policies applied by all entities within the Group are consistent with those of Absa Group Limited.

1.3.1 Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally in conjunction with a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

At an entity level, investments in subsidiaries are held at cost less any accumulated impairment.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the negative goodwill is recognised directly in the profit and loss component of the statement of comprehensive income.

When control is obtained in successive share purchases, each significant transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities are stated at fair value when control is obtained.

Intercompany transactions, balances and unrealised gains and losses are eliminated upon consolidation.

1.3.2 Investment in associates and joint ventures

Associates are those companies which are not subsidiaries and in which the Group exercises significant influence on the financial and operating policies. Significant influence is normally evident when the Group owns between 20% and 50% of a company's voting rights.

A joint venture is a contractual agreement between two or more parties to undertake an economic activity that is under joint control.

Investments in associates and joint ventures that are not deemed to be part of the Group's venture capital activities are held at cost plus equity-accounted earnings less any accumulated impairment. The Group's investment includes goodwill. Impairment of an associate or joint venture is evidenced by a significant or prolonged decline in fair value below cost and when the recoverable amount is the highest of value-in-use and fair value less cost to sell.

The results of associates and joint ventures are accounted for according to the equity method, based on their most recent audited financial statements. If the most recent available audited financial statements are for an accounting period that ended no more than three months prior to the Group's year end, these are adjusted in respect of material adjustments between their reporting date and the Group's reporting date. The Group's share of its post-acquisition profits or losses is recognised in the statement of comprehensive income and the Group's interest in the post-acquisition reserves of associates and joint ventures is treated as distributable reserves in the Group's financial statements. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the entities.

Investments in entities that form part of venture capital activities of the Group have been designated at fair value through profit or loss and disclosed under 'Investments'. The designation has been made in accordance with *IAS 39 – Financial Instruments: Recognition and Measurement,* based on the scope exclusion that is provided in *IAS 28 – Investments in Associates.*

Venture capital associated investments are distinguished from other investments by considering the nature of the investments, expected returns and the manner in which they are managed by the Group. These are private equity investments. Private equity is medium- to long-term finance that is provided in return for an equity stake in potentially high-growth unquoted entities. The fair value of these investments is determined in accordance with international private equity and venture capital valuation guidelines.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates and joint ventures. The Group determines at each statement of financial position date whether there is objective evidence that the investment in associate or joint venture is impaired. The primary indicators of potential impairment are considered to be adverse fair value movements, and the disappearance of an active market for the investments. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount (the higher of the asset's fair value less costs to sell and value in use) of the associate or joint venture and its carrying value and recognises the amount in the profit and loss component of the statement of comprehensive income.

1.3.3 Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases of additional interests in subsidiaries from minorities, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is added to, or deducted from, equity. For disposals of minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

1.3.4 Special purpose entities

The Group may enter into transactions with special purpose entities (SPEs). An SPE is consolidated on the same basis as subsidiaries as set out in 1.3.1 above, if, based on an evaluation of the substance of the relationship with the Group and the SPE's risk and rewards, the Group concludes that it controls the SPE. Control exists when the Group has the power to govern the financial and operating policies of entities so as to obtain benefits from its activities.

SPEs controlled by the Group are established under terms that:

- impose strict limitations on the decision-making powers of the SPE's management;
- result in the Group receiving the majority of the benefits related to the SPE's operations and net assets;
- enable the Group to retain the majority of the residual or ownership risks related to the SPE or its assets; and
- the activities of the SPE are being conducted on behalf of the entity according to the entity's specific business needs.

1.3.5 Business combinations achieved in stages (step acquisitions)

A business combination may involve more than one exchange transaction. When the Group purchases additional interests in an entity in which it does not have control prior to acquisition, the fair value of net identifiable assets is estimated for each exchange transaction to allow for the calculation of goodwill as a residual. The aggregate goodwill calculated is then reduced by any goodwill that has been impaired. The remaining goodwill is the amount recorded on the statement of financial position at the date of the acquisition.

1.3.6 Common control

Common control transactions are business combinations in which the combining entities are ultimately controlled by the Group. Where the transaction has substance, common control transactions are accounted for under *IFRS 3 – Business Combinations* with the difference between the purchase price and the fair value of assets and liabilities recorded in goodwill.

1.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM has been identified as the Group Chief Executive (GCE) who makes strategic decisions.

The Group has identified its reportable segments based on a combination of products and services offered to customers, external revenue, and the location of the markets served. The segments also

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

reflect how the Group's businesses are managed and reported to the CODM. The following summary describes the operations in each of the Group's reportable segments:

- Absa Capital: Provides investment banking services to the corporate, government and institutional investor segments.
- Absa Card: Provides the full range of Visa and MasterCard products, merchant services and world-class customer services to a broad spectrum of the market.
- Absa Corporate and Business Bank (ACBB): Provides a comprehensive range of commercial banking products and services to corporates, medium and large businesses.
- Absa Home Loans: Offers innovative residential property-related ownership solutions to the Group's target market segments.
- Absa Vehicle and Asset Finance (AVAF): Offers customised vehicle and asset finance products (ranging from the financing of manufacturing equipment, leases, office automation and financing of private vehicles) and services to customers.
- Bancassurance: Comprises various insurance products, financial advisory services, drafting and safe custody of wills, comprehensive administration, actuarial and consulting services and a variety of investment products.
- Other: Consists of various non-banking activities and includes investment income earned by Absa Group Limited, as well as income earned by the London branch, Absa Manx Holdings (located in the Isle of Man) and Corporate Real Estate Services (CRES).
- Retail Bank: Offers a comprehensive range of banking products and services to the South African affluent, middle and lower income segment of the market and small businesses.

Information regarding the operation of each reportable segment is disclosed in the notes to the financial statements. Performance is measured based on segment profit before income tax. Segment profit is measured as management believes that such information is useful in evaluating the results of certain segments relative to other entities that operate within the financial services industry.

The Group's segments report their profit or loss and their assets and liabilities based on the Group's accounting policies. All transactions between the segments are conducted on an arm's-length basis. Internal charges and transfer pricing adjustments are reflected in the performance of each business.

The Group has reclassified its operating segments to be in line with the management of these segments:

- Repossessed properties was moved from the Corporate centre to Retail banking;
- Absa Wealth was moved from Retail banking to Absa Capital; and
- Absa Manx Insurance Company Limited was moved from Bancassurance to the Corporate centre.

The change has no effect on the profit and loss of the Group and comparative information has been reclassified to reflect the above.

1.5 Foreign currencies

1.5.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand, which is the Company's functional and presentation currency.

1.5.2 Foreign currency translations

The results and financial position of all Group entities that have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- The assets and liabilities of foreign subsidiary companies are translated at the closing exchange rates ruling at the statement of financial position date. Statement of comprehensive income items in respect of foreign entities are translated at the appropriate weighted average exchange rate for the period, where these approximate actual rates. Gains and losses arising on translation are transferred to non-distributable reserves (foreign currency translation reserve) as a separate component of other comprehensive income.

- On consolidation, exchange differences arising on the translation of the net investment in foreign entities, borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the profit and loss component of the statement of comprehensive income in 'Operating expenses' or 'Other operating income'.

1.5.3 Foreign currency transactions

Foreign currency transactions are initially recorded at, and translated into the functional currency of the entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss component of the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the profit and loss component of the statement of comprehensive income. Other changes in the carrying amount are recognised in the other comprehensive income component of the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gains or losses. Translation differences on non-monetary items, such as available-for-sale financial assets, are included in other comprehensive income.

1.6 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

1.7 Financial instruments

Financial instruments are initially measured at fair value and are subsequently measured on the basis as set out below. Transaction costs of instruments carried at fair value through profit or loss are recognised immediately through the profit and loss component of the statement of comprehensive income. For other categories of financial instruments, transaction costs (which includes incremental costs) and transaction income (ie initiation fees) are capitalised to the initial carrying amount.

Financial instruments are recognised on the date when the Group enters into contractual arrangements with counterparties to purchase or sell the financial instruments.

The Group is required to group financial instruments into classes that are appropriate to the nature of the information disclosed and take into account the characteristics of those financial instruments. Classes of financial instruments have been determined by referring to the nature and extent of risks arising from the financial instruments and how these are managed.

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

1.7.1 Held-to-maturity

Held-to-maturity investments are non-derivative instruments with fixed or determinable payments and a fixed maturity where the Group has a positive intention and ability to hold the investments to such date. These investments are held at amortised cost, using the effective interest rate and reviewed for impairment at each reporting date.

The Group does not have a positive intention to hold to maturity an investment in a financial asset with a fixed maturity if:

- the Group intends to hold the financial asset for an undefined period;
- the Group stands ready to sell the financial asset in response to market interest rates or risks, liquidity needs, changes in availability of and the yield on alternative investments, changes in financing sources and terms or changes in foreign currency risk; or
- the issuer has a right to settle the financial asset at an amount significantly below its amortised cost.

If the Group fails to keep these investments to maturity, other than for specific circumstances defined by the Group, it will be required to reclassify the entire class as available-for-sale. The investments would then have to be measured at fair value and not amortised cost.

1.7.2 Financial instruments at fair value through profit or loss

This category has three subcategories: financial instruments held for trading, financial instruments designated at fair value through profit or loss and derivatives.

Financial instruments classified as held for trading

Financial instruments such as treasury bills, debt securities, equity shares and short positions in securities are classified as held for trading if they have been acquired principally for the purpose of selling and repurchasing in the near term, or if they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

These financial instruments are disclosed in the statement of financial position as 'Trading portfolio assets or liabilities'. Subsequent to initial recognition, their fair values are remeasured, and all gains and losses from changes therein are recognised in the profit and loss component of the statement of comprehensive income in 'Gains and losses from banking and trading activities' as they arise.

Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below at initial recognition, and are so designated by management. The Group may only designate financial instruments at fair value through profit or loss when the designation results in more relevant information, as follows:

- It eliminates or significantly reduces valuation or recognition inconsistencies that would arise from measuring financial assets or financial liabilities, or recognising gains or losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by the Group are:
  - financial assets backing insurance contracts and financial assets backing investment contracts, because the related liabilities (ie investment contracts) have cash flows that are contractually based on the performance of the assets or the related liabilities. Fair valuing the assets through profit or loss significantly reduces the recognition inconsistencies that would arise if the financial assets were classified as available-for-sale; and
  - financial assets, loans to customers, financial liabilities and structured notes, where doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost.
- When groups of financial assets, financial liabilities or combinations thereof are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that

basis. Under this criterion, certain private equity and other investments are the main class of financial instruments so designated. The Group has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks.

- The Group can also designate at fair value through profit or loss if it relates to a contract containing one or more embedded derivatives that significantly modify the cash flows resulting from that contract.

The fair value designation, once made, is irrevocable. Measurement is initially at fair value, with transaction costs taken directly to the profit and loss component of the statement of comprehensive income. Subsequent to initial recognition, the fair value is remeasured, and gains and losses from changes therein are recognised in 'Gains and losses from banking and trading activities' and 'Gains and losses from investment activities', depending on the nature of the instrument, unless disclosing such fair value movements in another statement of comprehensive income line would eliminate an accounting mismatch.

Derivatives

Subsequent to initial recognition, derivatives are remeasured at fair value (attributable transaction costs are recognised in the profit and loss component of the statement of comprehensive income when incurred). All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in 'Gains and losses from banking and trading activities'. Changes in the fair value of derivatives used to economically hedge the Group's interest rate risk are recognised in 'Net interest income' in the profit and loss component of the statement of comprehensive income.

1.7.3 Available-for-sale assets

Available-for-sale assets include both debt and equity instruments normally held for an indefinite period, but that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or other economic conditions. The category also includes longer-dated government stock held for regulatory liquid asset purposes, as well as certain investments in corporate bonds.

Subsequent to initial recognition, the fair value adjustments which represent gains and losses, net of applicable taxes, are reported in other comprehensive income until such investments are sold or otherwise disposed of, or until such investments are determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit and loss component of the statement of comprehensive income. However, interest on available-for-sale instruments calculated using the effective interest rate method is recognised in the profit and loss component of the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the profit and loss component of the statement of comprehensive income when the Group's right to receive payment is established.

Available-for-sale assets are regularly assessed for impairment. In assessing whether or not impairment has occurred, consideration is given to, inter alia, whether or not there has been a significant or prolonged decline in the fair value of the security below its cost. Factors considered in determining whether there has been a significant or prolonged decline in the equity instrument below its cost include:

- the length of time and the extent to which fair value has been below cost;
- the severity of the reduced fair value;
- the cause of the reduced fair value and the financial condition and near-term prospects of the issuer;
- activity in the market of the issuer which may indicate adverse credit conditions; and
- the Group's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

Factors considered in determining whether there has been a significant or prolonged decline in debt instruments below their costs are the same as those mentioned in note 1.7.7 below.

If impairment is assessed to have occurred, the cumulative gain or loss that has been previously recognised directly in other comprehensive income is removed from other comprehensive income and is recognised in the profit and loss component of the statement of comprehensive income. In the case of debt instruments classified as available-

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

for-sale, impairment is assessed based on the same criteria as all other financial assets. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss component of the statement of comprehensive income, the impairment loss shall be reversed, with the amount of the reversal recognised in the profit and loss component of the statement of comprehensive income. Reversals of impairment of equity instruments are not recognised in the profit and loss component of the statement of comprehensive income; increases in the fair value of equity instruments after impairment are recognised directly in other comprehensive income.

1.7.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any transaction costs on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the profit and loss component of the statement of comprehensive income. The carrying amount of impaired loans on the statement of financial position is reduced through the use of an appropriate impairment methodology.

Once a loan has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.7.5 Embedded derivatives

Certain financial instruments contain both a derivative and non-derivative host component. In such cases the derivative component is termed an embedded derivative.

An embedded derivative is only separated and reported at fair value with gains and losses being recognised in the profit and loss component of the statement of comprehensive income when the following requirements are met:

- Where the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract.
- The terms of the embedded derivative are the same as those of a stand-alone derivative.
- The combined contract is not held for trading or designated at fair value through profit or loss.

The Group does not separately measure embedded derivatives contained in insurance contracts that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

1.7.6 Financial liabilities

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. The fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

1.7.7 Impairment of financial assets at amortised cost

An impairment assessment of financial assets at amortised cost is performed at each reporting date.

Amortised cost instruments are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of an amortised cost investment is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

Loans and receivables are stated net of identified and unidentified impairments.

A financial asset or group of financial assets is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (known as the loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably measured. In determining whether a loss event has occurred, advances are subjected to regular evaluations that take cognisance of, inter alia, past experience of the economic climate similar to the current economic climate, overall customer risk profile and payment record and the realisable value of any collateral.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group and may include the following loss events:

- Significant financial difficulty of the issuer or obligor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider.
- It becoming probable that the borrower will enter insolvency or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses that group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the impairment loss is recognised in the profit and loss component of the statement of comprehensive income. If a loan receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of collateralised financial assets reflects the cash flows that may result from foreclosure, less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of the cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experienced for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (ie changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

Loans or other receivables, together with the associated allowance, are written off when there are no realistic prospects of future recovery and all collateral has been realised or has been transferred to the Group.

Details of the significant estimates and judgements made by the Group in relation to identified and unidentified impairment are as follows:

Identified impairment

Impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows of that instrument being assessed are taken into account, for example, the business prospects for the customer, the fair value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the workout process. Subjective judgements are made in this process by management. Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in revisions to the impairment allowance as individual decisions are taken case by case.

Upon impairment, the accrual of interest income on the original terms of the loan is based on the impaired carrying value, but the increase of the present value of impaired loans owing to the passage of time is reported as interest income.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

Unidentified impairment

An impairment allowance is recognised when observable data indicates there is a measurable decrease in the estimated future cash flows from a group of financial assets since the original recognition of those assets, even though the decrease cannot yet be identified for the individual assets in the group. The purpose of collective assessment of impairment is to test for latent losses on a portfolio of loans that have not been individually evidenced.

In cases where the collective impairment of a portfolio cannot be individually evidenced, the Group sets out to prove that a risk condition has taken place that will result in an impairment of assets (based on historic experience), but the losses will only be identifiable at an individual obligor level at a future date.

The emergence period concept is applied to ensure that only impairments that exist at the reporting date are captured. The emergence period is defined as the time lapse between the occurrence of a trigger event and the impairment being identified at an individual account level.

The probability of default for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. This probability of default is then applied to the total population for which specific impairments have not been recognised.

The resulting figure represents an estimation of the impairment that occurred during the emergence period and therefore has not specifically been identified by the Group at the reporting date.

The impairment allowance also takes into account the expected severity of loss at default, or the loss-given default (LGD), which is the amount outstanding when default occurs that is not subsequently recovered. Recovery varies by product and depends, for example, on the level of security held in relation to each loan, and the Group's position relative to other claimants. The LGD estimates are based on historical default experience.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect the period on which historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

To the extent that the unidentified impairments created by the banking operations of the Group are insufficient to meet the minimum regulatory general provision, such shortfall is accommodated by a transfer of the applicable after-tax amount from distributable to non-distributable reserves.

1.7.8 Renegotiated loans

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would otherwise not consider. These loans are not considered to be past due after renegotiations but are treated as current loans after the loan has performed for a specified period. These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Restructuring activities include extended payment arrangements, approved external management plans, and deferral of payments.

Following restructuring, a previously overdue customer is reset to normal status and managed together with other similar accounts once the customer demonstrates the ability to make contractual payments for a specific period. Restructuring policies and procedures are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. The policies are kept under constant review. Restructuring is most commonly applied to residential mortgages and credit card receivables.

1.7.9 Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; and
- the Group has transferred its rights to receive cash flows from the asset and either:
  – has transferred substantially all of the risks and rewards of the asset; or
  – has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.7.10 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss component of the statement of comprehensive income.

1.7.11 Fair value

Some of the Group's financial instruments are carried at fair value through profit or loss such as those held for trading, designated by management under the fair value option and non-cash flow hedging derivatives.

Other non-derivative financial assets may be designated as available-for-sale.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The method of determining the fair value of financial instruments can be analysed into the following categories:

(a) Level 1 – Unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's-length basis.

(b) Level 2 – Valuation techniques using market observable inputs. Such techniques may include:

- using recent arm's-length market transactions;

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

- reference to the current fair value of similar instruments; and
- discounted cash flow analysis, pricing models or other techniques commonly used by market participants.

(c) Level 3 – Valuation techniques, as described in (b) above, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The valuation techniques in (b) and (c) use inputs such as interest rate yield curves, equity prices, commodity and currency prices/yields, volatilities of underlyings and correlations between inputs. The models used in these valuation techniques are calibrated against industry standards, economic models and to observed transaction prices where available.

1.7.12 Scrip lending

Where the Group acts as an agent (ie facilitates lending transactions on behalf of clients), the associated transactions are not accounted for on the Group's statement of financial position, as the risks and rewards of ownership of these related assets and liabilities never transfer to the Group.

The fees earned for the administration of scrip lending transactions are accounted for on an accrual basis in the period in which the service is rendered.

Where the Group borrows securities but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the statement of financial position. The Group's obligation to deliver securities that it has sold as a short seller is classified as a financial instrument held for trading.

Securities lent are retained in the statement of financial position when substantially all the risks and rewards of ownership remain with the Group, and a counterparty liability is included separately on the statement of financial position as appropriate.

1.7.13 Hedge accounting

The Group also uses derivative instruments as part of its asset and liability management activities to hedge exposures to interest rate, foreign currency and credit risks. The Group applies either fair value or cash flow hedge accounting when transactions meet the criteria as set out in IAS 39.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

The Group assesses on an ongoing basis whether the hedge has been highly effective. A hedge is regarded as highly effective only when offsetting changes in fair value or cash flows attributable to the hedged risk during the period are within a range of between 80% and 125%.

Hedge accounting is discontinued when a derivative is not highly effective as a hedge, is sold, terminated, exercised or where the forecast transaction is no longer highly probable to occur. The same applies if the hedged item is sold or repaid. Instruments that have been designated as hedging instruments are reported on a separate line on the statement of financial position at each reporting date.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. Prospective testing is based on the estimation of certain parameters to assess whether the hedging relationship will be effective or not. The estimation of these parameters is performed using best practice statistical forecasting and simulation methodologies based on current and historical market data. Resultant simulated hedging relationships are assessed by calculating a statistically based hedge effectiveness test criterion.

Fair value hedges

For qualifying interest rate fair value hedges, the change in fair value of the hedging derivative is recognised in the profit and loss component of the statement of comprehensive income. Changes in fair value of the hedged risk within the hedged item are reflected as an adjustment to the carrying value of the hedged item, which is also recognised in the profit and loss component of the statement of comprehensive income.

Any ineffectiveness is recognised immediately in 'Gains and losses from banking and trading activities' in the profit and loss component of the statement of comprehensive income. When hedge accounting ceases, any adjustment to a hedged item for which the effective interest rate method is used, is amortised to the profit and loss component of the statement of comprehensive income as part of the recalculated effective interest rate of the items over the remaining life.

Cash flow hedges

Gains or losses, arising from fair value adjustments associated with the effective portion of a derivative designated as a cash flow hedge, are recognised initially in other comprehensive income. Any ineffective portion of the hedging instrument is immediately recognised in the profit and loss component of the statement of comprehensive income in 'Gains and losses from banking and trading activities'. When the cash flows that the hedging instrument is hedging materialise, resulting in income or expense, the associated gain or loss on the hedging instrument is simultaneously transferred from other comprehensive income to the corresponding line in the profit and loss component of the statement of comprehensive income.

When hedge accounting ceases, any cumulative gain or loss existing in equity at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the profit and loss component of the statement of comprehensive income. Where the hedged item is the purchase of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability as a basis adjustment.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit and loss component of the statement of comprehensive income.

1.7.14 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when the entity holds a current legally enforceable right to set off the recognised amounts and has an intention to either settle on a net basis, or realise the asset and settle the liability simultaneously.

1.7.15 Repurchase and reverse repurchase agreements

Where the Group sells financial instruments and agrees to repurchase these at future dates, the risks and rewards of ownership remain with the Group and the considerations received are included under deposits and current accounts. The investments are shown on the statement of financial position and valued according to the Group's policy relevant to that category of investments.

Conversely, where investments are purchased subject to commitments to resell these at future dates and the risk of ownership does not pass to the Group, the considerations paid are included under advances and not under investments.

Repurchase and reverse repurchase agreements may either be designated at fair value through profit or loss if the requirements in IAS 39 to designate as such are met or classified as loans and receivables.

1.7.16 Compound financial instruments

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective

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

interest rate method, unless it is designated at fair value through profit or loss. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

1.7.17 Loan commitments

The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Group subject to notice conditions. Provision is made for undrawn loan commitments to be provided at below-market interest rates and for similar facilities if it is probable that the facility will be drawn and result in recognition of an asset at an amount less than the amount advanced.

1.7.18 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given. Other than where the fair value option is applied, subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit and loss component of the statement of comprehensive income any fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the statement of financial position date.

Any increase in the liability relating to guarantees is recognised in the profit and loss component of the statement of comprehensive income. Any liability remaining is recognised in the profit and loss component of the statement of comprehensive income when the guarantee is discharged, cancelled or expires.

1.8 Share capital

Ordinary shares

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

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific future date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as an interest expense in the profit and loss component of the statement of comprehensive income.

Where preference shares contain both a liability and an equity component, such components are classified separately as financial liabilities and equity components.

1.9 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

1.9.1 Net interest income

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised in 'Net interest income' in the statement of comprehensive income using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount on initial recognition. When calculating the effective interest rate, the Group estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate and includes the following:

- Origination fees relating to the creation or acquisition of a financial asset which may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instruments, preparing and processing documents and closing the transaction.
- Origination fees received on issuing financial liabilities measured at amortised cost.
- Commitment fees received by the Group to originate a loan and the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of the financial instrument.

In calculating effective interest, the Group estimates cash flows using projections based on its experience of customer behaviour considering all contractual terms of the financial instrument but excluding future credit losses. Cash flows arising from the transaction costs of issuing financial instruments are also taken into account in the calculation.

Interest is accrued in respect of impaired advances, based on the original effective interest rate used to determine the recoverable amount.

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

Net income from financial instruments designated at fair value through profit or loss held or issued as part of the Group's trading activities (other than those used to economically hedge the Group's interest rate risk) includes all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss. Interest income and expense and dividend income arising on these financial instruments are also included, and are accounted for as 'Gains and losses from banking and trading activities' or 'Gains and losses from investment activities' in the profit and loss component of the statement of comprehensive income.

Net income from financial instruments designated at fair value through profit or loss held or issued as part of the Group's banking activities (other than those used to economically hedge the Group's interest rate risk) includes all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss. Interest income and expense and dividend income arising on these financial instruments are not included, and are accounted for as 'Net interest income' in the profit and loss component of the statement of comprehensive income.

Net income from derivatives used to economically hedge the Group's interest rate risk are recognised in 'Net interest income' in the profit and loss component of the statement of comprehensive income.

1.9.3 Instalment credit agreements

Leases, instalment credit and rental agreements are regarded as leases. Rentals and instalment receivables thereunder, less unearned finance charges, are included under loans and advances. Finance charges are recognised as 'Interest and similar income' in the profit and loss component of the statement of comprehensive income over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.

1.9.4 Net fee and commission income

Fee and commission income

The Group earns fee and commission income from customers for: credit and bank cards; transaction processing fees; advisory, equity and underwriting services; lending and deposit-related transactions, such as loan commitments, standby letters of credit, and other deposit and loan servicing activities; investment management-related fees, including brokerage services, and custody and trust services.

Fee income is accounted for as follows:

- Fee and commission income that is integral to the effective interest rate on a financial instrument is included in the measurement of the effective interest rate.
- Income earned on the execution of a significant act is recognised as revenue when the act is completed. Loan syndication fees are recognised as revenue when the syndication has been completed or the syndication is probable and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as other participants. The commission on the allotment of shares to a customer is recognised when the shares have been allotted. Placement fees for arranging a loan between a borrower and an investor are recognised when the loan has been arranged.

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

- Income earned from the provision of services is recognised as revenue as the services are provided (ie investment or asset management, portfolio and other management advisory and service fees).

Fee and commission expense

Fee and commission expense relates to expenses that are directly linked to the production of fee and commission income and also includes transaction and service fees, which are expensed as the services are received. Fee and commission expense that is integral to the effective interest rate on a financial instrument is included in the measurement of the effective interest rate.

Trust and other fiduciary activities

Income from trust and fiduciary activities arises as a result of holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions. This income specifically relates to the activities of stewardship and custody and relates to assets that are not recognised in the statement of financial position.

1.9.5 Gains and losses from derivative and trading portfolio instruments

This includes income arising from the margins that are achieved through market-making and customer business and from changes in market value caused by movements in interest and exchange rates, equity prices, commodities and other market variables. Gains or losses on assets or liabilities reported in the trading portfolio are included in the profit and loss component of the statement of comprehensive income under 'Gains and losses from banking and trading activities', together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

1.9.6 Dividends received on investments in equity instruments

Dividends received are recognised in the period in which the right to receipt is established. Dividends received are disclosed in 'Gains and losses from investment activities'.

1.9.7 Fee income and expenses from investment contracts

Service fees

Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers.

Certain upfront payments received for asset management services (front-end fees) are deferred as a liability and recognised over the life of the contract.

The Group charges its customers for asset management and other related services using the following approaches:

- Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis.
- Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period.

Commissions paid

The incremental cost directly related to the acquisition of new investment contracts or renewing existing investment contracts are deferred and amortised over the period during which the investment management services are provided.

1.9.8 Sale of assets under construction

Revenue from the sale of assets under construction is recognised when the legal title of the asset is transferred, provided that the Group has no further significant acts to complete under the contract, and is disclosed in the profit and loss component of the statement of comprehensive income under 'Other operating income'.

1.9.9 Rental income

Rental income from investment property is recognised in the profit and loss component of the statement of comprehensive income on a straight-line basis over the term of the lease where the lease is an operating lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease on a straight-line basis.

1.10 Deferred revenue liability

A deferred revenue liability (DRL) is recognised in respect of fees paid at the inception of an investment management contract by the policyholder, which are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided over the expected duration of the contract, as a constant percentage of expected gross margins (including investment income) arising from the contract.

The pattern of expected future profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DRL is recognised in revenue.

Changes in the expected duration of the contract or expected future profit margins are treated as a change in accounting estimate.

1.11 Classification of insurance and investment contracts

The Group issues contracts that transfer insurance risk, financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines significant insurance risk as the possibility of having to pay significant benefits on the occurrence of an insured event compared to those benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

1.11.1 Insurance contracts

Short-term insurance contracts

Revenue recognition and measurement

The Group is involved in short-term underwriting of personal property, personal lines, commercial and industrial assets, niche contracts and accident- and health-related contracts. For the majority of insurance contracts, premiums are recognised as revenue (earned premiums) proportionally over the risk period. The portion of premiums received on in-force contracts that relate to unexpired risks at the reporting date is reported as the unearned premium liability. The unearned premium liability for the majority of the business is calculated using the 365ths method. This method is appropriate when the risk is spread evenly over the period of insurance. Under this method the unearned premiums liability is calculated by multiplying the total premiums received by the ratio of the number of days for which the contract will still be active after the reporting date to the total number of days for which the contract was initially written. Premiums are shown before deduction of commission. The change in the liability is taken to the profit and loss component of the statement of comprehensive income in order that revenue is recognised over the period of the risk.

Claims and loss adjustment

Claims and loss adjustment expenses are charged to income as incurred, based on the estimated liability for compensation owed to contract holders or third parties affected by the contract holders. They include direct claims settlement costs and arise from events that have occurred up to the reporting date, even if they have been incurred but not reported (IBNR) to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses.

Liability adequacy test

At each reporting date, the Group reviews its unexpired risks and undertakes a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums. This is done using the current estimates of future cash flows under its contracts after taking into account the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) exceeds the estimated future cash flows, the deficiency is recognised in the profit and loss component of the statement of comprehensive income by setting up a provision in the statement of financial position.

Life insurance contracts

These contracts insure events associated with human life (ie death, disability or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before the deduction of commission. Individual life policies, life annuities and single premiums are accounted for in terms of the policy contract. Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the

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

premiums are recognised. The liabilities are valued at each reporting date using the financial soundness valuation (FSV) basis described in Professional Guidance Note (PGN) 104 issued by the Actuarial Society of South Africa (ASSA) and the liability is reflected as policyholder liabilities under insurance contracts.

Under the FSV basis, a liability is determined as the sum of the current estimate of the expected discounted value of all the benefit payments and the future administration expenses that are directly related to the contract, less the current estimate of the expected discounted value of the contractual premiums.

The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time of valuing the contract at each reporting date. Margins for adverse deviations are included in the assumptions.

In respect of outstanding claims, provision is made for the costs of intimated and unintimated claims.

Withdrawals from and deposits in investment contracts are excluded from the profit and loss component of the statement of comprehensive income.

Intimated claims represent claims where the incident giving rise to a claim has occurred and has been reported to the insurer for settlement but has not yet been finalised and paid by the insurer. The liability is measured at the value assessed for the claim. Unintimated claims represent claims incurred but not yet reported or paid. The liability is estimated by assuming that future trends in reporting of claims will be similar to the past. The profile of claims run-off (over time) is modelled by using historic data of the Group and chain-ladder techniques. The profile is then applied to actual claims data of recent periods for which the run-off is believed not to be complete.

Valuation methodology

Assumptions used for valuing policy liabilities are based on best estimates of future experience, guided by recent past experience and increased by margins prescribed by the ASSA for prudence and further discretionary margins to ensure that profits are released appropriately over the term of each policy.

Policyholders' reasonable expectations are allowed for by valuing all guaranteed benefits. Maturity guarantee liabilities have been valued in accordance with the requirements of PGN 110 issued by the ASSA. In terms of this guidance, an internationally recognised market-consistent stochastic model is used to perform a range of asset projections from which the maturity guarantee liability is derived. In terms of PGN 110 the projections allow for at least a certain minimum level of market volatility. The liability is equal to the discounted shortfall (of simulated maturity values against minimum guaranteed values) across all projections for the policies concerned.

Liability adequacy test

Liabilities are calculated in terms of the FSV basis as described in PGN 104. Since the FSV basis meets the minimum requirement of the liability adequacy test, it is not necessary to perform additional adequacy tests on the liability component. For the liability relating to potential future claims which have already been incurred on the reporting date, but of which the Group has not yet been informed, tests are performed to ensure that the liability is sufficient to cover historical run-off profiles and growth in the volume of business.

Deferred policy acquisition costs

Acquisition costs comprise commissions and other variable costs directly connected with the acquisition or renewal of short-term insurance contracts. The deferred acquisition costs (DACs) and deferred reinsurance commission revenue represent the portion of acquisition costs incurred and revenue received which corresponds to the unearned premium reserve.

DACs are amortised in line with expected future premiums. The amortisation is recognised in the profit and loss component of the statement of comprehensive income.

DACs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value an impairment loss is recognised in the profit and loss component of the statement of comprehensive income. DACs are also considered in the liability adequacy test for each reporting period.

DACs are derecognised when the related contracts are settled or disposed of.

Commissions and other directly attributable acquisition costs that vary with and are related to securing new investment management contracts and renewing existing investment management contracts are capitalised as DAC when they can be identified separately and reliably measured. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised, on an individual basis, over the expected life of the investment contracts, when the Group expects to recognise the related revenue.

Reinsurance contracts held

Reinsurance contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group and which meet the classification requirements for insurance contracts, are classified as reinsurance contracts held.

For contracts which do not meet the requirements to be classified as reinsurance, the total asset is recognised under financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance agreement.

The Group's reinsurance assets are assessed for impairment at each reporting date. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the profit and loss component of the statement of comprehensive income. For historic amounts, the impairment is calculated as the total amount due from reinsurers for which there is a significant probability that the amounts due would not be recoverable, less any offsetting amounts. Liabilities are revalued assuming that no reinsurance is ceded.

Receivables and payables related to insurance and investment contracts

Receivables and payables are only recognised when they meet the definitions and recognition criteria of financial assets and/or liabilities. These include amounts due to and from intermediaries and insurance contract holders.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (ie salvage). The Group may also have the right to pursue third parties for payment of some or all costs (ie subrogation).

The Group does not allow for salvage recoveries or subrogation reimbursements in the measurement of insurance liabilities for claims. Salvage and subrogation reimbursements are recognised when the money is received.

Philosophy on release of profits on the valuation basis

PGN 104 allows for additional margins if the statutory actuary believes that the compulsory margins are insufficient for prudent reserving and/or to defer the release of profits in line with policy design.

It is the Group's policy that profit margins contained in the premium basis should only be released and added to profits once premiums have been received and the risk cover has been provided.

The following additional (discretionary) margins are incorporated in the liability calculations:

- Minimum liability equal to the surrender value of a policy and elimination of all negative liabilities to ensure that solvency is maintained if policy cancellations increase. It is not the philosophy of the Group to recognise an asset by (prematurely) recognising the expected future profits of a policy.
- Additional margin on mortality, disability and dreaded disease (equal to compulsory margins for most product lines) to take account of the size of the book of business, uncertainty surrounding future mortality trends (especially the Aids pandemic), lack of catastrophe reinsurance, and the fact that certain classes of business are not underwritten.
- Reduced lapse assumptions on certain product lines due to the fact that lapses are inherently volatile and as it is not deemed prudent to take credit in advance for future lapses that might not arise.

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

- No recognition of future investment charges on linked business as the Group's profit recognition policy determines that asset-based fees are more appropriately accounted for as and when they are received.
- A percentage of premiums for certain regular premium business is not taken into account when liabilities are valued. The effect is to increase liabilities. This allows for uncertainty as to whether the premiums will actually be received and is in line with the profit recognition policy whereby profit is not recognised in advance.

1.11.2 Investment contracts

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and are valued at fair value. Acquisition costs directly attributable to investment management contracts are capitalised to a DAC asset and amortised to the profit and loss component of the statement of comprehensive income over the term of the contract.

The Group issues investment contracts with fixed and guaranteed terms. Investment contracts with fixed and guaranteed terms are financial liabilities of which the fair value is dependent on the fair value of the financial assets backing the liabilities. These contracts and the corresponding policyholder liabilities are designated to be held at fair value though profit or loss at inception. Subsequent changes to fair value are taken to the profit and loss component of the statement of comprehensive income.

Valuation techniques are used to establish the fair value at inception and at each reporting date. The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked investment contract is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the reporting date. The fair value of fixed interest rate products is determined by discounting the maturity value at market rates of interest.

If the investment contract is subject to a put or surrender option held by the customer, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

1.12 Cell arrangements

There are currently two distinct types of cell captive arrangements being:

- '**First party**' where the risks that are being insured relate to the cell shareholder's or its group's own operations.
- '**Third party**' where the cell shareholder is provided the opportunity to sell branded insurance products into its own customer base. The companies are the principal to the insurance contract, although the business is underwritten on behalf of the cell shareholder.

In respect of third party cells, where insurance contracts are issued to third parties directly in the name of Absa Life Limited or Absa Insurance Risk Management Services Limited, the cell captive is considered to be the reinsurer, as there is insurance risk transfer. The policyholder liabilities and reinsurance assets in respect of these insurance contracts are recognised in the statement of financial position of the Group, in terms of the reinsurance arrangement with the cell captive. Excess assets over policyholder liabilities in the cell captive belong to the cell owner and are not recognised by the Group.

The financial position and performance of first party cells are not included in the financial statements of the Group as no transfer of risks and rewards of assets and liabilities takes place according to the cell agreements.

Each cell captive owner is responsible for the solvency of each cell, and the Group therefore does not carry any risk. However, should the cell owner not be able to meet the obligations within the cell, the Group would be required to meet the obligations for third party cell arrangements, and it therefore carries a credit risk against each cell owner. This risk is limited through the selection process of reputable cell owners. Monthly financial accounts are prepared and regular actuarial valuations performed for each cell captive to monitor the financial soundness of the cell.

1.13 Commodities

Commodities, where the Group has a shorter-term trading intention, are carried at fair value less cost to sell in accordance with the broker-trader exception in IAS 2.

The fair value for commodities is determined primarily using data derived from the markets on which the underlying commodities are traded.

1.14 Intangible assets

1.14.1 Goodwill

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss component of the statement of comprehensive income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is capitalised and reviewed annually for impairment or more frequently when there are indications that impairment may have occurred. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The first step of the impairment review process requires the identification of independent operating units by dividing the Group's business into as many largely independent income streams as is reasonably practical. The goodwill is then allocated to these independent operating units. The first step of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second step reflects the allocation of the net assets acquired to the operating units and the difference between the consideration paid for those net assets and their fair value. The carrying value of the operating unit, including the allocated goodwill, is compared with the higher of its fair value less cost to sell and its value-in-use to determine whether any impairment exists. Detailed calculations may need to be carried out taking into consideration changes in the market in which a business operates (eg competition activity or regulatory change). In the absence of readily available market price data, these calculations are usually based on discounting expected cash flows at the Group's weighted average cost of capital, the determination of which requires the exercise of judgement.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss in respect of goodwill is recognised in the profit and loss component of the statement of comprehensive income and is not reversed.

Goodwill on acquisition of associates and joint ventures is included in the carrying amount of these investments. Gains and losses on the disposal of such an entity include the carrying amount of the goodwill relating to the entity sold.

1.14.2 Computer software, customer lists and other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Computer software development costs recognised as assets are amortised over their estimated useful lives.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

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

Customer lists and other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life, are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit and loss component of the statement of comprehensive income in 'Operating expenses'.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised on disposal or when the Group expects no future economic benefits to arise from the asset. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss component of the statement of comprehensive income when the asset is derecognised.

A summary of policies applied to the Group's intangible assets is as follows:

	Customer lists	**Development costs**	**Other**
Useful lives	Finite	Finite	Finite
Amortisation method used	Amortised over the period of the expected future cash flows on a basis that reflects the pattern in which future economic benefits are expected to be received from the asset.	Amortised over the period of the expected use from the related project on a straight-line basis.	Amortised over the period of the expected future cash flows on a basis that reflects the pattern in which future economic benefits are expected to be received from the asset.
Internally generated or acquired	Acquired	Internally generated	Acquired
Annual amortisation rate (%)	8 – 20	20 – 33	10

1.15 Property and equipment

1.15.1 Property and equipment not subject to lease agreements

Property and equipment is initially recognised at cost. It is subsequently measured at cost, less accumulated depreciation and/or accumulated impairment losses, if any. Subsequent costs and additions are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss component of the statement of comprehensive income during the financial period in which they are incurred.

All property and equipment, other than land, is depreciated on a straight-line basis to write down their cost to their residual values over their estimated useful lives.

The Group uses the following annual rates in calculating depreciation:

Item	Annual depreciation rate %
Computer equipment	**20 – 33**
Freehold property	**2**
Furniture and other equipment	**10 – 15**
Motor vehicles	**25**

Property under construction is initially measured at cost. Cost includes the cost of the land and construction costs to date.

All borrowing costs are capitalised if they directly attribute to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognised in the profit and loss component of the statement of comprehensive income in the period in which they are incurred.

The fair value of property and equipment recognised as a result of a business combination is based on market values. Subsequent to the acquisition, the fair value of the property and equipment is considered to be its cost for measurement purposes. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss component of the statement of comprehensive income within 'Other operating income' in the year that the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively if appropriate.

1.15.2 Property and equipment subject to lease agreements

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset.

Finance leases

Leases where the Group as lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of minimum lease payments. Lease payments are apportioned using the effective interest rate method to identify the finance cost, which is charged to interest expenses over the lease term, and the capital repayment, which reduces the liability to the lessor. The property and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

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

Operating leases

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Assets leased under operating leases are not recognised in the Group's statement of financial position, while payments made are charged to the profit and loss component of the statement of comprehensive income on a straight-line basis over the period of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease on a straight-line basis.

1.15.3 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value with any changes therein recognised in the profit and loss component of the statement of comprehensive income.

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property at year-end. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Valuations reflect, when appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and, when appropriate, counter-notices have been served validly and within the appropriate time.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting treatment.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit and loss component of the statement of comprehensive income in the period of derecognition.

1.16 Repossessed properties

Repossessed properties acquired in exchange for loans as part of an orderly realisation are reported in 'Other assets' as inventory as it is held for sale in the ordinary course of business. The repossessed properties are recognised when the risks and rewards of the properties have been transferred to the Group. The corresponding loans are derecognised when the Group becomes the holder of the title deed.

The property acquired is initially recorded at cost which is the lower of its fair value (less costs to sell) and the carrying amount of the loan (net of impairment allowance) at the date of exchange. It is subsequently measured at the lower of the carrying amount and its net realisable value. No depreciation is charged in respect of these properties. Any subsequent write-down of the acquired property to net realisable value is recognised in the statement of comprehensive income, in 'Other impairments'. Any subsequent increase in the net realisable value, to the extent that it does not exceed the cumulative write-down, is also recognised in 'Other impairments'.

Gains or losses on disposal of repossessed properties are reported in 'Other operating income' or 'Operating expenditure'.

1.17 Constructed assets held for sale

Constructed assets held for sale are initially recognised at cost and subsequently measured at the lower of cost and net realisable value. Costs include the cost of the land and construction costs to date. Construction assets held for sale are disclosed as 'Other assets' in the statement of financial position.

1.18 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to reduce goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, investment property, insurance assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the profit and loss component of the statement of comprehensive income. Gains are not recognised in excess of any cumulative impairment loss until finally sold.

Property and equipment and intangible assets, once classified as held for sale, are not depreciated or amortised.

1.19 Impairment of property, equipment and intangible assets

At each reporting date, or more frequently where events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount, property, equipment and intangible assets are assessed for impairment. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount, which is the higher of the asset's or the cash-generating unit's fair value less costs to sell, and its value-in-use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value-in-use is calculated by discounting the expected future cash in- or outflows to be obtained or incurred as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pretax basis.

The carrying values of property, equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the profit and loss component of the statement of comprehensive income in the period in which it occurs.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years.

1.20 Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises cash on hand and demand deposits. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

1.21 Provisions, contingent liabilities and commitments

Provisions are recognised when the Group has a present constructive or legal obligation as a result of past events and it is probable that an outflow of resources, embodying economic benefits, will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects the market assessments of the time value of money and the increases specific to the liability.

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

Transactions are classified as contingent liabilities where the existence of the Group's possible obligations depends on uncertain future events beyond the Group's control or when the Group has a present obligation that is not probable or which the Group is unable to measure reliably.

Items are classified as commitments where the Group commits itself to future transactions or if the items will result in the acquisition of assets.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract is lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

1.22 Employee benefits

1.22.1 Post-retirement benefits

The Group has different pension plans with defined contribution and defined benefit structures.

Defined contribution structures

Under the defined contribution structures, fixed contributions payable by the Group and members are accumulated to provide retirement benefits. The Group has no legal or constructive obligation to pay any further contributions than these fixed contributions.

Contributions to any defined contribution plan are expensed as incurred.

Defined benefit structures

The defined benefit structures define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and any unrecognised past-service cost and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high-quality government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension fund liability. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past-service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group nor can they be paid directly to the Group. Fair value is based on market price information and, in the case of quoted securities it is the published bid price. The value of any plan asset recognised is restricted to the sum of any past-service costs not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The Group makes provision for post-retirement benefits to eligible employees. The cost in relation to eligible employees is assessed in accordance with actuarial principles based on the projected unit credit methodology, and recognised in the profit and loss component in the statement of comprehensive income. Actuarial gains and losses are recognised in other comprehensive income in the statement of comprehensive income in the year in which they occur after applying the asset ceiling test. Any other adjustments to the on-statement of financial position surplus or deficit are also recognised in the other comprehensive income component of the statement of comprehensive income as a result of applying the asset ceiling test. In respect of pensioners, the obligation is fully funded once the member reaches retirement.

The Group's defined benefit structure is closed to new members and the structure will therefore run down as current membership dwindles.

Employees who retired prior to 1 April 1996 are eligible for the post-retirement medical aid benefits which are provided for under the Absa Group Pension Fund.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity-based benefits and termination benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under a short-term cash bonus, profit-sharing plans or accumulated leave if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.22.2 Share-based compensation

The Group operates equity-settled and cash-settled share-based compensation plans.

Employee services settled in equity instruments

The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options determined at the grant date, excluding the impact of any non-market vesting conditions (ie profitability). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable or the number of shares that the employee will ultimately receive. This estimate of the number of options that are expected to become exercisable is revised at each reporting date and the difference is charged or credited to the profit and loss component of the statement of comprehensive income, with a corresponding adjustment to equity. Amounts recognised for services received if the options granted do not vest because of failure to satisfy a non-market vesting condition, are reversed through the profit and loss component of the statement of comprehensive income. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the share-based payment reserve and credited against retained earnings.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. This expense will be expensed over the remaining vesting period of the award.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Employee services settled in cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff cost in the profit and loss component of the statement of comprehensive income. No amount is recognised for services received if the options granted do not vest because of a failure to satisfy a vesting condition.

Determination of fair values

The fair value of employee options and share appreciation rights are measured using the Black-Scholes formula or Monte Carlo simulations. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

1.23 Taxation

The taxation charge comprises current and deferred tax. Income tax expense is recognised in the profit

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

and loss component of the statement of comprehensive income, except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

1.23.1 Current taxation

The current tax liability or asset is the expected tax payable or recoverable, using tax rates and tax laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The taxation charge in the financial statements for amounts due to fiscal authorities in the various territories in which the Group operates, includes estimates based on a judgement of the application of law and practice in certain cases to determine the quantification of any liability arising. In arriving at such estimates, management assesses the relative merits and risks of the tax treatment for similar classes of transactions, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

1.23.2 Deferred taxation

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases and carrying amounts of property, plant and equipment, certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward. In relation to acquisitions, deferred tax is raised on the difference between the fair values of net assets acquired and their tax bases in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The rates enacted or substantially enacted at the reporting date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

1.23.3 Secondary tax on companies (STC)

The liability to pay dividends is only recognised once the dividends are declared.

STC is provided for at 10,0% on the net of dividends declared less dividends received (unless exempt from STC) by the Group at the same time as the liability to pay the related dividends is recognised. STC credits that arise from dividends received and receivable that exceed dividends paid are accounted for as a deferred tax asset. STC is included in the 'Taxation expense' line in the profit and loss component of the statement of comprehensive income.

1.23.4 Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the asset or as part of the expense items as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

1.24 Treasury shares

Where the Company or other members of the consolidated group purchase the Company's equity share capital, the par value of these treasury shares is deducted from share capital, whereas the remainder of the cost price is deducted from share premium until the treasury shares are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Treasury shares are deducted from the issued and weighted average number of shares on consolidation. Dividends received on treasury shares are eliminated on consolidation.

The Group therefore does not recognise any gains or losses through the profit and loss component of the statement of comprehensive income when its own shares are repurchased.

1.25 Managed funds and trust activities

Where Group companies operate unit trust schemes, hold and invest funds on behalf of customers and act as trustees in any fiduciary capacity and do not have control over the unit trust scheme, the assets and liabilities representing these activities are not reflected on the statement of financial position as they are not assets and liabilities of the Group.

1.26 Reclassifications and restatements

Some items within the statement of comprehensive income and statement of financial position for the years ended 31 December 2008 and 31 December 2007 were reclassified and restated in the current year:

1.26.1 *IFRS 3 – Business Combinations* fair value adjustments

The acquisition of the majority interest in Ballito Junction Development (Proprietary) Limited and Ngwenya River Estate (Proprietary) Limited was accounted for provisionally in the 2008 financial year in accordance with *IFRS 3 – Business combinations*.

The Group finalised the fair values of the assets and liabilities on acquisition within the 12 month window period as allowed by IFRS3.

1.26.2 Retirement benefit fund

The Group early adopted *AC 504 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction in the South African Pension Fund Environment.* This early adoption resulted in the Group recognising its defined benefit surplus as an asset, retrospectively. AC504 required the Group to assess whether it had an unconditional right to the surplus. This right specifically relates to the surplus once the scheme has run off in the normal course of business. The effective date for AC504 is financial periods starting on or after 1 April 2009, however the Group elected the early adoption as this guidance was published before the Group's year-end and seeks to clarify an existing accounting pronouncement.

In addition the Group changed its accounting policy in accordance with the allowed alternative in *IAS 19 Employee Benefits* to recognise actuarial gains and losses on the Group's defined benefit pension plan. As a result of this change in accounting policy, any adjustments to the surplus or deficit by applying the limit to the asset in accordance with *IAS 19 Employee Benefits* will also be recognised in other comprehensive income. This new policy results in more relevant information on the Group's performance by removing the volatility from changes in actuarial assumptions and reserves.

1.26.3 Gains and losses from financial instruments

Gains and losses from financial instruments, used as part of the Group's interest rate management, have been reclassified to 'Net interest income' from 'Gains and losses from banking and trading activities', in line with the Group's accounting policy. This reclassification eliminates mismatches previously experienced between these two statement of comprehensive income lines.

1.26.4 Reclassification to 'Provisions'

The provisions (excluding leave pay) which were previously included in 'Other liabilities and sundry provisions' have been reclassified to 'Provisions'.

1.26.5 Net fee and commission income

The disclosure of net fee and commission income changed from nature to function during 2009, and certain fees and commissions received, previously disclosed net of fees and commissions paid, have been reclassified to indicate the gross amounts received and paid. Comparative have been reclassified accordingly.

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

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

		31 December 2008 Reclassifications and restatements		
	As previously reported Rm	Business combination fair value adjustments (refer to note 1.26.1) Rm	Retirement benefit fund (refer to note 1.26.2) Rm	Reclassification to 'Provisions' (refer to note 1.26.4) Rm
Assets				
Cash, cash balances and balances with central banks	24 847	(19)	—	—
Statutory liquid asset portfolio	33 043	—	—	—
Loans and advances to banks	44 662	—	—	—
Trading portfolio assets	78 879	—	—	—
Hedging portfolio assets	3 139	—	—	—
Other assets	16 397	93	435	—
Current tax assets	23	—	—	—
Non-current assets held for sale	2 495	—	—	—
Loans and advances to customers	532 171	(27)	—	—
Reinsurance assets	903	—	—	—
Investments	26 980	—	—	—
Investments in associates and joint ventures	2 144	—	—	—
Goodwill and intangible assets	957	6	—	—
Investment property	667	(6)	—	—
Property and equipment	6 208	(81)	—	—
Deferred tax assets	243	(2)	—	—
Total assets	773 758	(36)	435	—
Liabilities				
Deposits from banks	54 633	—	—	—
Trading portfolio liabilities	72 737	—	—	—
Hedging portfolio liabilities	1 080	—	—	—
Other liabilities and sundry provisions	14 785	—	—	(14 785)
Other liabilities	—	(58)	4	12 672
Provisions	—	—	—	2 113
Current tax liabilities	385	—	—	—
Non-current liabilities held for sale	408	—	—	—
Deposits due to customers	382 281	—	—	—
Debt securities in issue	165 900	—	—	—
Liabilities under investment contracts	10 377	—	—	—
Policyholder liabilities under insurance contracts	3 076	—	—	—
Borrowed funds	12 296	—	—	—
Deferred tax liabilities	2 834	5	121	—
Total liabilities	720 792	(53)	125	—
Equity				
Capital and reserves				
Attributable to ordinary equity holders of the Group:				
Share capital	1 354	—	—	—
Share premium	2 251	—	—	—
Other reserves	3 010	—	—	—
Retained earnings	40 665	17	310	—
	47 280	17	310	—
Minority interest – ordinary shares	1 042	—	—	—
Minority interest – preference shares	4 644	—	—	—
Total equity	52 966	17	310	—
Total equity and liabilities	773 758	(36)	435	—

Reclassified and restated	31 December 2007 Reclassifications and restatements			
Reclassified and restated	As previously reported	Retirement benefit fund (refer to note 1.26.2)	Reclassification to ‘Provisions’ (refer to note 1.26.4)	Reclassified and restated
Rm	Rm	Rm	Rm	Rm
24 828	20 629	—	—	20 629
33 043	22 957	—	—	22 957
44 662	54 025	—	—	54 025
78 879	25 824	—	—	25 824
3 139	725	—	—	725
16 925	24 303	105	—	24 408
23	185	—	—	185
2 495	—	—	—	—
532 144	455 958	—	—	455 958
903	485	—	—	485
26 980	29 792	—	—	29 792
2 144	1 004	—	—	1 004
963	301	—	—	301
661	—	—	—	—
6 127	4 610	—	—	4 610
241	111	—	—	111
774 157	640 909	105	—	641 014
54 633	58 033	—	—	58 033
72 737	34 919	—	—	34 919
1 080	2 226	—	—	2 226
—	12 301	18	(12 319)	—
12 618	—	—	9 953	9 953
2 113	—	—	2 366	2 366
385	183	—	—	183
408	—	—	—	—
382 281	310 512	—	—	310 512
165 900	156 424	—	—	156 424
10 377	7 908	—	—	7 908
3 076	3 318	—	—	3 318
12 296	9 949	—	—	9 949
2 960	2 576	24	—	2 600
720 864	598 349	42	—	598 391
1 354	1 350	—	—	1 350
2 251	2 292	—	—	2 292
3 010	384	—	—	384
40 992	33 549	63	—	33 612
47 607	37 575	63	—	37 638
1 042	341	—	—	341
4 644	4 644	—	—	4 644
53 293	42 560	63	—	42 623
774 157	640 909	105	—	641 014

Accounting policies

For the year ended 31 December

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

The reclassifications and restatements had the following impact on the statement of comprehensive income for the year ended 31 December 2008:

	31 December 2008					
		Reclassifications and restatements				
	As previously reported Rm	Business combination fair value adjustments (refer to note 1.26.1) Rm	Retirement benefit fund (refer to note 1.26.2) Rm	Profits and losses from derivatives (refer to note 1.26.3) Rm	Net fee and commission income (refer to note 1.26.5) Rm	Reclassified and restated Rm
Net interest income	21 795	—	—	311	—	22 106
Interest and similar income	75 949	—	—	311	—	76 260
Interest expense and similar charges	(54 154)	—	—	—	—	(54 154)
Impairment losses on loans and advances	(5 839)	—	—	—	—	(5 839)
Net interest income after impairment losses on loans and advances	15 956	—	—	311	—	16 267
Net fee and commission income	13 343	—	—	—	—	13 343
Fee and commission income	14 804	—	—	—	260	15 064
Fee and commission expense	(1 461)	—	—	—	(260)	(1 721)
Net insurance premium income	3 511	—	—	—	—	3 511
Net insurance claims and benefits paid	(1 890)	—	—	—	—	(1 890)
Changes in investment and insurance liabilities	(70)	—	—	—	—	(70)
Gains and losses from banking and trading activities	3 642	—	—	(311)	—	3 331
Gains and losses from investment activities	1 064	—	—	—	—	1 064
Other operating income	1 515	17	—	—	—	1 532
Operating profit before operating expenditure	37 071	17	—	—	—	37 088
Operating expenditure	(21 935)	—	79	—	—	(21 856)
Operating expenses	(21 193)	—	79	—	—	(21 114)
Other impairments	(18)	—	—	—	—	(18)
Indirect taxation	(724)	—	—	—	—	(724)
Share of retained earnings from associates and joint ventures	73	—	—	—	—	73
Operating profit before income tax	15 209	17	79	—	—	15 305
Taxation expense	(3 966)	—	(22)	—	—	(3 988)
Profit for the year	11 243	17	57	—	—	11 317
Profit attributable to:						
Ordinary equity holders of the Group	10 592	17	57	—	—	10 666
Minority interest – ordinary shares	194	—	—	—	—	194
Minority interest – preference shares	457	—	—	—	—	457
	11 243	17	57	—	—	11 317
Headline earnings	9 908	—	57	—	—	9 965

1.27 New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations issued are not yet effective for the year ended 31 December 2009 and have not been applied in preparing these consolidated financial statements:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards* – Amendments relating to oil and gas assets and determining whether an arrangement contains a lease (2009) was amended to include some additional exemptions for first-time adopters of IFRS. This amendment will not impact the Group as the Group adopted IFRS in full in the financial year ending 31 December 2005. Consequently, IFRS 1 is no longer appropriate.

- *IFRS 2 Share-based Payment* – Amendments relating to group cash-settled share-based payment transactions (2009) was amended to clarify its scope and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. The amendments also incorporate the guidance contained in the following Interpretations:

  – *IFRIC 8 Scope of IFRS 2*

  – *IFRIC 11 IFRS 2 – Group and Treasury Share Transactions.*

  The amendment, which becomes mandatory for the Group's 2010 consolidated financial statements, is not expected to have a material impact on the consolidated financial statements.

- The revised *IFRS 3 Business Combinations* (2008) applies prospectively to business combinations first accounted for in accounting periods beginning on or after 1 July 2009. The principal amendments include:

  – the requirement to expense all acquisition-related costs;

  – recognition of fair value gains and losses in the statement of comprehensive income on interests in an acquiree at the time at which control is lost;

  – recognition of all increases and decreases in ownership interests over an acquiree within equity whilst control is held;

  – the option to recognise any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the net identifiable assets of the entity acquired;

  – restriction of adjustments to the initial measurement of contingent considerations on a business combination, with subsequent measurement of such items being recognised in the statement of comprehensive income; and

  – the requirement at acquisition to reclassify and redesignate all contractual arrangements, excluding leases and insurance contracts.

  The amendments are expected to affect the Group's accounting for business combinations that arise after the date on which the amendments are adopted. The effect on the financial statements will be a function of the number and value of any business combinations transacted after the effective date.

- *IFRS 9 Financial Instruments* is effective for the period beginning on 1 January 2013, with early adoption permitted. The current standard is the first step in replacing *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets. This standard will be further developed in 2010 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment, and hedge accounting. The Group is currently investigating the impact that the adoption of this standard will have on the Group's financial position, results of operations and cash flows. The standard is however expected to have a material impact on the results of the Group.

- Amended *IAS 27 Consolidated and Separate Financial Statements* requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the statement of comprehensive income.

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

The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements as the Group is already applying these principles when accounting for transactions with minorities.

- As part of its annual improvements project, the International Accounting Standards Boards (IASB) has issued improvements that aim to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement.

  The current year's improvements become mandatory for the Group's 2010 consolidated financial statements. There are no significant changes in the current year's improvements that will affect the Group.

- Amendment to *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows of a recognised financial instrument. It also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging instrument in a hedge of a financial or non-financial item and to improve effectiveness, an entity is allowed to exclude the time value of money from the hedging instrument.

- *IFRIC 17 Distributions of Non-cash Assets to Owners*, becomes effective for financial years beginning on or after 1 July 2009. The Interpretation is to be applied prospectively and clarifies that:

  – A dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.

  – An entity should measure the dividend payable at the fair value of the net assets to be distributed.

  – An entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

  – An entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

  IFRIC 17 will not have a significant impact on the consolidated financial statements of the Group.

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments* is effective for annual periods beginning on or after 1 July 2010 and clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. IFRIC 19 will not have a significant impact on the consolidated financial statements of the Group.

	Group 2009 Rm	Group 2008 Rm
2. Cash, cash balances and balances with central banks		
Balances with other central banks	**827**	1 124
Balances with the South African Reserve Bank (SARB)	**10 983**	12 648
Coins and bank notes	**5 175**	4 707
Money market assets	**3 612**	6 349
	20 597	24 828
Portfolio analysis		
Available-for-sale financial assets		
Money market assets	**653**	1 111
Financial assets designated at fair value through profit or loss		
Money market assets	**2 271**	5 182
Held-to-maturity financial assets		
Money market assets	**688**	56
Loans and receivables	**16 985**	18 479
Balances with other central banks	**827**	1 124
Balances with the SARB	**10 983**	12 648
Coins and bank notes	**5 175**	4 707
	20 597	24 828

Comparatives have been restated, refer note 1.26.
Included above are money market assets which are linked to investment contracts (refer to note 24).

	Group 2009 Rm	Group 2008 Rm
3. Statutory liquid asset portfolio		
Land Bank bills	**493**	492
Republic of South Africa (RSA) government bonds	**25 467**	19 160
Reverse repurchase agreements (refer to note 47)	**1 941**	4 100
SARB debentures	**223**	1 814
Treasury bills	**5 819**	7 477
	33 943	33 043
Portfolio analysis		
Available-for-sale financial assets	**17 904**	12 668
Land Bank bills	**493**	492
RSA government bonds	**11 369**	2 905
SARB debentures	**223**	1 814
Treasury bills	**5 819**	7 457
Available-for-sale-instruments in fair value hedging relationship		
RSA government bonds	**12 403**	12 077
Financial assets designated at fair value through profit or loss	**3 636**	8 273
Reverse repurchase agreements	**1 941**	4 100
RSA government bonds	**1 695**	4 173
Held-to-maturity financial assets	**—**	25
RSA government bonds	**—**	5
Treasury bills	**—**	20
	33 943	33 043

RSA government bonds, SARB debentures and treasury bills valued at R2 011 million (2008: R3 470 million) have been pledged with the SARB. The related liability for the pledged assets, which is disclosed in ‘Deposits from banks’, bears interest at the SARB repurchase rate.

	Group 2009 Rm	Group 2008 Rm
4. Loans and advances to banks		
Other loans and advances to banks	**27 100**	27 415
Reverse repurchase agreements (refer to note 47)	**8 932**	17 247
	36 032	44 662
Portfolio analysis		
Financial assets designated at fair value through profit or loss	**2 403**	7 169
Other loans and advances to banks	**629**	—
Reverse repurchase agreements	**1 774**	7 169
Loans and receivables	**33 629**	37 493
Other loans and advances to banks	**26 471**	27 415
Reverse repurchase agreements	**7 158**	10 078
	36 032	44 662

Loans with variable rates are R26 700 million (2008: R24 248 million) and fixed rates are R9 332 million (2008: R20 414 million).

Included above are loans and advances with the Group's parent company of R10 436 million (2008: R13 731 million). Refer to note 49 for the full disclosure of related party transactions.

Included above are loans and advances to banks with a carrying value of R3 814 million (2008: R2 462 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 47. The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Collateral to the value of R9 320 million (2008: R6 177 million) was received on Other loans and advances to banks. This collateral was on-pledged as part of repurchase agreements (refer to note 47).

	Group 2009 Rm	Group 2008 Rm
5. Trading and hedging portfolio assets		
Commodities	**631**	517
Debt instruments	**10 715**	5 178
Derivative assets (refer to note 65.3)	**31 836**	65 407
Commodity derivatives	**2 901**	4 722
Credit derivatives	**282**	343
Equity derivatives	**2 164**	2 322
Foreign exchange derivatives	**8 734**	31 479
Interest rate derivatives	**17 755**	26 541
Equity instruments	**14 760**	6 313
Money market assets	**3 837**	1 464
Total trading portfolio assets	**61 779**	78 879
Hedging portfolio assets (refer to note 65.3)	**2 558**	3 139
	64 337	82 018
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**1 946**	2 530
Derivatives designated as fair value hedging instruments	**612**	609
Financial assets held for trading	**61 148**	78 362
Debt instruments	**10 715**	5 178
Derivative assets	**31 836**	65 407
Equity instruments	**14 760**	6 313
Money market assets	**3 837**	1 464
Non-financial instruments	**631**	517
	64 337	82 018

Included above are derivative positions with the Group's parent company of R6 936 million (2008: R15 672 million). Refer to note 49 for the full disclosure of related party transactions.

Trading portfolio assets with a carrying value of R10 297 million (2008: R5 178 million) have been pledged as security for repurchase agreements (refer to note 47). In addition, trading portfolio assets with a carrying value of R418 million (2008: Rnil) have been pledged as security for deposits. These assets are pledged for the duration of the respective agreements.

Included in the financial assets held for trading are financial instruments related to the Group's economic hedging programme with a notional value of R171 million (2008: R1 393 million) and a fair value of R3 million (2008: R30 million).

	Group 2009 Rm	2008 Rm	2007 Rm
6. Other assets			
Accounts receivable and prepayments	**6 240**	7 272	5 466
Collateral	**7 931**	4 541	—
Deferred costs	**116**	119	90
Deferred acquisition costs (refer to note 6.1)	**83**	92	65
Other deferred costs	**33**	27	25
Inventories	**1 207**	1 184	465
Cost	**1 271**	1 222	465
Write-down (refer to note 40)	**(64)**	(38)	—
Retirement benefit fund surplus (refer to note 45)	**616**	435	105
Settlement accounts	**1 667**	3 374	18 282
	17 777	16 925	24 408
Portfolio analysis			
Loans and receivables	**15 620**	14 904	22 917
Accounts receivable	**6 022**	6 989	4 635
Collateral	**7 931**	4 541	—
Settlement accounts	**1 667**	3 374	18 282
Non-financial assets	**2 157**	2 021	1 491
	17 777	16 925	24 408

Comparatives have been restated, refer to note 1.26.

Included above are settlement accounts with the Group's parent company of R196 million (2008: R228 million). Refer to note 49 for the full disclosure of related party transactions.

	Group 2009 Rm	2008 Rm	2007 Rm
6.1 Deferred acquisition costs (refer to note 6)			
Balance at the beginning of the year	**92**	65	123
Additions	**304**	340	175
Amortisation charge	**(313)**	(313)	(233)
Balance at the end of the year	**83**	92	65

	Group 2009 Rm	2008 Rm
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**234**	23
Current tax liabilities		
Amount due to revenue authorities	**59**	385

8. Non-current assets and liabilities held for sale

The Group, through the private equity division in Absa Capital, transferred investments to a newly formed fund during the prior year. The Group remained exposed to some of the risks and rewards on these assets and consequently continued to recognise these assets within 'Non-current assets held for sale' in the statement of financial position in 2008. The completion of the sale within 12 months is no longer considered to be highly probable and consequently the investments have been classified as 'Investments' in the 2009 statement of financial position.

	Group	
	2009 Rm	2008 Rm
Non-current asset held for sale		
Investments	—	2 495
Non-current liabilities held for sale		
Other liabilities	—	408

9. Loans and advances to customers

	Group	
	2009 Rm	2008 Rm
Cheque accounts	**30 621**	28 388
Corporate overdrafts and specialised finance loans	**10 390**	10 306
Credit cards	**20 202**	19 662
Foreign currency loans	**7 998**	13 352
Instalment credit agreements (refer to note 9.1)	**58 626**	68 141
Gross advances	**69 079**	84 722
Unearned finance charges	**(10 453)**	(16 581)
Loans granted under resale agreements (Carries) (refer to note 47)	**1 988**	7 072
Loans to associates and joint ventures (refer to note 13.2)	**7 878**	9 167
Microloans	**2 936**	4 034
Mortgages	**304 724**	303 369
Other advances[1]	**3 322**	4 542
Overnight finance	**9 807**	11 146
Personal and term loans	**23 716**	20 780
Preference shares	**7 967**	9 380
Wholesale overdrafts	**26 613**	31 663
	516 788	541 002
Impairment losses on loans and advances (refer to note 10)	**(13 158)**	(8 858)
	503 630	532 144
Portfolio analysis		
Financial assets designated at fair value through profit or loss	**9 374**	8 862
Corporate overdrafts and specialised finance loans	**711**	915
Foreign currency loans	**884**	—
Loans granted under resale agreements (Carries)	**1 988**	1 544
Loans to associates and joint ventures	**—**	1 017
Mortgages	**1 388**	1 673
Other advances	**—**	55
Wholesale overdrafts	**4 403**	3 658
Amortised cost items held in a fair value hedging relationship	**646**	565
Corporate overdrafts and specialised finance loans	**24**	—
Wholesale overdrafts	**622**	565
Loans and receivables	**506 768**	531 575
	516 788	541 002

Comparatives have been restated, refer to note 1.26.

Included above are securitised assets of R4 313 million (2008: R6 248 million). Refer to note 48 for further details. Included above are loans and advances to customers with a carrying value of R989 million (2008: Rnil) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 47. The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Note

[1]*Other advances include client liabilities under acceptances of R3 million (2008: R121 million), working capital solutions of R1 862 million (2008: R2 247 million), bridging finance of R74 million (2008: R411 million) and Abacas promissory notes of R1 002 million (2008: R1 012 million).*

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

9.1 Instalment credit agreements

Maturity analysis

	Group		
	2009		
	Gross investment in finance leases Rm	**Unearned finance charges Rm**	**Net investment in finance leases Rm**
Less than one year	**21 134**	**(3 094)**	**18 040**
Between one and five years	**46 487**	**(7 111)**	**39 376**
More than five years	**1 458**	**(248)**	**1 210**
	69 079	**(10 453)**	**58 626**
	2008		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	25 954	(4 963)	20 991
Between one and five years	57 014	(11 232)	45 782
More than five years	1 754	(386)	1 368
	84 722	(16 581)	68 141

The Group enters into instalment credit agreements for motor vehicles, equipment and medical equipment.

All leases are denominated in South African rand. The average term of finance leases entered into is five years.

Under the terms of the lease agreements no contingent rentals are payable.

Unguaranteed residual values of instalment credit agreements at the statement of financial position date are R4 726 million (2008: R5 898 million).

The accumulated allowance for uncollectable lease payments receivable included in the allowance for impairments at the statement of financial position date is R1 743 million (2008: R1 021 million).

10. Impairment losses on loans and advances

	Group	
	2009 Rm	2008 Rm
Balance at the beginning of the year	**8 858**	5 666
Amounts written off during the year	**(4 635)**	(2 606)
Exchange differences	**(3)**	—
Interest on impaired assets (refer to note 30)	**(945)**	(529)
	3 275	2 531
Impairments raised during the year (refer to note 10.1)	**9 883**	6 327
Balance at the end of the year (refer to note 9)	**13 158**	8 858
Comprising:		
Identified impairments	**11 999**	7 428
Unidentified impairments	**1 159**	1 430
	13 158	8 858

	Group 2009 Rm	Group 2008 Rm
10. Impairment losses on loans and advances *(continued)*		
10.1 Statement of comprehensive income charge for impairment losses on loans and advances		
Impairments raised during the year	**9 883**	6 327
Identified impairments	**10 151**	6 907
Unidentified impairments	**(268)**	(580)
Recoveries of loans and advances previously written off	**(916)**	(488)
	8 967	5 839
11. Reinsurance assets		
Insurance contracts (refer to note 25)	**474**	422
Life insurance contracts	**41**	72
Short-term insurance contracts	**433**	350
Investment contracts (refer to note 24.2)	**245**	481
	719	903

Included above are reinsurance assets with the Group's parent company of R18 million (2008: R19 million). Refer to note 49 for the full disclosure of related party transactions.

Included in Other assets (refer to note 6) is R149 million (2008: R105 million) relating to amounts receivable from reinsurers for claims made against them.

	Group 2009 Rm	Group 2008 Rm
12. Investments		
Debt instruments	**11 297**	11 306
Investments linked to investment contracts (refer to note 24.2)	**8 993**	7 123
Debt instruments	**2**	6
Derivative instruments	**410**	661
Listed equity instruments	**7 842**	5 978
Unlisted equity instruments	**739**	478
Listed equity instruments	**2 492**	2 467
Unlisted equity and hybrid instruments	**6 782**	6 084
	29 564	26 980
Market value and directors' valuation		
Market value of debt instruments	**11 299**	11 312
Market value of listed equity instruments	**10 744**	9 106
Directors' valuation of unlisted equity and hybrid instruments	**7 521**	6 562
	29 564	26 980
Portfolio analysis		
Available-for-sale financial assets (refer to note 12.1)	**1 995**	2 476
Debt instruments	**1 762**	1 616
Listed equity instruments	**73**	441
Unlisted equity and hybrid instruments	**160**	419
Financial assets designated at fair value through profit or loss	**26 751**	22 675
Debt instruments	**9 127**	8 522
Investments linked to investment contracts	**8 583**	6 462
Listed equity instruments	**2 419**	2 026
Unlisted equity and hybrid instruments	**6 622**	5 665
Held for trading financial assets		
Derivative instruments linked to investment contracts	**410**	661
Held-to-maturity financial assets		
Debt instruments	**408**	1 168
	29 564	26 980

Included above are investments with the Group's parent company of R509 million (2008: R581 million). Refer to note 49 for the full disclosure of related party transactions.

	Group	
	2009 Rm	2008 Rm

12. Investments *(continued)*

12.1 Available-for-sale financial assets

	2009 Rm	2008 Rm
Carrying value at the beginning of the year	**2 476**	3 364
Cost plus fair value movements	**2 520**	3 407
Impairments[1]	**(44)**	(43)
Movement in investments	**(445)**	(887)
Net acquisitions and disposals	**(432)**	(1 263)
Fair value movements	**(13)**	376
Movement in impairments (refer to note 40)	**(36)**	(1)
Carrying value at the end of the year	**1 995**	2 476
Cost plus fair value movements	**2 075**	2 520
Impairments[1]	**(80)**	(44)

Note

[1]*All impairments relate to equity instruments.*

13. Investments in associates and joint ventures

	2009 Rm	2008 Rm
Listed investments	**100**	1 705
Unlisted investments	**387**	439
	487	2 144

13.1 Movement in carrying value

	2009 Rm	2008 Rm
Balance at the beginning of the year	**2 144**	1 004
Share of current year's retained (losses)/earnings	**(50)**	73
Share of current year's (losses)/earnings before taxation	**(7)**	124
Taxation on current year's losses/(earnings)	**2**	(49)
Dividends received	**(45)**	(2)
Net movement in the carrying value of investments in associates and joint ventures (refer to note 13.4)	**(291)**	1 043
Change in loans to associates and joint ventures at cost	**4**	10
Impairment charge (refer to note 40)	**(1 328)**	—
Movement in amount recognised in other liabilities for the Group's share of losses	**8**	14
Balance at the end of the year	**487**	2 144

	Group 2009 Rm	Group 2008 Rm
13. Investments in associates and joint ventures *(continued)*		
13.2 Analysis of carrying value		
Listed investments		
Shares at book value	**112**	1 636
Shares at cost	**1 440**	1 636
Impairments	**(1 328)**	—
Share of post-acquisition reserves	**(12)**	69
	100	1 705
Unlisted investments		
Shares at cost	**133**	138
Share of post-acquisition reserves	**240**	291
Share of non-distributable reserves	**201**	260
Amount recognised in other liabilities for the Group's share of losses	**39**	31
Loans to associates and joint ventures	**14**	10
	387	439

Other commercial loans to associates and joint ventures included in 'Loans and advances to customers' amounted to R7 878 million (2008: R9 167 million). Refer to note 9 for further details.

A register of investments in associates and joint ventures is available for inspection at the registered office of the Company.

	Group 2009 Rm	Group 2008 Rm
13.3 Valuation		
Market value of listed investments	**188**	1 576
Directors' valuation of unlisted investments	**387**	439
	575	2 015

	Group	
	2009 Rm	2008 Rm
13. Investments in associates and joint ventures *(continued)*		
13.4 Net movement in the carrying value of investments in associates and joint ventures		
The following associate was transferred from investments during the current year, at cost:		
Blue Financial Services Limited	**451**	n/a
During May 2009, the Group acquired a further 2,2% interest in Blue Financial Services Limited. The Group's shareholding is now 20,2%.		
The following associate was transferred from investments during the previous year, at cost:		
Sekunjalo Investments Limited	**n/a**	59
On 11 December 2008, the Group acquired an additional 17,2% interest in Sekunjalo Investments Limited at a cost of R39 million. Sekunjalo Investments Limited was previously recognised as an investment at a carrying amount of R20 million. The Group's shareholding is now 27,2%.		
The following acquisitions were concluded during the current year, at cost:		
Kilkishen Investments (Proprietary) Limited	**31**	n/a
On obtaining control of Abseq Properties (Proprietary) Limited on 31 January 2009, the Group indirectly acquired a 50,0% interest in Kilkishen Investments (Proprietary) Limited.		
Meadowood Investments 8 (Proprietary) Limited	**0**	n/a
On 1 January 2009, the Group acquired a 50,0% interest in Meadowood Investments 8 (Proprietary) Limited. The acquisition resulted from the Group exercising its rights in terms of a collateral agreement upon default by a client on loans.		
Stand 1135 Houghton (Proprietary) Limited	**8**	n/a
On obtaining control of Abseq Properties (Proprietary) Limited on 31 January 2009, the Group indirectly acquired a 50,0% interest in Stand 1135 Houghton (Proprietary) Limited.		
The following acquisitions were concluded during the previous year, at cost:		
Ambit Properties Limited	**n/a**	90
In 2008, the Group acquired an additional 4,0% interest in Ambit Properties Limited.		
Integrated Processing Solutions (Proprietary) Limited	**n/a**	11
On 1 November 2008, the Group made an additional contribution to maintain its 50,0% interest in Integrated Processing Solutions (Proprietary) Limited.		
Maravedi Group (Proprietary) Limited	**n/a**	29
During 2008, the Group made an additional contribution in Maravedi Group (Proprietary) Limited.		
Pinnacle Point Group Limited	**n/a**	931
On 9 December 2008, the Group acquired a 27,5% interest in Pinnacle Point Group Limited.		
Zevoli 146 (Proprietary) Limited	**n/a**	0
On 29 January 2008, the Group acquired a 37,4% interest in Zevoli 146 (Proprietary) Limited.		
The following disposals were concluded during the current year:		
Ambit Properties Limited	**(718)**	n/a
On 30 June 2009, ApexHi Limited acquired the Group's 34,5% interest in Ambit Properties Limited in exchange for shares in ApexHi Limited.		
Banco Commercial Angolano	**(63)**	n/a
The Group sold its share in Banco Commercial Angolano to a third party on 30 June 2009.		
The following disposals were concluded during the previous year:		
Batho Bonke Investments (Proprietary) Limited	**n/a**	(2)
On 18 September 2008, the Group sold its share in Batho Bonke Investments (Proprietary) Limited.		
Balance carried forward	**(291)**	1 118

	Group 2009 Rm	Group 2008 Rm
13. Investments in associates and joint ventures *(continued)*		
13.4 Net movement in the carrying value of investments in associates and joint ventures *(continued)*		
Balance brought forward	**(291)**	1 118
Blakes and Associates Holdings (Proprietary) Limited	**n/a**	(16)
On 31 August 2008, the Group sold its share in Blakes and Associates Holdings (Proprietary) Limited to a third party.		
Maravedi Group (Proprietary) Limited	**n/a**	(22)
On 31 August 2008, the Group sold its share in Maravedi Group (Proprietary) Limited.		
The following associate became a subsidiary during the previous year:		
Meeg Bank Limited	**n/a**	(37)
The Group acquired a further 50,3% interest in Meeg Bank Limited, which increased its total shareholding to 100,0%. Meeg Bank Limited has been consolidated since 2008.		
Net movement in the carrying value of investments in associates and joint ventures (refer to note 13.1)	**(291)**	1 043
13.5 Details of the purchase consideration on net assets acquired on the aforementioned acquisitions are as follows:		
Cash paid	**61**	1 089
Property and equipment	**—**	11
Purchase as part of business combination	**39**	—
Transfer from investments	**390**	20
	490	1 120
13.6 Details of the consideration received on net assets disposed of on the aforementioned disposals are as follows:		
Cash received	**(78)**	(68)
Consideration in shares	**(660)**	—
Total consideration	**(738)**	(68)
(Profit)/loss on disposal	**(43)**	28
Transfer to subsidiaries	**—**	(37)
	(781)	(77)

Refer to note 49 for the full disclosure of the Group's investments in associates and joint ventures.

14. Goodwill and intangible assets

	Group 2009 Cost Rm	2009 Accumulated amortisation and/or impairments Rm	2009 Carrying value Rm	2008 Cost Rm	2008 Accumulated amortisation and/or impairments Rm	2008 Carrying value Rm
Computer software development costs	**1 051**	**(508)**	**543**	645	(433)	212
Customer lists	**190**	**(66)**	**124**	190	(30)	160
Goodwill	**693**	**(122)**	**571**	668	(85)	583
Other	**8**	**(1)**	**7**	8	—	8
	1 942	**(697)**	**1 245**	1 511	(548)	963

14. Goodwill and intangible assets *(continued)*

Reconciliation of goodwill and intangible assets

	Group							
	2009							
	Opening balance Rm	**Additions Rm**	**Additions through business combinations Rm**	**Disposals Rm**	**Foreign exchange movements Rm**	**Amortisation Rm**	**Impairment charge Rm**	**Closing balance Rm**
Computer software development costs	**212**	**427**	**—**	**(3)**	**5**	**(79)**	**(19)**	**543**
Customer lists	**160**	**—**	**—**	**—**	**—**	**(36)**	**—**	**124**
Goodwill	**583**	**—**	**25**	**—**	**—**	**—**	**(37)**	**571**
Other	**8**	**—**	**—**	**—**	**—**	**(1)**	**—**	**7**
	963	**427**	**25**	**(3)**	**5**	**(116)**	**(56)**	**1 245**

	2008							
	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	147	180	—	(2)	8	(120)	(1)	212
Customer lists	—	7	183	—	—	(30)	—	160
Goodwill	154	—	429	—	—	—	—	583
Other	—	—	8	—	—	—	—	8
	301	186	620	(2)	8	(150)	(1)	963

Refer to note 1.14.2 for useful lives, amortisation methods and amortisation rates. The majority of computer software development costs were internally generated. The remainder were acquired.

Included in computer software development costs is R31 million relating to assets still under construction.

	Group	
	2009 Rm	2008 Rm
Composition of goodwill		
Abseq Properties (Proprietary) Limited	**25**	—
Abvest Holdings (Proprietary) Limited	**30**	30
Absa Vehicle Management (Proprietary) Limited	**112**	112
Ambit Management Services (Proprietary) Limited	**—**	37
Glenrand MIB employee benefits and healthcare	**22**	22
Ngwenya River Estate (Proprietary) Limited	**18**	18
Woolworths Financial Services (Proprietary) Limited	**364**	364
	571	583

Comparatives have been restated, refer to notes 1.26 and 56.2 for further information.

Significant assumptions made in reviewing impairments

Management has to consider at least annually whether the current carrying value of goodwill is impaired. This calculation is based on discounting expected risk adjusted pretax cash flows at a risk adjusted pretax interest rate appropriate to the operating unit, the determination of which requires the exercise of judgement. The estimation of pretax cash flows is sensitive to the periods for which detailed forecasts are available, normally capped at five years, and to assumptions regarding the growth rate, although this is usually capped at inflation growth where higher growth is forecast by the CGU. While forecasts are compared with actual performance and external sources of data, expected cash flows naturally reflect management's best estimate of future performance. The discount rate used in the impairment calculations is 14,0%. Growth rates used in the impairment calculations range from 3,0% to 8,0%.

Disposal of Ambit Management Services (Proprietary) Limited

During the current year the Group sold contractual rights it had generated in Ambit Management Services (Proprietary) Limited to a third party. The company is now dormant and the goodwill was impaired as there is no future economic benefits expected to arise from this investment.

	Group 2009 Rm	Group 2008 Rm
15. Investment property		
Balance at the beginning of the year	**661**	—
Additions through business combinations (refer to note 56)	**1 352**	386
Additions	**110**	276
Additions to property under construction	**35**	—
Change in fair value (refer to notes 38 and 39)	**66**	(1)
Foreign exchange movements	**(73)**	—
Transfer from property and equipment (refer to note 16)	**44**	—
Balance at the end of the year	**2 195**	661

Comparatives have been restated, refer to note 1.26.

Investment property comprises a number of properties that are leased to third parties for either commercial or residential use. Each of the leases contains an initial rental period ranging from six months to 10 years, depending on the use of the building being leased. Subsequent renewals are negotiated with the lessee. No contingent rentals are charged.

16. Property and equipment

	Group 2009 Cost Rm	2009 Accumulated depreciation and/or impairments Rm	2009 Carrying value Rm	2008 Cost Rm	2008 Accumulated depreciation and/or impairments Rm	2008 Carrying value Rm
Computer equipment	**5 046**	**(3 322)**	**1 724**	4 243	(2 765)	1 478
Freehold property	**2 593**	**(207)**	**2 386**	2 078	(207)	1 871
Furniture and other equipment	**4 541**	**(2 177)**	**2 364**	4 476	(1 867)	2 609
Leasehold property	**554**	**(429)**	**125**	547	(387)	160
Motor vehicles	**54**	**(47)**	**7**	58	(49)	9
	12 788	**(6 182)**	**6 606**	11 402	(5 275)	6 127

Reconciliation of property and equipment

Group 2009	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Transfer to investment property Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Computer equipment	**1 478**	**956**	**—**	**(49)**	**—**	**—**	**(661)**	**—**	**1 724**
Freehold property	**1 871**	**703**	**—**	**(42)**	**(44)**	**(81)**	**(21)**	**—**	**2 386**
Furniture and other equipment	**2 609**	**493**	**—**	**(314)**	**—**	**(10)**	**(405)**	**(9)**	**2 364**
Leasehold property	**160**	**17**	**—**	**(3)**	**—**	**(12)**	**(37)**	**—**	**125**
Motor vehicles	**9**	**1**	**—**	**—**	**—**	**2**	**(5)**	**—**	**7**
	6 127	**2 170**	**—**	**(408)**	**(44)**	**(101)**	**(1 129)**	**(9)**	**6 606**

16. Property and equipment *(continued)*

	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Transfer to investment property Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
	Group 2008								
Computer equipment	1 455	499	2	(12)	—	28	(494)	—	1 478
Freehold property	1 678	281	9	(86)	—	21	(32)	—	1 871
Furniture and other equipment	1 319	1 616	17	(71)	—	21	(293)	—	2 609
Leasehold property	148	41	3	—	—	—	(32)	—	160
Motor vehicles	10	2	—	(1)	—	3	(5)	—	9
	4 610	2 439	31	(170)	—	73	(856)	—	6 127

Comparatives have been restated, refer to note 1.26.

The fair value of freehold property is determined by both external and internal valuers. The most recent valuation was performed during 2009 and it indicated that the fair value of the freehold property amounted to R2 962 million. The previous valuation was performed during December 2007 and it indicated that the fair value of the freehold property amounted to R2 083 million.

Leasehold property and computer equipment with a carrying value of R264 million (2008: R206 million) are encumbered under finance leases (refer to note 20).

In terms of the Companies Act, No 61 of 1973 (as amended), of South Africa, details regarding freehold property are kept at each company's registered office, and this information will be made available to shareholders on written request.

Included in the above additions is R609 million that relates to expenditure capitalised to the cost of the asset during the course of its construction. This asset is disclosed under freehold property and the total carrying amount is R1 162 million.

	Group		
	2009 Rm	2008 Rm	2007 Rm

17. Deferred tax

17.1 Reconciliation of net deferred tax liability

	2009 Rm	2008 Rm	2007 Rm
Balance at the beginning of the year	**2 719**	2 489	2 408
Deferred tax asset (raised)/released on STC credits (refer to note 17.4)	**(23)**	(23)	9
Acquisitions of subsidiaries (refer to note 56)	**160**	5	—
Deferred tax on amounts charged directly to other comprehensive income	**(321)**	1 040	(165)
Available-for-sale investments	**(81)**	(66)	32
Fair value measurement	**(52)**	(90)	14
Transfer to the profit and loss component of the statement of comprehensive income	**(29)**	24	18
Cash flow hedges	**(259)**	1 030	(221)
Fair value measurement	**(476)**	572	(530)
Transfer to the profit and loss component of the statement of comprehensive income	**217**	458	309
Retirement benefit assets and liabilities	**19**	76	24
Charge to the profit and loss component of the statement of comprehensive income (refer to note 42)	**(833)**	(748)	272
Tax effect of translation and other differences	**71**	(44)	(35)
Balance at the end of the year	**1 773**	2 719	2 489

	Group 2009 Rm	2008 Rm	2007 Rm
17. Deferred tax *(continued)*			
17.2 Deferred tax liabilities/(assets)			
Tax effects of temporary differences between tax and book value for:			
Accruals and provisions	**2 651**	3 752	2 603
Retirement benefit assets and liabilities	**162**	121	24
Gains on investments	**(498)**	(252)	(161)
Impairment of advances	**(723)**	(1 011)	(441)
Lease and rental debtor allowances	**459**	509	505
Other	**—**	—	10
Property allowances	**96**	(159)	60
Deferred tax liabilities	**2 147**	2 960	2 600
Deferred tax assets	**(374)**	(241)	(111)
Deferred tax asset – normal	**(303)**	(193)	(86)
Deferred tax asset – STC (refer to note 17.4)	**(71)**	(48)	(25)
Net deferred tax liabilities	**1 773**	2 719	2 489

Comparatives have been restated, refer to note 1.26.

17.3 Future tax relief

The Group has estimated tax losses of R127 million (2008: R478 million).

The above figures exclude tax losses and reversing temporary differences of R38 million (2008: R4 million) for which deferred tax assets have been raised.

	2009 Rm	2008 Rm	2007 Rm
Balance at the beginning of the year	**478**	742	618
Disposal of subsidiary	**—**	48	—
Losses incurred	**78**	9	266
Movement in temporary differences	**(38)**	(4)	132
Operating losses utilised	**(391)**	(317)	(274)
Balance at the end of the year	**127**	478	742

17.4 Secondary taxation on companies (STC)

	2009 Rm	2008 Rm	2007 Rm
Accumulated STC credits	**707**	479	218
Deferred tax asset raised (refer to note 17.2)	**71**	48	25
Raised at 10,0%	**71**	48	9
Raised at 12,5%	**—**	—	16
Movement in deferred tax asset for the year (refer to note 17.1)	**23**	23	(9)

If the total reserves of R44 331 million (2008: R44 002 million) as at the statement of financial position date were to be declared as dividends, the secondary tax impact at a rate of 10,0% (2008: 10,0%) would be R4 433 million (2008: R4 000 million).

	Group 2009 Rm	Group 2008 Rm
18. Deposits from banks		
Call deposits	**4 064**	7 299
Fixed deposits	**3 239**	2 228
Foreign currency deposits	**1 882**	6 119
Other deposits	**6 220**	11 213
Repurchase agreements (refer to note 47)	**24 211**	27 774
	39 616	54 633
Portfolio analysis		
Financial liabilities at amortised cost	**32 297**	45 631
Financial liabilities designated at fair value through profit or loss	**7 319**	9 002
	39 616	54 633

Deposits with variable rates are R11 948 million (2008: R24 631 million) and fixed rates are R27 668 million (2008: R30 002 million).

Included above are deposits with the Group's parent company of R8 246 million (2008: R14 616 million). Refer to note 49 for the full disclosure of related party transactions.

	Group 2009 Rm	Group 2008 Rm
19. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 65.3)	**36 960**	67 838
Commodity derivatives	**2 899**	4 619
Credit derivatives	**245**	322
Equity derivatives	**6 132**	4 116
Foreign exchange derivatives	**9 529**	31 493
Interest rate derivatives	**18 155**	27 288
Short positions	**16 762**	4 899
Total trading portfolio liabilities	**53 722**	72 737
Hedging portfolio liabilities (refer to note 65.3)	**565**	1 080
	54 287	73 817
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**132**	285
Derivatives designated as fair value hedging instruments	**433**	795
Financial liabilities held for trading	**53 722**	72 737
Derivative liabilities	**36 960**	67 838
Short positions	**16 762**	4 899
	54 287	73 817

Included above are derivative positions with the Group's parent company of R8 450 million (2008: R15 373 million). Refer to note 49 for the full disclosure of related party transactions.

Included in the financial liabilities held for trading are financial instruments related to the Group's economic hedging programme with a notional value of R1 851 million (2008: R4 286 million) and a fair value of R169 million (2008: R824 million).

	Group		
	2009 Rm	2008 Rm	2007 Rm
20. Other liabilities			
Accruals	**774**	589	883
Audit fee accrual	**45**	38	30
Creditors	**7 502**	7 170	5 711
Deferred income	**407**	407	579
Liabilities under finance leases (refer to note 20.1)	**800**	836	892
Retirement benefit obligation (refer to note 45)	**423**	508	373
Settlement balances	**2 118**	2 754	1 285
Share-based payment liability (refer to note 55)	**143**	316	200
	12 212	12 618	9 953
Portfolio analysis			
Financial liabilities at amortised cost	**10 127**	10 621	7 654
Creditors	**7 209**	7 031	5 477
Liabilities under finance leases	**800**	836	892
Settlement balances	**2 118**	2 754	1 285
Financial liabilities designated at fair value through profit or loss	**294**	139	234
Non-financial liabilities	**1 791**	1 858	2 065
	12 212	12 618	9 953

Comparatives have been reclassified, refer to note 1.26.

Included above are settlement accounts with the Group's parent company for R287 million (2008: R1 540 million). Refer to note 49 for the full disclosure of related party transactions.

20.1 Liabilities under finance leases

	Group		
	2009		
	Minimum lease payments due Rm	**Interest Rm**	**Principal Rm**
Less than one year	**298**	**(117)**	**181**
Between one and two years	**260**	**(90)**	**170**
Between two and three years	**275**	**(58)**	**217**
Between three and four years	**208**	**(22)**	**186**
Between four and five years	**47**	**(1)**	**46**
	1 088	**(288)**	**800**
	2008		
	Minimum lease payments due Rm	Interest Rm	Principal Rm
Less than one year	271	(133)	138
Between one and two years	234	(110)	124
Between two and three years	236	(87)	149
Between three and four years	262	(55)	207
Between four and five years	193	(21)	172
More than five years	47	(1)	46
	1 243	(407)	836

Under the terms of the leases, no contingent rentals are payable. Refer to note 16 for details of property and equipment subject to finance leases.

20. Other liabilities *(continued)*

20.1 Liabilities under finance leases *(continued)*

20.1.1 Terms and conditions of finance leases

Building	Address	Details
Absa Towers	180 Main Street, Johannesburg 170 Main Street, Johannesburg 10 Troy Street, Johannesburg	Original term of 18 years with negotiable escalation clauses and a renewal date of 31 March 2014.
Bankorp	270 Republic Road, Johannesburg 194 Main Reef Road, Johannesburg 200 Gale Street, Durban 1 Wallace Street, Cape Town 10 Oswald Pirow Street, Cape Town	Original term of 20 years, with negotiable escalation clauses and a renewal date of 31 March 2010.
Centro City	11 Trump Street, Johannesburg	Original term of 20 years with negotiable escalation clauses and a renewal date of 31 October 2013.
Roggebaai	31 Lower Long Street, Cape Town	Original term of 20 years with negotiable escalation clauses and a renewal date of 28 February 2014.
Volkskas Centre	230 Van der Walt Street, Pretoria	Original term of 20 years with negotiable escalation clauses and a renewal date of 31 March 2013.

20.1.2 Minimum future income receivable from subleasing

	Group	
	2009 Rm	2008 Rm
Receivable within one year	**40**	25
Receivable within two to five years	**2**	25
	42	50

21. Provisions

	Group			
	2009			
	Redundancy and restructuring provision Rm	**Staff bonus and incentive provision Rm**	**Sundry provisions Rm**	**Total Rm**
Balance at the beginning of the year	**6**	**1 386**	**721**	**2 113**
Additions	**—**	**644**	**477**	**1 121**
Amounts used	**(6)**	**(1 023)**	**(336)**	**(1 365)**
Release of provision subject to share-based payment arrangement	**—**	**(185)**	**—**	**(185)**
Balance at the end of the year	**—**	**822**	**862**	**1 684**

	2008			
	Redundancy and restructuring provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	2	1 597	767	2 366
Additions	4	1 526	524	2 054
Amounts used	—	(1 737)	(570)	(2 307)
Balance at the end of the year	6	1 386	721	2 113

21. Provisions *(continued)*

	2007			
	Redundancy and restructuring provision Rm	Staff bonus and incentive provisions Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	—	1 310	577	1 887
Additions	2	1 474	553	2 029
Amounts used	—	(1 187)	(363)	(1 550)
Balance at the end of the year	2	1 597	767	2 366

Comparatives have been restated, refer to note 1.26.

Provisions expected to be recovered or settled within no more than 12 months after the statement of financial position date were R926 million (2008: R1 536 million). Sundry provisions are made with respect to fraud cases and litigation claims.

In the prior year, a portion of the staff bonus and incentive provision was subject to an equity-settled share-based payment arrangement, the amount of which is determined after year-end.

	Group	
	2009 Rm	2008 Rm
22. Deposits due to customers		
Call deposits	**56 387**	62 303
Cheque account deposits	**92 265**	99 694
Credit card deposits	**1 868**	2 051
Fixed deposits	**106 886**	124 760
Foreign currency deposits	**9 011**	12 297
Liabilities to clients under acceptances	**3**	121
Notice deposits	**10 293**	7 297
Other deposits[1]	**7 615**	12 098
Repurchase agreements with non-banks (refer to note 47)	**1 712**	2 217
Savings and transmission deposits	**64 717**	59 443
	350 757	382 281
Portfolio analysis		
Financial liabilities at amortised cost	**338 205**	370 862
Call deposits	**56 387**	62 303
Cheque account deposits	**92 265**	99 694
Credit card deposits	**1 868**	2 051
Fixed deposits	**98 095**	115 558
Foreign currency deposits	**9 011**	12 297
Liabilities to clients under acceptances	**3**	121
Notice deposits	**10 293**	7 297
Other deposits	**5 566**	12 098
Savings and transmission deposits	**64 717**	59 443
Financial liabilities designated at fair value through profit or loss	**12 552**	11 419
Fixed deposits	**8 791**	9 202
Other deposits	**2 049**	—
Repurchase agreements with non-banks	**1 712**	2 217
	350 757	382 281

Note

[1]*Included in other deposits are partnership contributions received, deposits due on structured deals, preference investments on behalf of clients and unclaimed deposits.*

	Group 2009 Rm	Group 2008 Rm
23. Debt securities in issue		
Abacas – Commercial paper issued and floating rate notes	**4 936**	6 640
Credit linked notes	**8 025**	6 962
Floating rate notes	**84 925**	63 906
Liabilities arising from securitised SPEs	**4 810**	6 858
Negotiable certificates of deposit	**59 354**	69 364
Other debt securities in issue	**15**	—
Promissory notes	**1 855**	3 823
Replica bonds	**1 534**	5 740
Senior notes	**5 922**	2 607
	171 376	165 900
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**6 046**	8 322
Floating rate notes	**5 959**	8 074
Negotiable certificates of deposit	**87**	248
Financial liabilities at amortised cost	**163 589**	151 509
Abacas – Commercial paper issued and floating rate notes	**4 936**	6 640
Credit linked notes	**7 833**	6 633
Floating rate notes	**78 966**	55 832
Liabilities arising from securitised SPEs	**4 810**	6 858
Negotiable certificates of deposit	**59 267**	69 116
Promissory notes	**1 855**	3 823
Senior notes	**5 922**	2 607
Financial liabilities designated at fair value through profit or loss	**1 741**	6 069
Credit linked notes	**192**	329
Other debt securities in issue	**15**	—
Replica bonds	**1 534**	5 740
	171 376	165 900
24. Liabilities under investment contracts		
Balance at the beginning of the year	**10 377**	7 908
Changes in investment contracts (refer to note 35)	**620**	438
Inflows on investment contracts	**3 155**	3 264
Policyholder benefits on investment contracts	**(1 661)**	(1 440)
Linked investment policies	**(45)**	207
Balance at the end of the year	**12 446**	10 377
Portfolio analysis		
Financial liabilities designated at fair value through profit or loss	**12 446**	10 377
24.1 Liabilities under investment contracts attributable to external policyholders		
Total liabilities under investment contracts	**13 171**	10 985
Elimination of intergroup balance	**(725)**	(608)
	12 446	10 377

24. Liabilities under investment contracts *(continued)*

24.2 Assets linked to investment contracts

	Group		
	2009		
	Linked to investment contracts Rm	**Intergroup assets and liabilities Rm**	**Attributable to external policy-holders Rm**
Money market assets	**3 582**	**(3 091)**	**491**
Investments (refer to note 12)	**9 091**	**(98)**	**8 993**
Other assets	**7**	**—**	**7**
Other liabilities	**(20)**	**—**	**(20)**
Investments in linked investment policies (refer to note 11)	**511**	**(266)**	**245**
	13 171	**(3 455)**	**9 716**
	2008		
	Linked to investment contracts Rm	Intergroup assets and liabilities Rm	Attributable to external policy-holders Rm
Money market assets	3 450	(48)	3 402
Investments (refer to note 12)	7 123	—	7 123
Other assets	69	—	69
Other liabilities	(138)	—	(138)
Investments in linked investment policies (refer to note 11)	481	—	481
	10 985	(48)	10 937

	Group		
	2009		
	Gross Rm	**Reinsurance Rm**	**Net Rm**
25. Policyholder liabilities under insurance contracts			
Short-term insurance contracts:			
Claims outstanding (refer to note 25.1)	**837**	**(253)**	**584**
Claims reported and loss adjustment expense	**665**	**(230)**	**435**
Claims incurred but not reported	**172**	**(23)**	**149**
Unearned premiums at the end of the year	**897**	**(180)**	**717**
Balance at the beginning of the year	**856**	**(137)**	**719**
Increase during the year	**2 820**	**(468)**	**2 352**
Release during the year	**(2 779)**	**425**	**(2 354)**
	1 734	**(433)**	**1 301**
Long-term insurance contracts (refer to note 25.2)	**1 402**	**(41)**	**1 361**
	3 136	**(474)**	**2 662**

25. Policyholder liabilities under insurance contracts *(continued)*

	Group 2008 Gross Rm	Group 2008 Reinsurance Rm	Group 2008 Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 25.1)	727	(213)	514
Claims reported and loss adjustment expense	564	(190)	374
Claims incurred but not reported	163	(23)	140
Unearned premiums at the end of the year	856	(137)	719
Balance at the beginning of the year	769	(38)	731
Increase during the year	2 556	(137)	2 418
Release during the year	(2 469)	38	(2 430)
	1 583	(350)	1 233
Long-term insurance contracts (refer to note 25.2)	1 493	(72)	1 421
	3 076	(422)	2 654

	Group **2009** Rm	Group 2008 Rm
Comprising:		
Unit-linked insurance contracts		
Gross	**867**	697
Non-linked insurance contracts	**1 795**	1 957
Gross	**2 269**	2 379
Reinsurance (refer to note 11)	**(474)**	(422)
	2 662	2 654

25.1 Reconciliation of claims outstanding, including claims incurred but not reported

	2009 Gross Rm	**2009 Reinsurance Rm**	**2009 Net Rm**
Balance at the beginning of the year	**727**	**(213)**	**514**
Cash paid for claims settled during the year	**(1 828)**	**(38)**	**(1 866)**
Increase/(decrease) in claims arising from current year claims outstanding	**1 935**	**(22)**	**1 913**
Increase/(decrease) in claims arising from prior years' claims outstanding	**3**	**20**	**23**
Balance at the end of the year (refer to note 25)	**837**	**(253)**	**584**

	2008 Gross Rm	2008 Reinsurance Rm	2008 Net Rm
Balance at the beginning of the year	625	(20)	605
Cash paid for claims settled during the year	(1 680)	20	(1 660)
Increase/(decrease) in claims arising from current year claims outstanding	1 722	(128)	1 594
Increase/(decrease) in claims arising from prior years' claims outstanding	60	(85)	(25)
Balance at the end of the year (refer to note 25)	727	(213)	514

25. Policyholder liabilities under insurance contracts *(continued)*

25.2 Reconciliation of the gross long-term insurance contracts

	Group 2009 Rm	Group 2008 Rm
Balance at the beginning of the year	**1 493**	1 856
Reinsurance liability	**(31)**	5
Transfer from statement of comprehensive income (refer to note 35)	**(60)**	(368)
Increase/(decrease) in retrospective liabilities	**152**	(142)
Unwind of discount rate	**32**	50
New business	**33**	55
Change in methodology	**39**	(12)
Change in economic assumptions	**(86)**	13
Changes in non-economic assumptions	**(158)**	(147)
Expected cash flow	**259**	88
Expected release of margins	**(337)**	(321)
Experience variances	**6**	48
Balance at the end of the year (refer to note 25)	**1 402**	1 493
Recoverable from reinsurers	**41**	72
Net liabilities	**1 361**	1 421
Unit-linked liabilities	**898**	723
Non-linked liabilities	**463**	698
	1 402	1 493

Change in accounting estimate – changes in non-economic assumptions

It is the Group's policy that profit margins contained in the premium basis should only be released and added to profits once premiums have been received and the risk cover has been provided.

Policyholder liabilities under insurance contracts are valued using Professional Guidance Notes (PGN) 104, issued by the Actuarial Society of South Africa. PGN 104 allows for additional margins if the statutory actuary believes that the compulsory margins are insufficient for prudent provisioning and/or to defer the release of profits in line with policy design and Group practice. These margins are incorporated into the liability calculations.

It is the Group's policy that profit margins contained in the premium basis, which are expected to be released in future as the business runs off, should not be capitalised and recognised prematurely. Such margins should only be released to profits once premiums have been received and the risk cover has been provided.

One of the margins established in terms of the Group's accounting policy, is a reduced lapse assumption for certain regular premium business. This allows for the fact that lapses are inherently volatile and it is not deemed prudent to take credit in advance for future lapses that might not arise.

Management considered it appropriate to provide for these margins as a result of not having sufficiently large volumes of business and accompanying data. As a result there were random fluctuations in the policyholder liabilities and the discretionary margins provided to some extent a buffer against these fluctuations. However the volumes of business have shown positive growth over the past financial years and a more credible volume of data has emerged. Management has reconsidered the lapse margins included in the policyholder liabilities and based on the additional data available set the margins to 0% (2008: 0%).

This has resulted in a decrease in policyholder liabilities and an increase in profit before taxation of R162 million (a 10% premium margin was previously held for all regular premium business against the uncertainty on the collectability of the premiums, which resulted in a release of R148 million in 2008). This amount is taxed in the corporate fund at 28,0%, amounting to R45 million, as it represents a transfer from the individual policyholder funds to the corporate fund.

26. Borrowed funds

			Group 2009 Rm	Group 2008 Rm
Subordinated callable notes			**13 530**	12 144
The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act, No 94 of 1990 (as amended).				
Interest rate	*Final maturity date*	*Note*		
14,25%	22 March 2014	i	**—**	3 100
10,75%	26 March 2015	ii	**1 100**	1 100
8,75%	1 September 2017	iii	**1 500**	1 500
8,10%	27 Marc h 2020	iv	**2 000**	2 000
8,80%	7 March 2019	v	**1 725**	1 725
Three-month JIBAR + 0,75%	26 March 2015	vi	**400**	400
CPI-linked notes, fixed at the following coupon rates:				
6,25%	31 March 2018	vii	**1 886**	1 886
6,00%	20 September 2019	viii	**3 000**	—
5,50%	7 December 2028	ix	**1 500**	—
Accrued interest			**575**	379
Fair value adjustment			**(156)**	54
Redeemable cumulative option-holding preference shares			**—**	152
Preference dividend rate	*Option exercise dates*	*Number*		
72% of the prime overdraft rate	1 July 2007 to 1 July 2009 1 March, 1 June, 1 September or 1 December of each year	79 237 500	**158**	158
Redemption of preference shares for the Absa Group Limited Employee Share Ownership Administrative Trust		(4 516 700)	**(9)**	(8)
Shares held by Absa Group Limited Employee Share Ownership Administrative Trust			**—**	(4)
Cancellation of preference shares for the Absa Group Limited Employee Share Ownership Administrative Trust		(1 568 500)	**(3)**	—
Redemption of preference shares held by Batho Bonke Capital (Proprietary) Limited		(73 152 300)	**(146)**	—
Accrued dividend			**—**	6

The dividends were compounded and payable semi-annually in arrear on 30 September and 31 March of each year. The shares were issued by Absa Group Limited on 1 July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ended on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1 March, 1 June, 1 September or 1 December of each year. The shares were convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.

	2009 Rm	2008 Rm
	13 530	12 296
Portfolio analysis		
Subordinated callable notes designated at fair value through profit or loss	**718**	672
Financial liabilities at amortised cost	**7 221**	5 069
Redeemable cumulative option-holding preference shares	**—**	152
Subordinated callable notes	**7 221**	4 917
Amortised cost subordinated callable notes held in a fair value hedging relationship	**5 591**	6 555
	13 530	12 296

26. Borrowed funds *(continued)*

i The 14,25% fixed rate notes were redeemed in full on 22 March 2009. Interest was paid semi-annually in arrear on 22 March and 22 September of each year.

ii The 10,75% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 26 March 2010. Interest is paid semi-annually in arrear on 26 March and 26 September of each year, provided that the last date for payment shall be 26 March 2010. If Absa Bank Limited does not exercise the redemption option, then interest is payable thereafter at a floating rate of three-month JIBAR plus 4,35% quarterly in arrear on 26 March, 26 June, 26 September and 26 December, with the first quarterly payment commencing on 26 June 2010.

iii The 8,75% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 1 September 2012. Interest is paid semi-annually in arrear on 1 March and 1 September of each year, provided that the last date for payment shall be 1 September 2012. If Absa Bank Limited does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 1,13% quarterly in arrear on 1 March, 1 June, 1 September and 1 December.

iv The 8,10% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 27 March 2015. Interest is paid semi-annually in arrear on 27 March and 27 September of each year, provided that the last date for payment shall be 27 March 2015. If Absa Bank Limited does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 1,185% quarterly in arrear on 27 March, 27 June, 27 September and 27 December.

v The 8,80% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 7 March 2019. Interest is paid semi-annually in arrear on 7 March and 7 September of each year, provided that the last date for payment shall be 7 March 2019. If Absa Bank Limited does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 0,92% quarterly in arrear on 7 March, 7 June, 7 September and 7 December.

vi The three-month JIBAR plus 0,75% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 26 March 2010. Interest is paid quarterly in arrear on 26 March, 26 June, 26 September and 26 December of each year, provided that the last date for payment shall be 26 March 2010. If Absa Bank Limited does not exercise the redemption option, then the coupon rate payable after 26 March 2010 reprices from three-month JIBAR plus 0,75% to three-month JIBAR plus 3,70%.

vii The 6,25% CPI-linked notes may be redeemed at the option of Absa Bank Limited on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September each year, provided that the last date for payment shall be 31 March 2013. If Absa Bank limited does not exercise the redemption option, then the CPI- linked rate payable will convert to JIBAR plus a spread which will be payable quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

viii The 6,00% CPI-linked notes may be redeemed in full at the option of Absa Bank Limited on 20 September 2014. Interest is paid semi-annually in arrear on 20 March and 20 September of each year, provided that the last date of payment shall be 20 September 2014. If Absa Bank Limited does not exercise the redemption option, a coupon step-up of 150 basis points shall apply.

ix The 5,50% CPI-linked notes may be redeemed in full option of Absa Bank Limited on 7 December 2023. Interest is paid semi-annually in arrear on 7 June and 7 December each year, provided that the last date for payment shall be 7 December 2023. If Absa Bank Limited does not exercise the redemption option, a coupon step – up of 150 basis points shall apply.

All the above notes are listed on the Bond Exchange of South Africa.

In accordance with the Company's articles of association, the borrowing powers of the Company are unlimited.

	Group 2009 Rm	Group 2008 Rm
27. Share capital and premium		
27.1 Ordinary share capital		
Authorised		
880 467 500 (2008: 800 000 000) ordinary shares of R2,00 each	**1 761**	1 600
Issued		
718 210 043 (2008: 680 278 301) ordinary shares of R2,00 each	**1 437**	1 361
1 841 624 (2008: 2 400 220) treasury shares held by the Absa Group Limited Share Incentive Trust	**(4)**	(5)
545 111 (2008: 905 111) treasury shares held by Absa Life Limited	**(1)**	(2)
Nil (2008: 500) treasury shares held by Absa Group Limited Employee Share Ownership Administrative Trust	**—**	(0)
	1 432	1 354
Total issued capital		
Share capital	**1 432**	1 354
Share premium	**4 784**	2 251
	6 216	3 605

27. Share capital and premium *(continued)*

27.1 Ordinary share capital *(continued)*

Authorised shares

The authorised share capital was increased during the current year in terms of article 177.4 of the Articles of Association of the Company, which states that upon redemption of any issued redeemable preference share, that issued share shall:

- be automatically cancelled as to its issue, but not as to its authorisation; and simultaneously
- be automatically converted from an authorised but unissued redeemable preference share to an authorised but unissued ordinary share of R2,00 each ranking pari passu in all respects with the authorised ordinary shares (refer to note 27.2 for the redemption of preference shares).

Unissued shares

The unissued shares are under the control of the directors subject to a limit of 5% of issued ordinary share capital as at the statement of financial position date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming annual general meeting of the Company.

The Group has a share incentive trust in terms of which shares are issued and share options are granted. Details of the share incentive trust are set out in note 55. As required by IFRS and the JSE Limited, the Share Incentive Trust has been consolidated into the Group's annual financial statements.

Shares issued during the current year

The following ordinary shares were issued during the year to meet the obligation of the Absa Group Limited Employee Share Ownership Administrative Trust:

- On 17 March 2009, 93 900 shares at R64,80 per share, being R2,00 par value and R62,80 share premium.
- On 24 June 2009, 434 900 shares at R68,30 per share, being R2,00 par value and R66,30 share premium.

The following ordinary shares were issued during the year to meet the obligation of the Absa Group Limited Share Incentive Trust:

- On 24 June 2009, 753 642 shares at R41,97 per share, being R2,00 par value and R39,97 share premium.

The following ordinary shares were issued during the year to meet the obligation of Batho Bonke Capital (Proprietary) Limited exercising its options to subscribe for ordinary shares:

- On 15 June 2009, 36 649 300 shares at R68,30 per share, being R2,00 par value and R66,30 share premium.

Shares issued during the previous year

The following ordinary shares were issued during the previous year to meet the obligation of the Absa Group Limited Share Ownership Administrative Trust:

- On 13 March 2008, 118 900 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 11 June 2008, 91 000 shares at R63,40 per share, being R2,00 par value and R61,40 share premium.
- On 12 September 2008, 86 300 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 15 December 2008, 63 300 shares at R64,10 per share, being R2,00 par value and R62,10 share premium.

The following ordinary shares were issued to meet the obligation of the Absa Group Limited Share Incentive Trust:

- On 30 June 2008, 1 345 727 shares at R38,43 per share, being R2,00 par value and R36,43 share premium.

All shares issued by the Company were paid in full.

	Group 2009 Rm	Group 2008 Rm
27. Share capital and premium *(continued)*		
27.2 Preference share capital – unlisted		
Authorised		
Nil (2008: 80 467 500) redeemable cumulative option-holding preference shares of R2,00 each	—	161
Issued		
Nil (2008: 75 260 000) redeemable cumulative option-holding preference shares of R2,00 each	—	151

Authorised and issued preference shares

The authorised and issued preference shares were reduced when the Group entered into an agreement with Batho Bonke Capital (Proprietary) Limited (Batho Bonke) to assist in the partial realisation and exercise of the 73 152 300 options. This was achieved on 1 June 2009 through the repurchase and cancellation of 49,9% of the preference shares and the exercise of the remaining 36 649 300 options by Batho Bonke. The exercise by Batho Bonke of the remaining 50,1% options was financed partially through the proceeds from the repurchase of 49,9% preference shares and through a three-month back-up funding facility provided by the Group.

As a result the authorised ordinary share capital was increased in terms of article 177.4 of the Articles of Association of the Company (refer to note 27.1).

The redeemable cumulative option-holding preference shares expired on 1 July 2009.

On 1 September 2009, Batho Bonke successfully concluded and raised third-party funding of R1 686 million from a consortium of financial institutions, thereby replacing the Group's back-up funding facility from 1 September 2009. All conditions precedent have been fulfilled.

Previously these shares met the definition of debt under *IAS 32 – Financial instruments: Presentation*, and were therefore included under 'Borrowed funds' (refer to note 26).

The 73 152 300 preference shares held by Batho Bonke in 2008 were entitled to voting rights equivalent to those of the listed ordinary shares. The shares held by the Absa Group Limited Employee Share Ownership Administrative Trust were not entitled to voting rights.

Shares redeemed during the current year

The following options held by the Absa Group Limited Share Ownership Administrative Trust were exercised by employees:

- On 17 March 2009, 93 900 preference shares were redeemed and converted into ordinary share capital at R64,80 per share, being R2,00 par value and R62,80 share premium.
- On 24 June 2009, 434 900 preference shares were redeemed and converted into ordinary share capital at R68,30 per share, being R2,00 par value and R66,30 share premium.
- On 1 July 2009, 1 578 900 preference shares were forfeited and cancelled.

The following options held by Batho Bonke were exercised and cancelled:

- On 15 June 2009, 36 649 300 preference shares were redeemed and converted into ordinary share capital at R68,30 per share, being R2,00 par value and R66,30 share premium.
- On 15 June 2009, 36 503 000 preference shares were bought back by Absa Group Limited at R29,10 per share and cancelled.

Shares redeemed during the previous year

The following options held by the Absa Group Limited Employee Share Ownership Administrative Trust were exercised by employees:

- On 13 March 2008, 118 900 preference shares were redeemed and converted into ordinary share capital at R69,00 per share being R2,00 par value and R67,00 share premium.
- On 11 June 2008, 91 000 preference shares were redeemed and converted into ordinary share capital at R63,40 per share, being R2,00 par value and R61,40 share premium.
- On 12 September 2008, 86 300 preference shares were redeemed and converted into ordinary share capital at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 15 December 2008, 63 300 preference shares were redeemed and converted into ordinary share capital at R64,10 per share, being R2,00 par value and R62,10 share premium.

28. Other reserves

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Available-for-sale reserve

The available-for-sale reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised or impaired, in which case the cumulative amount recognised in other comprehensive income is released to the profit and loss component of the statement of comprehensive income.

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Associates' and joint ventures' reserves

The associates' and joint ventures' reserves comprise the Group's share of its associates' and/or joint ventures' reserves.

General credit risk reserve

Total impairments, consisting of identified and unidentified impairments, calculated in terms of *IAS 39 – Financial Instruments: Recognition and Measurement,* should exceed the provisions calculated for regulatory purposes. For African subsidiaries an additional general credit risk reserve has been created and maintained through an appropriation of distributable reserves to eliminate the shortfall.

For Collaterised Auto Receivables Securitisation Programme (Proprietary) Limited (Cars), the reserve represents the following:

Provisions within the securitisation offering circular (dated 12 October 2006), which states that the company has to transfer to non-distributable reserves the net finance lease receivable amount, less the related IAS 39 impairment provision in respect of finance lease receivables having four or more instalments in arrears or those deemed to be uncollectable or potentially uncollectable by the Group.

Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of *IFRS 2 – Share-based Payment*. The standard requires that the expense be charged to the profit and loss component of the statement of comprehensive income, while a credit needs to be raised against equity over the vesting period (ie the period between the allocation date and the date on which employees will become entitled to their options). When options are exercised, the reserve related to the specific options is transferred to share capital and/or share premium. If the options lapse after vesting, the related reserve is transferred to retained earnings. If the options lapse before vesting, the related reserve is reversed through the profit and loss component of the statement of comprehensive income.

Insurance contingency reserve

A contingency reserve is maintained at 10,0% of net written premiums as stipulated by the Short-term Insurance Act, 1988. The utilisation of this reserve, in case of catastrophe, is subject to the approval of the Financial Services Board (FSB).

	Group	
	2009 Rm	2008 Rm
29. Minority interest – preference shares (listed)		
Authorised		
30 000 000 (2008: 30 000 000) non-cumulative non-redeemable preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2008: 4 944 839) non-cumulative non-redeemable preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

The preference shares have a dividend rate of 63,0% of the prime overdraft lending rate. The holders of such shares shall not be entitled to voting rights unless a declared preference dividend remains in arrear and unpaid after six months from the due date thereof, or a resolution is proposed by Absa Bank Limited which directly affects the rights attached to the non-redeemable preference shares or the interest of the holders thereof.

	Group 2009 Rm	Group 2008 Rm
30. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	**155**	278
Fair value adjustments on derivatives	**781**	(1 910)
Investments	**553**	680
Loans and advances to banks	**2 499**	4 347
Other loans and advances to banks	**1 425**	2 716
Reverse repurchase agreements	**1 074**	1 631
Loans and advances to customers	**59 369**	68 366
Cheque accounts	**3 446**	3 700
Corporate overdrafts and specialised finance loans	**1 102**	1 102
Credit cards	**3 459**	3 087
Foreign currency loans	**630**	789
Instalment credit agreements	**7 780**	10 081
Interest on impaired financial assets (refer to note 10)	**945**	529
Loans granted under resale agreements	**258**	662
Loans to associates and joint ventures	**645**	756
Microloans	**986**	1 073
Mortgages	**31 132**	38 026
Other advances[1]	**609**	906
Overnight finance	**1 108**	1 438
Personal and term loans	**3 185**	3 437
Preference shares	**910**	1 122
Wholesale overdrafts	**3 174**	1 658
Other interest	**107**	432
Statutory liquid asset portfolio	**1 783**	4 067
	65 247	76 260
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale items held in a fair value hedging relationship (refer to note 65.2)	**(734)**	1 157
Loans and advances to customers	**34**	—
Statutory liquid asset portfolio	**(768)**	1 157
Fair value adjustments on derivatives	**781**	(1 910)
Cash flow hedges (refer to note 65.2)	**244**	(1 301)
Fair value hedges (refer to note 65.2)	**690**	(920)
Economic hedges	**(153)**	311
Interest on financial assets held at amortised cost and available-for-sale	**63 717**	75 999
Interest on financial assets designated at fair value through profit or loss	**1 483**	1 014
Cash, cash balances and balances with central banks	**103**	—
Debt instruments	**498**	299
Loans and advances	**636**	426
Statutory liquid asset portfolio	**246**	289
	65 247	76 260

Comparatives have been reclassified, refer to note 1.26.

Included above is interest received from the Group's parent company of R215 million (2008: R1 018 million). Refer to note 49 for the full disclosure of related party transactions.

Note

[1]*Includes items such as interest on factored debtors' books.*

	Group 2009 Rm	Group 2008 Rm
31. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**1 021**	1 791
Debt securities in issue	**16 293**	18 905
Deposits due to customers	**25 371**	32 486
Call deposits	**4 665**	7 113
Cheque account deposits	**4 068**	5 699
Credit card deposits	**30**	75
Fixed deposits	**10 732**	13 088
Foreign currency deposits	**545**	973
Notice deposits	**589**	595
Other deposits	**1 642**	1 817
Savings and transmission deposits	**3 100**	3 126
Deposits from banks	**694**	1 102
Call deposits	**534**	659
Fixed deposits	**132**	160
Other	**28**	283
Fair value adjustments on hedging instruments	**(243)**	(467)
Interest incurred on finance leases	**130**	148
Other interest	**127**	189
	43 393	54 154
Portfolio analysis		
Fair value adjustments on amortised cost items held in a fair value hedging relationship (refer to note 65.2)	**(410)**	818
Borrowed funds	**(223)**	368
Debt securities in issue	**(187)**	450
Fair value adjustments on hedging instruments (refer to note 65.2)	**(243)**	(467)
Cash flow hedges (refer to note 65.2)	**(512)**	363
Fair value hedges	**269**	(830)
Interest on financial liabilities designated at fair value through profit or loss	**1 589**	1 666
Debt securities in issue	**786**	706
Deposits due to customers	**803**	960
Interest on financial liabilities held at amortised cost	**42 457**	52 137
	43 393	54 154

Included above is interest paid to the Group's parent company of R54 million (2008: R259 million). Refer to note 49 for the full disclosure of related party transactions.

	Group 2009 Rm	Group 2008 Rm
32. Net fee and commission income		
Fee and commission income		
Asset management and other related fees	**103**	76
Consulting and administration fees	**428**	410
Credit-related fees and commissions	**12 494**	11 359
Credit cards[1]	**1 860**	1 624
Cheque accounts	**3 231**	3 027
Electronic banking	**3 501**	3 021
Other	**1 601**	1 576
Savings accounts	**2 301**	2 111
Insurance commission received	**1 088**	1 013
Other fees and commissions	**199**	219
Pension fund payment services	**545**	526
Project finance fees	**262**	473
Trust and other fiduciary services	**1 182**	988
Portfolio and other management fees	**947**	735
Trust and estate income	**235**	253
	16 301	15 064
Fee and commission expense	**(2 012)**	(1 721)
	14 289	13 343

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care.

Note

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

	Group 2009 Rm	Group 2008 Rm
32.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Fee and commission income		
Credit cards	**831**	732
Cheque accounts	**3 231**	3 027
Electronic banking	**3 501**	3 021
Other	**1 293**	757
Savings accounts	**2 301**	2 111
	11 157	9 648
Fee and commission expense	**(193)**	(168)
	10 964	9 480

Comparatives have been reclassified, refer to note 1.26.

	Group 2009 Rm	Group 2008 Rm
33. Net insurance premium income		
Gross insurance premiums	**4 390**	3 896
Life insurance contracts	**1 386**	1 207
Short-term insurance contracts	**3 004**	2 689
Premiums ceded to reinsurers	**(603)**	(385)
Reinsurance on life insurance contracts	**(96)**	(52)
Reinsurance on short-term insurance contracts	**(507)**	(333)
	3 787	3 511
34. Net insurance claims and benefits paid		
Gross claims and benefits paid on insurance contracts	**2 521**	2 124
Life insurance claims and benefits	**471**	406
Short-term insurance claims and benefits	**2 050**	1 718
Reinsurance recoveries	**(306)**	(234)
Reinsurance recoveries on life insurance contracts	**(40)**	(16)
Reinsurance recoveries on short-term insurance contracts	**(266)**	(218)
	2 215	1 890
Comprising:		
Life	**431**	390
Credit life	**71**	87
Funeral business	**93**	65
Home mortgage protection	**211**	161
Other	**56**	77
Short-term	**1 784**	1 500
Guarantees	**33**	86
Miscellaneous	**101**	58
Motor and personal	**247**	239
Property and engineering	**1 403**	1 117
	2 215	1 890

	Group 2009 Rm	Group 2008 Rm
35. Changes in investment and insurance liabilities		
Decrease in insurance liabilities (refer to note 25.2)	**(60)**	(368)
Increase in investment contracts (refer to note 24)	**620**	438
	560	70
36. Gains and losses from banking and trading activities		
Associates and joint ventures	**(13)**	—
Dividends received	**45**	—
Loss realised on disposal	**(58)**	—
Available-for-sale unwind from reserve	**115**	(85)
Equity instruments	**219**	—
Statutory liquid asset portfolio	**(104)**	(85)
Financial instruments designated at fair value through profit or loss	**(63)**	(925)
Debt instruments	**(31)**	65
Debt securities in issue	**(125)**	(765)
Deposits from banks and due to customers	**(434)**	(3 400)
Equity instruments	**(99)**	1 244
Loans and advances to banks and customers	**614**	1 937
Statutory liquid asset portfolio	**12**	(6)
Financial instruments held for trading		
Derivatives and trading instruments	**2 555**	4 252
Ineffective hedges	**(19)**	89
Cash flow hedges (refer to note 65.2)	**(3)**	(18)
Fair value hedges (refer to note 65.2)	**(16)**	107
	2 575	3 331

Comparatives have been reclassified, refer to note 1.26.

	Group 2009 Rm	Group 2008 Rm
37. Gains and losses from investment activities		
Associates and joint ventures	**15**	31
Dividends received	**—**	2
Profit realised on disposal	**15**	29
Available-for-sale unwind from reserves		
Equity instruments	**1**	—
Financial instruments designated at fair value through profit or loss	**830**	398
Cash, cash balances and balances with central banks	**312**	91
Debt instruments	**78**	232
Equity instruments	**440**	75
Financial instruments held for trading		
Derivatives and trading instruments	**(41)**	160
Investments linked to investment contracts	**669**	492
Cash, cash balances and balances with central banks	**(50)**	(20)
Debt instruments	**(5)**	—
Equity instruments	**724**	512
Subsidiaries		
Loss realised on disposal	**(10)**	(17)
	1 464	1 064
38. Other operating income		
Exchange differences	**40**	237
Income from investment property	**74**	22
Change in fair value of investment property (refer to note 15)	**66**	—
Investment property rentals	**8**	22
Income from maintenance contracts	**26**	48
Profit on disposal of intangible assets	**65**	740
Profit on disposal of property and equipment	**68**	51
Profit on sale of developed property	**50**	57
Gross sales	**62**	106
Cost of sales	**(12)**	(49)
Profit on sale of repossessed properties	**8**	8
Gross sales	**107**	135
Cost of sales	**(99)**	(127)
Rental income	**218**	111
Sundry income[1]	**343**	258
	892	1 532

Comparatives have been restated, refer to note 1.26.

Included above is income received from the Group's parent company of R37 million (2008: R211 million). Refer to note 49 for the full disclosure of related party transactions.

Note

[1]*Sundry income includes service fees levied on sundry non-core business activities.*

	Group	
	2009 **Rm**	2008 Rm

39. Operating expenses

	2009 Rm	2008 Rm
Amortisation of intangible assets (refer to note 14)	**116**	150
Auditors' remuneration	**134**	110
Audit fees	**90**	78
Audit fees – under provision from prior periods	**9**	6
Other fees	**35**	26
Cash transportation	**467**	413
Depreciation (refer to note 16)	**1 129**	856
Equipment costs	**278**	278
Rentals	**139**	149
Maintenance	**139**	129
Information technology	**1 701**	1 468
Investment property charges	**4**	7
Change in fair value of investment property (refer to note 15)	**—**	1
Operating expenses	**4**	6
Marketing costs	**875**	961
Operating lease expenses on property	**910**	1 066
Other operating costs[1]	**2 381**	2 215
Printing and stationery	**283**	268
Professional fees	**790**	851
Research and development cost	**146**	114
Staff costs	**10 806**	11 525
Bonuses	**644**	1 554
Current service costs on post-retirement benefits	**551**	534
Other staff costs[2]	**321**	512
Salaries	**8 872**	8 571
Share-based payments (refer to note 55)	**223**	143
Training costs	**195**	211
Telephone and postage	**837**	832
	20 857	21 114
Average number of employees employed by the Group	**36 989**	37 361
Number of employees employed by the Group at year-end	**36 150**	37 828

Comparatives have been restated, refer to note 1.26.

Notes

[1]*Other operating costs include accommodation, travel and entertainment costs.*

[2]*Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.*

	Group 2009 Rm	Group 2008 Rm
40. Other impairments		
Financial instruments	**38**	30
Available-for-sale instruments (refer to note 12.1)	**36**	1
Amortised cost instruments	**2**	29
Other	**1 419**	(12)
Computer software development costs (refer to note 14)	**19**	1
Equipment (refer to note 16)	**9**	—
Goodwill (refer to note 14)	**37**	—
Investments in associates and joint ventures (refer to note 13.1)	**1 328**	—
Repossessed properties	**26**	(13)
	1 457	18

During the year the Group sold contractual rights it had generated in Ambit Management Services (Proprietary) Limited. The company is now dormant and consequently the goodwill previously recognised on this investment has been written off.

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

The current year's impairment losses are reported in the following segments:

- Impairments on available-for-sale financial instruments are reported in the 'Absa Capital' segment.
- Impairments on amortised cost financial instruments are reported in the 'Bancassurance' segment.
- Impairments on computer software development costs are reported in the 'Bancassurance' segment.
- Impairments on equipment are reported in the 'Business Bank' segment.
- Impairments on goodwill is reported in the 'Other' segment.
- Impairments on investments in associates and joint ventures are reported in the 'Absa Capital' segment.
- The impairment of repossessed properties is reported in the 'Retail banking' segment.

The previous year's impairment losses were reported in the following segments:

- Impairments on available-for-sale financial instruments are reported in the 'Other' segment.
- Impairments on computer software development costs are reported in the 'Other' segment.
- Impairments on amortised cost financial instruments are reported in the 'Bancassurance' segment.
- The impairment reversal of repossessed properties is reported in the 'Retail banking' segment.

	Group 2009 Rm	Group 2008 Rm
41. Indirect taxation		
Payments to third parties	**5**	47
Training levy	**89**	84
Value added tax net of input credits	**819**	593
	913	724

	Group	
	2009 Rm	2008 Rm
42. Taxation expense		
Current		
Foreign taxation	**915**	545
Secondary taxation on companies (STC)	**248**	307
South African current taxation	**1 981**	3 948
South African current taxation – prior year	**29**	(64)
	3 173	4 736
Deferred		
Deferred taxation (refer to note 17.1)	**(833)**	(748)
Accelerated tax depreciation	**(213)**	(208)
Retirement benefit assets and liabilities	**21**	22
Allowances for loan losses	**(176)**	(570)
Other provisions	**129**	14
Other temporary differences	**(594)**	(6)
	2 340	3 988
Reconciliation between accounting profit and the tax expense		
Operating profit before income tax	**9 842**	15 305
Share of retained losses/(earnings) of associates and joint ventures	**50**	(73)
	9 892	15 232
Tax calculated at a tax rate of 28,0%	**2 770**	4 265
Effect of different tax rates in other countries	**(334)**	(33)
Effect on opening deferred taxes resulting from the reduction in the income tax rate	**—**	(24)
Expenses not deductible for tax purposes	**190**	156
Income not subject to tax	**(463)**	(671)
Other	**(71)**	(12)
Secondary taxation on companies	**248**	307
	2 340	3 988

Comparatives have been restated, refer to note 1.26.

The effective STC rate is lower than the statutory rate of 10,0% due to STC being provided for dividends declared net of dividends received and utilised STC credits from prior years.

43. Earnings per share

43.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Group, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares outstanding during the year.

	Group 2009 Rm	Group 2008 Rm
Profit attributable to ordinary equity holders of the Group	**6 840**	10 666
Weighted average number of ordinary shares in issue (millions)	**693,2**	675,7
Issued shares at the beginning of the year (millions)	**680,2**	678,5
Effect of shares issued during the year (weighted millions)	**15,5**	0,8
Treasury shares held by the Absa Group Limited Employee Share Ownership Administrative Trust (weighted millions)	**(0,0)**	(0,0)
Treasury shares held by the Absa Group Limited Share Incentive Trust (weighted millions)	**(2,1)**	(2,7)
Treasury shares held by Absa Life Limited (weighted millions)	**(0,4)**	(0,9)
Basic earnings per share (cents)	**986,7**	1 578,5

Comparatives have been restated, refer to note 1.26.

43. Earnings per share *(continued)*

43.2 Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential dilutive ordinary shares. The Group has two categories of potential dilutive ordinary shares: redeemable, cumulative option-holding preference shares and share options. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual quoted market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is shares that would be obtained for no value.

Contingently issuable shares are only included as potential dilutive ordinary shares when all of the conditions of the contingency are deemed to have been met, based on the information available, at the statement of financial position date.

In calculating the diluted earnings per share on share options to employees and other share-based payment arrangements, the Group adjusts the exercise price, which impacts the weighted average shares issued at no value, of potential ordinary shares to include the fair value of services that will be recognised as an expense in a future period.

	Group	
	2009 Rm	2008 Rm
Profit attributable to ordinary equity holders of the Group	**6 840**	10 666
Interest expense on convertible debt (net of taxation)	**6**	16
Diluted earnings	**6 846**	10 682
Diluted weighted average number of ordinary shares in issue (millions)	**711,5**	702,8
Weighted average number of ordinary shares in issue (millions)	**693,2**	675,7
Adjustments for shares issued at no value:		
Options linked to redeemable preference shares (weighted millions)	**15,3**	23,3
Share options (weighted millions)	**3,0**	3,8
Diluted earnings per share (cents)	**962,2**	1 519,9

The dilution represents the effective discount between the average option price and the average market price at which option holders can convert into ordinary shares. This includes options issued in respect of the Absa Group Limited Share Incentive Trust (2008: included options in respect of the Absa Group Limited Employee Share Ownership Administrative Trust, the Absa Group Limited Share Incentive Trust and Batho Bonke).

	Group			
	2009		2008	
	Gross Rm	**Net[1] Rm**	Gross Rm	Net[1] Rm
44. Headline earnings				
Headline earnings are determined as follows:				
Net profit attributable to ordinary equity holders of the Group		**6 840**		10 666
Adjustments for:				
IFRS 3 – Business combinations (goodwill) (refer to notes 40 and 56.2)	**37**	**37**	(18)	(18)
IAS 16 – Net profit on disposal of property and equipment (refer to note 38)	**(68)**	**(58)**	(51)	(37)
IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations	**(23)**	**(23)**	(38)	(38)
IAS 27 – Net loss on disposal of subsidiaries (refer to note 37)	**10**	**10**	17	17
IAS 28 – Headline earnings component of associates' and joint ventures' earnings	**10**	**11**	(58)	(54)
IAS 28 and 31 – Net loss/(profit) on disposal of associates and joint ventures (refer to notes 36 and 37)	**43**	**35**	(29)	(29)
IAS 28 and 31 – Impairment of investments in associates and joint ventures (refer to note 40)	**1 328**	**956**	—	—
IAS 36 – Impairment of equipment (refer to note 40)	**9**	**6**	—	—
IAS 38 – Net profit on disposal and impairment of intangible assets (refer to notes 38 and 40)	**(46)**	**(42)**	(739)	(636)
IAS 39 – Release of available-for-sale reserves	**(105)**	**(115)**	85	61
IAS 39 – Net profit on disposal and impairment of available-for-sale assets	**25**	**16**	43	32
IAS 40 – Change in fair value of investment property (refer to notes 38 and 39)	**(66)**	**(52)**	1	1
Headline earnings		**7 621**		9 965
Interest expense on convertible debt		**6**		16
Diluted headline earnings		**7 627**		9 981
Headline earnings per share (cents)		**1 099,4**		1 474,8
Diluted headline earnings per share (cents)		**1 072,0**		1 420,2

Comparatives have been restated, refer to note 1.26.

Note

[1]*The net amount is reflected after taxation and minority interest.*

	Group 2009 Rm	2008 Rm	2007 Rm
45. Retirement benefit obligations			
Statement of financial position surplus disclosed in other assets (refer to note 6)			
Pension benefit – subsidiary's defined benefit plan (refer to note 45.3)	**616**	435	105
Statement of financial position obligation disclosed in other liabilities (refer to note 20)			
Pension benefits – subsidiary's defined benefit plan (refer to note 45.1)	**418**	503	372
Other post-retirement benefits	**—**	1	1
Subsidiaries' post-retirement medical aid	**5**	4	—
	423	508	373
Statement of comprehensive income charge included in staff costs and interest expense			
Pension benefits – subsidiaries' defined benefit plan (refer to note 45.1)	**64**	73	50
Pension benefits – Absa Group Pension Fund (refer to note 45.3.1)	**(76)**	(78)	(135)
	(12)	(5)	(85)
Comparatives have been restated, refer to note 1.26.			
45.1 Subsidiaries' defined benefit plan			
Reconciliation of movement in funded obligation			
Balance at the beginning of the year	**503**	372	296
Benefits paid	**(27)**	(32)	(23)
Current service costs	**9**	9	5
Exchange differences	**(154)**	109	20
Interest expense	**55**	64	45
Net actuarial losses/(gains)	**32**	(19)	29
Balance at the end of the year	**418**	503	372
Total expenses comprise			
Current service costs	**9**	9	5
Interest expense	**55**	64	45
	64	73	50
The principal actuarial assumptions used relating to African subsidiaries were as follows:			
Discount rate (%)	**11,50**	13,50	13,50
Expected rate on plan assets (%)	**10,00**	12,00	12,00
Future pension increases (%)	**2,80**	4,40	4,40
Future salary increases (%)	**9,00**	11,00	11,00
Assumptions regarding future mortality experience are set based on advice from published statistics and experience. The average life expectancy in years of a pensioner retiring at the age of 65 is as follows:			
Male	**12,50**	12,50	11,50
Female	**14,40**	14,40	13,50
Pension fund assets			
Investments			
Government bonds	**48**	97	97
Treasury bills	**318**	430	139
Current assets			
Bank balance with Barclays Bank, Mozambique S.A.	**29**	4	146
Interest owing by government	**15**	9	3
	410	540	385

The Group expects to contribute R6 million to its defined benefit plan in 2010 (2009: R6 million).

45. Retirement benefit obligations *(continued)*

45.1 Subsidiaries' defined benefit plan *(continued)*

The assets have been ring-fenced to the retirement benefits, but do not qualify as plan assets in terms of *IAS 19 – Employee Benefits* as they are not in a separate entity and therefore are carried on the Group's statement of financial position. The major constraint in this regard is the lack of enabling legislation in certain African countries.

	Group			
	2009 Rm	2008 Rm	2007 Rm	2006 Rm
Historical information as at the statement of financial position date				
Present value of defined benefit obligation	**418**	503	372	296
Experience adjustments on plan liabilities	**32**	(19)	29	(11)

45.2 Subsidiaries' post-retirement medical aid contributions

Woolworths Financial Services (Proprietary) Limited subsidises a portion of the medical aid contributions of retired employees who participate in the Wooltru Healthcare Fund. The accrued and future liability in respect of post-retirement medical aid contributions is valued annually on the statement of financial position date. The liability was actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality and withdrawal assumptions. For purposes of the valuation it was assumed that medical inflation is 7,5% (2008: 5,8%) per annum. The discount rate used to value the liability is 9,0% (2008: 7,3%) per annum. At the statement of financial position date, the accrued liability amounted to R5 million (2008: R4 million) in respect of those current and retired employees who participate in the Wooltru Healthcare Fund. Employees who joined the healthcare fund after 1 November 2000 are not entitled to receive post-retirement healthcare benefits.

The provision for post-retirement medical aid benefits determined in terms of *IAS 19 – Employee benefits* is as follows:

	Group	
	2009 Rm	2008 Rm
Unfunded obligation		
Unfunded liability	**5**	4
Unfunded deficit	**5**	4
Net obligation	**5**	4

Reconciliations of movement in the obligation and funding liability have not been provided as amounts are less than R1 million.

	Group 2009 Rm	2008 Rm	2007 Rm
45. Retirement benefit obligations *(continued)*			
45.3 The Absa Group Pension Fund			
45.3.1 Defined benefit plan			
Funded obligation			
Present value of funded obligations	**(4 900)**	(4 833)	(4 497)
Fair value of plan assets	**5 853**	5 659	5 765
Net assets before statutory surplus and investment reserve account	**953**	826	1 268
Investment reserve account	**—**	—	(864)
Statutory surpluses as per the rules of the fund	**(337)**	(391)	(299)
Net surplus	**616**	435	105
Reconciliation of movement in obligation			
Balance at the beginning of the year	**4 833**	4 497	3 928
Actuarial losses	**95**	358	630
Benefits paid	**(422)**	(389)	(355)
Current service costs	**1**	1	1
Interest expense	**393**	366	293
Balance at the end of the year	**4 900**	4 833	4 497
Reconciliation of movement in plan assets			
Balance at the beginning of the year	**5 659**	5 765	5 511
Actuarial gains/(losses)	**145**	(163)	179
Benefits paid	**(422)**	(389)	(355)
Employer contributions	**1**	1	1
Expected return on plan assets	**470**	445	429
Balance at the end of the year	**5 853**	5 659	5 765
Pension fund plan assets			
Debt instruments	**2 272**	2 252	2 294
Equity instruments	**2 348**	3 197	3 257
Other assets	**1 233**	210	214
	5 853	5 659	5 765

Pension fund assets include ordinary shares with a fair value of R23 million (2008: R219 million) and interest-bearing instruments issued by the Group with a fair value of R240 million (2008: R52 million). Refer to note 49 for the full disclosure of related party transactions.

The Group expects to contribute R1 million (2009: R1 million) to its defined benefit plan in 2010.

There was a return on assets of R365 million (2008: negative return of R360 million).

The expected return on assets is determined by calculating a total return estimate based on weighted average returns for each class. Asset class returns are estimated using current and projected economic and market factors such as inflation, credit spreads and equity risk premiums.

	2009 Rm	2008 Rm	2007 Rm
Total expenses/(income) comprises:			
Current service costs (included in staff costs)	**1**	1	1
Expected return on plan assets	**(470)**	(445)	(429)
Interest expense	**393**	366	293
Total income	**(76)**	(78)	(135)
Recognised in other comprehensive income			
Actuarial (gains)/losses	**(53)**	521	466
Application of the asset ceiling adjustment	**(52)**	(773)	(436)
	(105)	(252)	30

	Group 2009 Rm	2008 Rm	2007 Rm	2006 Rm
45. Retirement benefit obligations *(continued)*				
45.3 The Absa Group Pension Fund *(continued)*				
45.3.1 Defined benefit plan *(continued)*				
Historical information as at the statement of financial position date				
Present value of defined benefit obligation	**(4 900)**	(4 833)	(4 497)	(3 928)
Fair value of plan assets	**5 853**	5 659	5 765	5 511
Net assets before statutory surplus and investment reserve account	**953**	826	1 268	1 583
Investment reserve account	**—**	—	(864)	(1 377)
Statutory surplus as per the rules of the fund	**(337)**	(391)	(299)	(100)
Net surplus	**616**	435	105	106
Experience adjustments on plan assets	**145**	(163)	179	747
Experience adjustments on plan liabilities	**95**	358	630	239

	Group 2009	2008	2007
The principal actuarial assumptions used for the defined benefit plan were as follows:			
Discount rate (%)	**9,5**	7,5	8,5
Expected return on plan assets (%)	**8,0**	8,0	8,0
Future salary increases	**7,0% + merit**	7,0% + merit	6,0% + merit
Assumptions regarding future mortality experience are set based on advice from published statistics and experience.			
The average life expectancy in years of a pensioner retiring at the age of 60 is as follows:			
Male	**20,6**	20,4	20,4
Female	**25,5**	25,3	25,3

Expected rate of future pension increases

Depending on the member's choice with regard to threshold rates, pension increases are granted each year to the extent that the investment return exceeds the post-retirement valuation rates of 4,5%, 6,0% or 7,0% per annum (threshold rates). If in any year the investment return is less than the threshold rates, the difference is recouped at the next date of pension increase.

45.4 Post-retirement benefits

All permanent employees are members of the Absa Group Pension Fund (the fund), with the exception of employees that have commenced employment within the Group at the age of 55 or older. All members, at 31 March 1997, had the option to convert to the defined contribution structure of which the majority did. Members joining the fund on or after 1 April 1997 are only entitled to benefits under the defined contribution structure.

Of the employees belonging to the fund, 35 827 (2008: 37 666) were members of the defined contribution structure, while 43 (2008: 44) were members of the defined benefit structure. The value of defined contribution assets at the statement of financial position date amounted to R11 363 million (2008: R10 405 million). Current service costs for the year amounted to R617 million (2008: R608 million).

The fund is financed by company and employee contributions and investment income. Company contributions in respect of the defined benefit structure are based on actuarial advice. The expense or income recorded in the profit and loss component of the statement of comprehensive income is determined by the sum of the current service cost, expected return on plan assets and interest expense. It is the Group's policy to ensure that the fund is adequately funded to provide for the benefits of members, and particularly to ensure that any shortfall with regard to the defined benefit structure will be met by way of additional contributions.

The benefits provided by the defined benefit structure are based on a formula taking into account years of membership and remuneration levels. The benefits provided by the defined contribution structure are determined by accumulated contributions and return on investments.

45. Retirement benefit obligations *(continued)*
45.4 Post-retirement benefits *(continued)*

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation be carried out at least every three years. The most recent statutory valuation of the fund was effected on 1 April 2008 and confirmed that the fund was in a sound financial position. This valuation was in accordance with the Pension Funds Second Amendment Act of 2001 (the Act). This Act facilitates the determination of the surplus apportionment to members, while avoiding the inappropriate distribution of surpluses. The Act requires that a fund explicitly establish additional contingency reserves to ensure the financial soundness of the fund going forward. The valuation has been performed using the projected unit benefit method in respect of the defined benefit structure.

Liabilities in respect of the defined benefit structure are calculated based on assumptions regarding the expected experience in respect of death, withdrawals, early retirement, family statistics, rate of increase in pensionable remuneration and medical allowances, administration costs and the expected yield on assets.

	Group 2009 Rm	Group 2008 Rm
46. Dividends per share		
Dividends paid to ordinary equity holders during the year		
9 February 2009 final dividend number 45 of 330,0 cents per ordinary share (19 February 2008: 320,0 cents)	**2 245**	2 171
3 August 2009 interim dividend number 46 of 225,0 cents per ordinary share (7 August 2008: 265,0 cents)	**1 616**	1 803
Dividends paid on treasury shares held by Absa Life Limited	**(5)**	(0)
Dividends paid on shares held by Batho Bonke Capital (Proprietary) Limited in terms of the bridging finance arrangement (refer to note 55.2)	**(56)**	—
	3 800	3 974
Dividends paid to ordinary equity holders relating to income for the year		
3 August 2009 interim dividend number 46 of 225,0 cents per ordinary share (7 August 2008: 265,0 cents)	**1 616**	1 803
16 February 2010 final dividend number 47 of 220,0 cents per ordinary share (9 February 2009: 330,0 cents)	**1 580**	2 245
Dividends paid on treasury shares held by Absa Life Limited	**(2)**	(0)
Dividends paid on shares held by Batho Bonke Capital (Proprietary) Limited in terms of the bridging finance arrangement (refer to note 55.2)	**(56)**	—
	3 138	4 048
The STC payable by the Group in respect of the dividend approved and declared subsequent to the statement of financial position date, amounts to R158 million (2008: R225 million). No provision has been made for this dividend and the related STC in the financial statements at the statement of financial position date.		
Dividends paid to minority preference equity holders during the year		
9 February 2009 final dividend number 6 of 4 734,5 cents per preference share (19 February 2008: 4 436,0 cents)	**234**	219
3 August 2009 interim dividend number 7 of 3 799,0 cents per preference share (7 August 2008: 4 797,5 cents)	**187**	238
	421	457
Dividends paid to minority preference equity holders relating to income for the year		
3 August 2009 interim dividend number 7 of 3 799,0 cents per preference share (7 August 2008: 4 797,5 cents)	**187**	238
16 February 2010 final dividend number 8 of 3 280,3 cents per preference share (9 February 2009: 4 734,5 cents)	**162**	234
	349	472

The STC payable by the Group in respect of the dividend approved and declared subsequent to the statement of financial position date amounts to R16 million (2008: R24 million). No provision has been made for this dividend and the related STC in the financial statements at the statement of financial position date.

47. Securities borrowed/lent and repurchase/reverse repurchase agreements

Reverse repurchase agreements and cash collateral on securities borrowed

Reverse repurchase agreements are accounted for as collateralised loans under loans and advances while cash collateral is shown under other assets.

	Group			
	Cash collateral on securities borrowed 2009 Rm	**Reverse repurchase agreements 2009 Rm**	Cash collateral on securities borrowed 2008 Rm	Reverse repurchase agreements 2008 Rm
Assets				
Banks (refer to note 4)	**—**	**8 932**	—	17 247
Other	**7 191**	**1 988**	3 993	7 072
Statutory liquid assets (refer to note 3)	**—**	**1 941**	—	4 100
	7 191	**12 861**	3 993	28 419

As part of the reverse repurchase agreements, the Group has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the statement of financial position date amounts to R10 920 million (2008: R24 261 million) of which R6 306 million (2008: R18 636 million) have been sold or repledged.

Repurchase agreements

Securities lent or sold subject to a commitment to repurchase them are retained in the statement of financial position where substantially all the risks and rewards remain with the Group. Amounts received from the counterparty are treated as deposits.

	Group Repurchase agreements	
	2009 Rm	2008 Rm
Liabilities		
Banks (refer to note 18)	**24 211**	27 774
Customers (refer to note 22)	**1 712**	2 217
	25 923	29 991

The assets transferred and not derecognised in the above repurchase agreements are valued at R10 297 million (2008: R5 178 million), refer to note 5. They are pledged as security for the term of the underlying repurchase agreement. The remainder of the repurchase agreements are secured by securities on-pledged (from loans and advances), as described in the reverse repurchase section above, as well as securities on-pledged from Other loans and advances to banks to the value of R9 320 million (2008: R6 177 million), refer to note 4.

	Group	
	2009 Rm	2008 Rm
48. Securitisations		
In the ordinary course of business, the Group enters into transactions that result in the transfer of assets to third parties or SPES. The information below sets out the extent of such transfers.		
Transferred assets		
Cars securitisation	**1 109**	2 913
Homes securitisation	**3 204**	3 335
	4 313	6 248

Cars securitisation

The Group has transferred instalment credit agreements to Collateralised Auto Receivables Securitisation (Proprietary) Limited (Cars).

This entity is consolidated by the Group based on the following conclusions reached in terms of SIC-12:

- The Group bears credit risk through its holding of notes issued by the entities.
- The Group receives the return on the notes issued, a servicing fee and the residual income in the entities.
- The Group retains the majority of the residual ownership risks relating to these entities through a combination of its preference share investment and its holding of the notes issued by the entities.

The instalment credit agreements are included in the statement of financial position under 'Loans and advances to customers'.

Refer to note 23 for further details on the related liabilities.

Homes securitisation

The Group has transferred retail mortgages to Home Obligors Mortgage Enhanced Securities (Proprietary) Limited (Homes).

Homes is consolidated by the Group based on the following conclusions reached in terms of SIC-12:

- The Group bears credit risk through a subordinated loan advanced to Homes.
- The Group receives a return on the subordinated loan, a service fee and the residual income in Homes.
- The Group retains the majority of the residual or ownership risks relating to Homes through the subordinated loan.

The retail mortgages are included in the statement of financial position under 'Loans and advances to customers'.

Refer to note 23 for further details on the related liabilities.

49. Related parties

The Group's parent company is Barclays PLC (incorporated in the United Kingdom), which owns 55,5% (2008: 58,6%) of the ordinary shares. The remaining 44,5% (2008: 41,4%) of the shares are widely held on the JSE.

The following are defined as related parties of the Group:

- Key management personnel (refer to notes 49.1 and 49.2).
- The parent, Barclays Bank PLC (refer to note 49.3).
- Subsidiaries (refer to note 49.4).
- Associates, joint ventures and retirement benefit funds (refer to note 49.5).
- An entity controlled/jointly controlled or significantly influenced by any individual referred to above.
- Post-employment benefit plans for the benefit of employees or any entity that is a related party of the Group.
- Children or dependants of the individuals referred to above or the spouses of the individuals referred to above.

49. Related parties *(continued)*

IAS 24 – Related Parties, requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the Group Executive Committee (Exco).

49.1 Transactions with key management personnel

A number of banking and insurance transactions are entered into with key management personnel in the normal course of business. These include loans, deposits and foreign currency transactions. The related party transactions, outstanding balances at year-end, and related expenses and income with related parties for the year are as follows:

	Group			
	Transactions with key management 2009 Rm	**Transactions with entities controlled by key management 2009 Rm**	Transactions with key management 2008 Rm	Transactions with entities controlled by key management 2008 Rm
Loans				
Loans outstanding at the beginning of the year	**18**	**59**	19	47
Loans issued	**39**	**27**	88	65
Loans repaid	**(46)**	**(56)**	(86)	(16)
(Discontinuance)/inception of related party relationships and other	**—**	**(20)**	(3)	(37)
Loans outstanding at the end of the year	**11**	**10**	18	59
Interest income earned	**2**	**2**	2	1

The above transactions are entered into in the normal course of business, under terms, including collateral requirements, that are no more favourable than those arranged with third parties. Loans include mortgages, asset finance transactions and overdraft facilities. Interest rates on loans to management are at the fringe benefit tax rate that all employees of the Group are entitled to.

	Group			
	Transactions with key management 2009 Rm	**Transactions with entities controlled by key management 2009 Rm**	Transactions with key management 2008 Rm	Transactions with entities controlled by key management 2008 Rm
Deposits				
Deposits at the beginning of the year	**7**	**10**	27	11
Deposits received	**168**	**160**	100	102
Deposits repaid	**(157)**	**(189)**	(95)	(96)
(Discontinuance)/inception of related party relationships and other	**1**	**24**	(25)	(7)
Deposits at the end of the year	**19**	**5**	7	10
Interest expense on deposits	**1**	**1**	1	1
Guarantees issued by the Group	**52**	**5**	35	5

The above transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

49. Related parties *(continued)*

49.1 Transactions with key management personnel *(continued)*

	Group			
	Transactions with key management 2009 Rm	**Transactions with entities controlled by key management 2009 Rm**	Transactions with key management 2008 Rm	Transactions with entities controlled by key management 2008 Rm
Other investments				
Opening balance at the beginning of the year	**136**	**49**	110	19
Value of new investments/contributions made	**101**	**2**	52	33
Value of withdrawals/disinvestments/repurchases made	**(123)**	**(4)**	(24)	(5)
Fees and charges	**(1)**	**0**	0	0
Investment return	**28**	**7**	2	(1)
(Discontinuance)/inception of related party relationships and other	**(57)**	**(12)**	(4)	3
Closing balance at the end of the year	**84**	**42**	136	49

The above transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of R0,4 million (2008: R0,5 million). Key management personnel received claims which in total were R0,03 million (2008: R0,2 million). These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

	Group 2009 Rm	Group 2008 Rm
49. Related parties *(continued)*		
49.2 Key management personnel compensation		
Directors		
Post-employment benefits	**1**	1
Salaries and other short-term benefits	**38**	58
Share-based payments	**26**	11
Termination benefits	**22**	—
	87	70
Other key management personnel		
Post-employment benefits	**1**	1
Salaries and other short-term benefits	**19**	33
Share-based payments	**17**	11
Termination benefits	**9**	—
	46	45
49.3 Transactions with parent company		
The following are balances with, and transactions entered into with, the parent company:		
Balances		
Loans and advances (refer to note 4)	**10 436**	13 731
Derivative assets (refer to note 5)	**6 936**	15 672
Nominal value of derivative assets	**341 406**	363 956
Other assets (refer to note 6)	**196**	228
Reinsurance assets (refer to note 11)	**18**	19
Investments (refer to note 12)	**509**	581
Deposits (refer to note 18)	**(8 246)**	(14 616)
Derivative liabilities (refer to note 19)	**(8 450)**	(15 373)
Nominal value of derivative liabilities	**(318 237)**	(379 349)
Other liabilities (refer to note 20)	**(287)**	(1 540)
Transactions		
Dividends paid	**2 213**	2 333
Interest paid (refer to note 31)	**54**	259
Interest received (refer to note 30)	**(215)**	(1 018)
Other operating income (refer to note 38)	**(37)**	(211)

All transactions entered into are on the same commercial terms and conditions as in the normal course of business.

49. Related parties *(continued)*

49.4 Subsidiaries

Details of the material subsidiaries are as follows:

Entity	Nature of business
Absa Group Limited and its subsidiaries	
Absa Development Company Holdings (Proprietary) Limited	Specialises in township development and sale of residential, commercial and industrial land.
Absa Manx Holdings Limited	Captive insurance company for the Group and responsible for investments in the insurance markets.
Absa Trading and Investment Solutions Holdings Limited	Financial investment company.
AllPay Consolidated Investment Holdings (Proprietary) Limited	Distributes social security grants and other payments to beneficiaries on behalf of third parties, mainly provincial government departments.
Barclays Bank Mozambique S.A. (incorporated in Mozambique)	Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs.
Blue Age Properties 60 (Proprietary) Limited	Property Fund (acquired during 2009)
Diluculo Investments (Proprietary) Limited	Investment holding and management company, providing project and management services to property funds and trading projects.
Meeg Bank Limited	Provides a comprehensive range of banking and financial services to the personal market, small- to medium-sized corporates and the public sector in the Eastern Cape.
National Bank of Commerce Limited (incorporated in Tanzania)	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.
Unifer Holdings Limited	Microlending holding company.
Woodbook Finance Limited	Markets and delivers a range of banking and insurance products to medical and dental practitioners and private hospitals.
Woolworths Financial Services (Proprietary) Limited	Provides credit cards, in-store cards and personal loans.
Absa Bank Limited and subsidiaries	
Absa Bank Limited	Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customers.
Absa Debtor Finance Company (Proprietary) Limited	Provides debtor financing to business customers.
Abseq Properties (Proprietary) Limited[1]	Property development and investment company.
Ambit Management Services (Proprietary) Limited	Property management company.
Ngwenya River Estate (Proprietary) Limited	Residential property development.
The Ballito Junction Development (Proprietary) Limited	Retail property development company.
Absa Financial Services and subsidiaries	
Absa Asset Management (Proprietary) Limited[2]	An institutional asset management company that offers fixed income, equity, structured products and alternative investment solutions to customers through various pooled and segregated investment mandates.
Absa Consultants and Actuaries (Proprietary) Limited	Offers comprehensive administrative, actuarial and consulting services, including asset consulting services in respect of pension funds, provident funds and other employee benefit group schemes.
Absa Financial Services Limited	Holding company of financial service related entities.
Absa Fund Managers Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.
Absa Health Care Consultants (Proprietary) Limited	To advise medical funds and other persons and institutions on any matter relating to the structure and management of medical funds and health care benefits.
Absa idirect Limited	Short-term insurance business.
Absa Insurance and Financial Advisers (Proprietary) Limited (previously known as Absa Brokers (Proprietary) Limited)	Provides a full spectrum of financial advisory services ranging from risk management to wealth creation, preservation and estate planning.
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.
Absa Investment Management Services (Proprietary) Limited	Approved investment manager and linked investment service provider. Offers off-the-shelf local and international linked investment products, as well as investment solutions to suit specific needs.
Absa Life Limited	Provides life insurance products focusing on risk and investment products that complement the Group's offerings to various market segments.

Notes

[1]*Previously disclosed as an associate designated at fair value through profit or loss, became a subsidiary during 2009.*
[2]*Absorbed Abvest Holdings (Proprietary) Limited's assets and liabilities at Abvest Holdings unbundling which resulted in the increase in investment.*

Group

Country of incorporation	Issued capital 2009 Rm	Direct/ indirect holding 2009 %	Issued capital 2008 Rm	Direct/ indirect holding 2008 %	Shares at book value 2009 Rm	Shares at book value 2008 Rm
South Africa	**0**	**100**	0	100	**0**	0
Isle of Man	**0**	**100**	0	100	**436**	436
South Africa	**8**	**100**	8	100	**857**	857
South Africa	**0**	**100**	0	100	**0**	0
Mozambique	**165**	**80**	165	80	**131**	131
South Africa	**0**	**100**	—	—	**0**	—
South Africa	**0**	**100**	0	100	**0**	0
South Africa	**1**	**100**	1	100	**1**	116
Tanzania	**81**	**55**	81	55	**86**	86
South Africa	**13**	**100**	13	100	**0**	0
South Africa	**0**	**100**	0	100	**75**	75
South Africa	**918**	**50**	918	50	**907**	907
South Africa	**303**	**100**	303	100	**12 347**	11 297
South Africa	**0**	**100**	0	100	**0**	0
South Africa	**336**	**85**	—	—	**301**	—
South Africa	**0**	**100**	0	100	**38**	15
South Africa	**0**	**100**	0	50	**131**	96
South Africa	**35**	**100**	35	100	**161**	28
South Africa	**0**	**100**	0	100	**70**	36
South Africa	**0**	**100**	0	100	**1**	1
South Africa	**0**	**100**	0	100	**118**	118
South Africa	**3**	**100**	3	100	**3**	3
South Africa	**0**	**100**	0	100	**0**	0
South Africa	**1**	**100**	1	100	**40**	40
South Africa	**0**	**100**	0	100	**2**	2
South Africa	**31**	**100**	31	100	**31**	31
South Africa	**0**	**100**	0	100	**0**	0
South Africa	**24**	**100**	24	100	**24**	24

49. Related parties *(continued)*

49.4 Subsidiaries

Details of the material subsidiaries are as follows:

Entity	Nature of business
Absa Mortgage Fund Managers (Proprietary) Limited	Provides loans to small and large companies, close corporations, trusts, property investors and developers for the development, acquisition or refinancing of income-producing commercial and industrial properties.
Absa Portfolio Managers (Proprietary) Limited	Marketing and exploiting of investment services through direct delivery systems and managing and administration of investment business.
Absa Stockbrokers (Proprietary) Limited	Enables customers to trade online or by telephone in shares, warrants and exchange traded funds.
Absa Trust Limited	Main activities include the drafting and safe custody of wills, the administration of deceased estates and trusts, portfolio management and estate and financial planning.
Abvest Holdings (Proprietary) Limited	Holding company of asset management related entities (unbundled during 2009).
Share trusts	
Absa Group Limited Employee Share Ownership Administrative Trust	Share purchase and option scheme to all staff.
Absa Group Limited Share Incentive Trust	Share purchase and option scheme to senior staff.
Batho Bonke Absa Historical Disadvantaged South Africans (HDSA) Employee Trust	Black economic empowerment (BEE) trust.
Special purpose entities	
Absa Benefit Fund	Cell captive.
Absa Foundation Trust	Funds community upliftment. Receives a percentage of the Group's dividends which it distributes to identified community-related projects.
Absa General Fund	Fund used to invest in unit trusts.
Alpha Trust	Provides preference share funding.
Absa Property Equity Fund	Unit trust.
Asset Backed Collaterised Securities (Proprietary) Limited (Abacas)	Special purpose vehicle for Absa Capital division.
Collaterised Auto Receivables Securitisation Programme (Proprietary) Limited	Securitisation vehicle for Absa Vehicle and Asset Finance division.
Collaterised Auto Receivables Securitisation Series 1 (Proprietary) Limited	Securitisation vehicle for Absa Vehicle and Asset Finance division.
Home Obligors Mortgage Enhanced Securities (Proprietary) Limited	Securitisation vehicle for Absa Home Loans division.
IFU Property Fund	Unit trust.

	2009 Rm	2008 Rm
Subsidiaries' aggregate profits and losses after taxation[1]	**6 797**	10 593

Note

[1]*Profit for the year attributable to ordinary equity holders excluding share of retained earnings from associates and joint ventures.*

Group

Country of incorporation	Issued capital 2009 Rm	Direct/ indirect holding 2009 %	Issued capital 2008 Rm	Direct/ indirect holding 2008 %	Shares at book value 2009 Rm	Shares at book value 2008 Rm
South Africa	**2**	**100**	2	100	**2**	2
South Africa	**9**	**100**	9	100	**9**	9
South Africa	**0**	**100**	0	100	**0**	0
South Africa	**0**	**100**	0	100	**11**	11
South Africa	**—**	**—**	0	100	**—**	79
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**n/a**	**n/a**	n/a	n/a	**n/a**	n/a
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**n/a**	**n/a**	n/a	n/a	**n/a**	n/a
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**75**	—	91	**160**	160
South Africa	**0**	**n/a**	0	n/a	**n/a**	n/a
South Africa	**0**	**n/a**	0	n/a	**n/a**	n/a
South Africa	**0**	**n/a**	0	n/a	**n/a**	n/a
South Africa	**0**	**n/a**	0	n/a	**n/a**	n/a
United Kingdom	**n/a**	**100**	n/a	93	**126**	118

49. Related parties *(continued)*

49.5 Associates, joint ventures and retirement benefit funds

At the statement of financial position date, the Absa Group Pension Fund held shares to the value of R69 million (2008: R219 million) and other securities to the value of R876 million (2008: R52 million) in the Group.

The Group provides certain banking and financial services to associates and joint ventures. The Group also provides a number of current and interest-bearing cash accounts to the Group pension fund. These transactions are conducted on the same terms as third-party transactions and are not individually material.

In aggregate, the amounts included in the Group's financial statements are as follows:

	Group		
	2009		
	Associates and joint ventures Rm	**Retirement benefit funds Rm**	**Total Rm**
Deposits	**(177)**	**(45)**	**(222)**
Interest and similar income	**(1 026)**	**—**	**(1 026)**
Interest expense and similar charges	**41**	**1**	**42**
Fees received	**(117)**	**(17)**	**(134)**
Fees paid	**4**	**639**	**643**
Loans and advances	**8 411**	**—**	**8 411**
Other assets	**2 218**	**—**	**2 218**
Other liabilities	**(127)**	**—**	**(127)**
Value of investments managed by the Group	**—**	**1 545**	**1 545**
	2008		
	Associates and joint ventures Rm	Retirement benefit funds Rm	Total Rm
Deposits	(207)	(43)	(250)
Interest and similar income	(1 316)	—	(1 316)
Interest expense and similar charges	30	3	33
Fees received	(131)	(15)	(146)
Fees paid	4	602	606
Loans and advances	10 057	—	10 057
Other assets	1 108	—	1 108
Other liabilities	(81)	—	(81)
Value of investments managed by the Group	—	4 036	4 036

49. Related parties *(continued)*

49.5 Associates, joint ventures and retirement benefit funds *(continued)*

Details on investments in associates and joint ventures are as follows:

Name	Nature of business
Equity-accounted associates	
Ambit Properties Limited	Property loan stock company (sold during 2009).
Blue Financial Services Limited	Financial services provider, specifically micro-finance in Africa (transferred from investments during 2009).
Pinnacle Point Group Limited	Property development company (acquired during 2008).
Sekunjalo Investments Limited	Investment holding company.
Spring Valley Investments (Proprietary) Limited (previously Zevoli 146 (Proprietary) Limited)	Property development.
Unitrans Finance (Proprietary) Limited	Strategic alliance between Absa Bank Limited and Unitrans Motors (Proprietary) Limited (deregistered during 2009).
Equity-accounted joint ventures	
Banco Comercial Angolano	A commercial bank that provides retail and commercial banking services from a network of branches in Angola (sold during 2009).
FFS Finance South Africa (Proprietary) Limited	Provides financing solutions to Ford Motor Company customers.
Integrated Processing Solutions (Proprietary) Limited	Joint venture with Standard Bank involved in cheque processing activities.
Kilkishen Investments (Proprietary) Limited	Property development (acquired during 2009).
MAN Financial Services (S.A.) (Proprietary) Limited	Joint venture between Absa Bank Limited and MAN Financial Services GmbH for financing of trucks and buses.
Meadowood Investments 8 (Proprietary) Limited	Security special purpose vehicle (acquired during 2009).
Sanlam Home Loans (Proprietary) Limited	Manages and administers the granting of loans as well as secure funding for these loans.
Stand 1135 Houghton (Proprietary) Limited	Property development (acquired during 2009).
Virgin Money South Africa (Proprietary) Limited	Joint venture between Absa Bank Limited and Virgin Money Group Limited to provide retail financial services products under the Virgin brand.
Associates and joint ventures designated at fair value through profit or loss	
Absa Corob Trust Joint Venture	Acquires immovable property for investment.
Abseq Properties (Proprietary) Limited	Property development and investment company (became a subsidiary during 2009).
African Spirit Trading 309 (Proprietary) Limited	Property development.
Agrista (Proprietary) Limited	Agricultural consultants.
Barrie Island Property Investments (Proprietary) Limited	Investment in mixed use property.
Cherry Vanilla Investments (Proprietary) Limited	Retirement village development.
Culemborg Investment Properties (Proprietary) Limited	Residential property development.
Mall on 14th Avenue (Proprietary) Limited	Property development.
Maxcity Properties (Proprietary) Limited	Investment in mixed use property.
Maxcity Homes (Proprietary) Limited	Property development (acquired during 2009).
Blue Nightingale 608 (Proprietary) Limited (previously Mogale City Mall (Proprietary) Limited)	Investment in commercial property.
Northern Lights Trading 197 (Proprietary) Limited	Investment in commercial property.
Pacific Heights Investments 196 (Proprietary) Limited	Property development.
Palm Hill Property Investments (Proprietary) Limited	Property development.
Parsons Vlei Development (Proprietary) Limited (previously RZT Zelpy 4809 (Proprietary) Limited)	Investment in residential property.
Persistent Properties (Proprietary) Limited	Investment in residential property.
Retail Africa Wingspan Investments (Proprietary) Limited	Property fund.
Somerset West Auto Park (Proprietary) Limited	Investment in auto dealers and fitment centres.
Tembisa Mall (Proprietary) Limited	Property development (acquired during 2009).
The Racing Investment Trust	Property development.

49. Related parties *(continued)*

49.5 Associates, joint ventures and retirement benefit funds *(continued)*

Name	Country of incorporation
Equity-accounted associates	
Ambit Properties Limited[1, 3]	South Africa
Blue Financial Services Limited[1, 5]	South Africa
Pinnacle Point Group Limited[1, 5]	South Africa
Sekunjalo Investments Limited[1, 5]	South Africa
Spring Valley Investments (Proprietary) Limited (previously Zevoli 146 (Proprietary) Limited)	South Africa
Unitrans Finance (Proprietary) Limited	South Africa
Equity-accounted joint ventures	
FFS Finance South Africa (Proprietary) Limited	South Africa
Integrated Processing Solutions (Proprietary) Limited[4]	South Africa
Kilkishen Investments (Proprietary) Limited[1, 4]	South Africa
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa
Meadowood Investments 8 (Proprietary) Limited	South Africa
Sanlam Home Loans (Proprietary) Limited	South Africa
Stand 1135 Houghton (Proprietary) Limited[1, 4]	South Africa
Virgin Money South Africa (Proprietary) Limited	South Africa
Associates and joint ventures designated at fair value through profit or loss	
Absa Corob Trust Joint Venture[1]	South Africa
African Spirit Trading 309 (Proprietary) Limited[1, 6]	South Africa
Agrista (Proprietary) Limited[1]	South Africa
Barrie Island Property Investments (Proprietary) Limited[1]	South Africa
Cherry Vanilla Investments (Proprietary) Limited	South Africa
Culemborg Investment Properties (Proprietary) Limited	South Africa
Mall on 14th Avenue (Proprietary) Limited[1]	South Africa
Maxcity Properties (Proprietary) Limited[1]	South Africa
Maxcity Homes (Proprietary) Limited[1]	South Africa
Mogale City Mall (Proprietary) Limited (previously Blue Nightingale 608 (Proprietary) Limited)[1]	South Africa
Northern Lights Trading 197 (Proprietary) Limited	South Africa
Pacific Heights Investments 196 (Proprietary) Limited[1]	South Africa
Palm Hill Property Investments (Proprietary) Limited[1]	South Africa
Parsons Vlei Development (Proprietary) Limited (previously RZT Zelpy 4809 (Proprietary) Limited)[1]	South Africa
Persistant Properties (Proprietary) Limited[1]	South Africa
Retail Africa Wingspan Investments (Proprietary) Limited	South Africa
Somerset West Auto Park (Proprietary) Limited[1]	South Africa
Tembisa Mall (Proprietary) Limited[1, 4]	South Africa
The Racing Investment Trust	South Africa

Notes

[1] *The financial statements have different reporting dates to that of the Group, as these were the financial reporting dates established when the entities were incorporated. The impact is not considered to be material.*
[2] *The summary financial information includes 100% of the equity-accounted investees' total assets and total liabilities.*
[3] *Disposed during the year.*
[4] *Acquired during the year.*
[5] *Impaired during the year.*
[6] *Loans to entities of R79 million relates to Menlyn Maine Investment Holdings (Proprietary) Limited, which is an associate of African Spirit Trading 309 (Proprietary) Limited.*

Group

2009					
Carrying value Rm	Total assets[2] Rm	Total liabilities[2] Rm	Equity-accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
—	—	—	4	—	—
58	2 459	1 552	—	—	20
—	1 685	970	—	—	23
41	723	331	(13)	—	26
14	35	28	(0)	—	37
0	0	0	—	—	35
258	8 337	7 820	(41)	4 619	50
19	85	33	8	—	50
32	107	52	(0)	—	50
57	2 065	1 952	0	1 181	50
0	513	722	—	356	50
—	4 978	5 006	—	1 569	50
8	20	10	(0)	—	50
0	30	106	(8)	0	50
n/a	10	—	n/a	—	50
n/a	695	362	n/a	79	50
n/a	—	—	n/a	—	47
n/a	42	45	n/a	—	40
n/a	150	49	n/a	22	30
n/a	273	193	n/a	120	50
n/a	181	157	n/a	—	30
n/a	125	248	n/a	212	40
n/a	52	18	n/a	—	50
n/a	95	39	n/a	—	30
n/a	230	86	n/a	—	50
n/a	328	182	n/a	—	50
n/a	41	21	n/a	(3)	40
n/a	176	183	n/a	120	25
n/a	26	33	n/a	19	50
n/a	2 666	2 107	n/a	283	30
n/a	71	31	n/a	18	33
n/a	0	0	n/a	—	50
n/a	77	26	n/a	23	20

49. Related parties *(continued)*

49.5 Associates, joint ventures and retirement benefit funds *(continued)*

Name	Country of incorporation
Equity-accounted associates	
Ambit Properties Limited[1]	South Africa
Blake and Associates Holdings (Proprietary) Limited[1,4]	South Africa
Meeg Bank Limited[1,3]	South Africa
Pinnacle Point Group Limited[1,5]	South Africa
Sekunjalo Investments Limited[1,5]	South Africa
Unitrans Finance (Proprietary) Limited	South Africa
Zevoli 146 (Proprietary) Limited[5]	South Africa
Equity-accounted joint ventures	
Banco Comercial Angolano	Angola
FFS Finance South Africa (Proprietary) Limited	South Africa
Integrated Processing Solutions (Proprietary) Limited[5]	South Africa
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa
Sanlam Home Loans (Proprietary) Limited	South Africa
Virgin Money South Africa (Proprietary) Limited	South Africa
Associates and joint ventures designated at fair value through profit or loss	
Absa Corob Trust Joint Venture[1]	South Africa
Abseq Properties (Proprietary) Limited[1]	South Africa
African Spirit Trading 309 (Proprietary) Limited[1]	South Africa
Agrista (Proprietary) Limited[1]	South Africa
Barrie Island Property Investments (Proprietary) Limited[1]	South Africa
Blue Nightingale 608 (Proprietary) Limited[1]	South Africa
Cherry Vanilla Investments (Proprietary) Limited[5]	South Africa
Culemborg Investment Properties (Proprietary) Limited[5]	South Africa
Mall on 14th Avenue (Proprietary) Limited[1,5]	South Africa
Maxcity Properties (Proprietary) Limited[1]	South Africa
Northern Lights Trading 197 (Proprietary) Limited	South Africa
Pacific Heights Investments 196 (Proprietary) Limited[1,5]	South Africa
Palm Hill Property Investments (Proprietary) Limited[1]	South Africa
Persistant Properties (Proprietary) Limited[1]	South Africa
Retail Africa Wingspan Investments (Proprietary) Limited[5]	South Africa
RZT Zelpy 4809 (Proprietary) Limited[1]	South Africa
Somerset West Auto Park (Proprietary) Limited[1]	South Africa
The Racing Investment Trust	South Africa

Notes

[1]*The financial statements have different reporting dates to that of the Group, as these were the financial reporting dates established when the entities were incorporated. The impact is not considered to be material.*
[2]*The summary financial information includes 100% of the equity-accounted investees' total assets and total liabilities.*
[3]*Became a subsidiary during the year.*
[4]*Disposed during the year.*
[5]*Acquired during the year.*

Group					
2008					
Carrying value Rm	Total assets[2] Rm	Total liabilities[2] Rm	Equity-accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
714	2 758	2 208	30	136	35
—	—	—	5	—	—
—	—	—	(11)	—	—
931	583	298	—	—	28
59	886	437	—	—	27
0	0	0	—	—	35
10	52	52	—	33	37
63	2 182	1 966	14	8	50
300	9 650	9 051	38	4 846	50
11	22	0	—	—	50
56	2 569	2 456	11	1 659	50
—	4 866	4 863	—	1 695	50
0	24	84	(14)	65	50
n/a	46	23	n/a	18	50
n/a	808	564	n/a	385	50
n/a	62	62	n/a	—	24
n/a	—	—	n/a	—	47
n/a	41	36	n/a	38	40
n/a	0	0	n/a	36	30
n/a	57	0	n/a	30	30
n/a	121	120	n/a	177	33
n/a	—	—	n/a	44	30
n/a	—	—	n/a	214	40
n/a	—	—	n/a	—	50
n/a	—	—	n/a	—	50
n/a	113	97	n/a	73	40
n/a	32	32	n/a	30	50
n/a	0	0	n/a	—	33
n/a	0	0	n/a	—	25
n/a	0	0	n/a	17	33
n/a	42	40	n/a	26	20

		Group	
		2009 Rm	2008 Rm
50.	**Managed funds**		
	Deceased estates	**2 247**	2 545
	Other	**11 557**	10 439
	Participation bond schemes	**2 105**	2 125
	Portfolio management	**17 770**	6 399
	Trusts	**5 803**	5 019
	Unit trusts	**115 632**	98 573
		155 114	125 100
51.	**Financial guarantee contracts**		
	Financial guarantee contracts	**1 007**	1 001
	Financial guarantee contracts represent contracts where the Group undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument. This amount represents the maximum off-statement of financial position exposure.		
52.	**Commitments**		
	Authorised capital expenditure		
	Contracted but not provided for	**928**	703
	The Group has capital commitments in respect of computer equipment and property development. Management is confident that future net revenues and funding will be sufficient to cover these commitments.		
	Operating lease payments due		
	No later than one year	**1 157**	1 110
	Later than one year and no later than five years	**2 135**	2 251
	Later than five years	**307**	473
		3 599	3 834
	The operating lease commitments comprise a number of separate operating leases in relation to properties and equipment, none of which is individually significant to the Group. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.		
53.	**Contingencies**		
	Guarantees	**10 484**	9 484
	Irrevocable facilities	**54 517**	29 753
	Letters of credit	**5 007**	6 429
	Other contingencies	**5**	25
		70 013	45 691

Irrevocable facilities are commitments to extend credit where the Group does not have the right to terminate the facilities by written notice. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.
Guarantees include performance guarantee contracts and payment guarantee contracts.

Legal proceedings

The Group has been party in proceedings against it during the year, and as at year-end the following cases need further disclosure:

- During 2001 a US$100 million facility was granted to Trans Sahara Trading (IOM) Limited (TST). The Government of Zambia (GRZ) breached an undertaking it gave to the Group and in addition interfered in the operations of TST leading to TST's inability to service the facility. The Group contends that this conduct gives rise to liability on the part of TST, which the GRZ denies. MNB attorneys have obtained a charging order *nisi* over the deadstock belonging to TST, entitling them to dispose of such stocks in settlement of a judgement obtained for outstanding legal fees. Given that, in addition to the obvious prejudice resulting from such a disposal, these proceedings will inevitably involve a consideration of the deadstock ownership issue, as well as the enforceability of the Group's floating charge. The Group was compelled to intervene and has successfully sought the joinder of both itself and the Attorney General of the GRZ. These proceedings have been enrolled for trial on various occasions, most recently being postponed to 18 – 20 January 2010 shortly prior to which the GRZ delivered a letter expressing interest in settlement negotiations. A delegation immediately travelled to Lusaka and, after intensive consultation, the parties appear to be agreed in principle at a figure of US$ 27,36 million. A written settlement agreement has been submitted to the GRZ for consideration and although a tentative signature date of 1 February was agreed, the GRZ has yet to revert. In the interim, the matter has been adjourned to 1 – 3 March 2010 at the instance of the Solicitor General.

53. Contingencies *(continued)*

- A Group employee has been accused of opening an incorrectly designated bank account within the Ovation Group of companies, which was subsequently used for fraudulent purposes. The Group has received 22 letters of demand from persons who deposited money (approximately R3,5 million) into the incorrectly opened account. All these monies appear to have been lost. During the year a portion of these claimants have instituted claims, in respect of which the Group has entered appearance to defend, and a summary judgement application is now pending. It is anticipated that the claim will be both legally and factually difficult. The curators of other entities within the Ovation Group are currently investigating its affairs from which further claims may conceivably flow. This matter is closely linked to the Fidentia group.
- Mr Bernert (acting in his personal and representative capacities) has made a claim against the Group for withdrawing a guarantee, which was issued by the Group in favour of Emirates Bank International for an amount of US$6 million. The guarantee however, was withdrawn by the Group as it was issued under irregular circumstances. Mr Bernert claims that he has suffered damages and that the Group is in breach of contract. The Group has defended the matter, raising inter alia, prescription, lack of authority to represent Absa, invalidity of an oral cession, contravention of the Exchange Control Act and Prime Bank Instrument (PBI) fraud. The total claim value at the date of launching the action against the Group was R188 million. It was agreed between the parties, that the quantum and merits of the action would be separately argued. On 15 October 2008, the court granted judgement in Mr Bernert's favour on the merits. The Group's application for leave to appeal was finalised on 2 November 2008. The application for leave to appeal was argued and granted in the South Gauteng High Court on 13 February 2009. The Group has finalised and filed appeal documents for argument in the Supreme Court of Appeal in Bloemfontein. The hearing of the appeal will take place on 18 February 2010.

	Group	
	2009 Rm	2008 Rm
54. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**5 176**	4 726
Loans and advances to banks	**1 800**	874
	6 976	5 600
55. Share-based payments		
During the year, R123 million (2008: R94 million) and R100 million (2008: R49 million) were charged to the statement of comprehensive income in respect of equity-settled and cash-settled share-based payment transactions, respectively.		
Staff costs		
The statement of comprehensive income charge for share-based payments is as follows (refer to note 39):		
Equity-settled arrangements:		
Absa Group Limited Executive Share Award Scheme	**78**	6
Absa Group Limited Performance Share Plan	**19**	41
Absa Group Limited Share Incentive Trust	**26**	47
Cash-settled arrangements:		
Absa Group Limited Phantom Executive Share Award Scheme	**40**	4
Absa Group Limited Phantom Joiners Share Award Plan	**51**	43
Absa Group Limited Phantom Performance Share Plan	**9**	2
	223	143
Total carrying amount of liabilities for cash-settled arrangements (refer to note 20)	**143**	316

The intrinsic value of the liability reflects the difference between the fair value of the options vested and the option exercise price and amounts to R5 million (2008: Rnil).

55. Share-based payments *(continued)*

55.1 Absa Group Limited Share Incentive Trust (Share Incentive Trust)

In terms of the rules of the Share Incentive Trust, the maximum number of shares of the Group that may be issued or transferred and/or in respect of which options may be granted to the participants, shall be limited to shares representing 10% of the total number of issued shares from time to time. This scheme is an equity-settled share-based payment arrangement and options are allocated to employees according to the normal human resources talent management processes. The options issued up to August 2005 (issue 192) had no performance criteria linked to them and vested in equal tranches after three, four and five years respectively. No dividends accrue to the option holder over the vesting period. The options expire after a period of 10 years from the issuing date. Options issued since August 2005 (issue 193) have performance criteria associated with them, which require headline earnings per share to exceed an agreed benchmark over a three-year period from the grant date for the options to vest. Participants need to be in the employment of the Group at the vesting date in order to be entitled to the options.

The number and weighted average exercise prices of share options are as follows:

	Group	
	2009	
	Number of options '000	**Weighted exercise price R**
Outstanding at the beginning of the year	**9 967**	**74,52**
Exercised during the year	**(3 569)**	**64,30**
Forfeited during the year	**(100)**	**88,15**
Outstanding at the end of the year	**6 298**	**79,09**
Of which are exercisable	**5 016**	**71,44**
	2008	
	Number of options '000	Weighted exercise price R
Outstanding at the beginning of the year	13 618	67,90
Exercised during the year	(3 252)	51,16
Forfeited during the year	(399)	75,20
Outstanding at the end of the year	9 967	74,52
Of which are exercisable	5 944	58,61

Options exercised during the year resulted in 3 568 819 (2008: 3 252 141) shares being allocated at an average exercise price of R64,30 (2008: R51,16) each. The related weighted average share price at the time of exercise was R115,73 (2008: R102,87).

55. Share-based payments *(continued)*

55.1 Absa Group Limited Share Incentive Trust (Share Incentive Trust) *(continued)*

Share options outstanding at the end of the year in terms of the Share Incentive Trust have the following weighted average remaining contractual lives and exercise prices:

	Group			
	2009			
Exercise price ranges (R)	**Average option exercise price R**	**Weighted average contractual remaining life Years**	**Weighted average fair value R**	**Number of options outstanding**
26,53 – 27,40	**26,66**	**0,51**	**10,13**	**144 606**
28,73 – 37,43	**37,37**	**1,46**	**14,10**	**392 314**
25,16 – 35,97	**33,40**	**2,44**	**11,58**	**538 889**
31,99 – 35,01	**35,01**	**3,43**	**12,13**	**434 905**
44,36 – 68,93	**49,45**	**4,47**	**26,03**	**1 671 602**
72,36 – 94,63	**90,73**	**5,63**	**29,38**	**2 385 341**
100,30 – 113,75	**107,59**	**6,47**	**38,72**	**730 834**
	2008			
Exercise price ranges (R)	Average option exercise price R	Weighted average contractual remaining life Years	Weighted average fair value[1] R	Number of options outstanding
27,68	27,68	0,78	n/a	193 908
26,53 – 27,40	26,58	1,47	10,14	192 635
28,73 – 37,43	37,35	2,46	14,09	544 909
25,16 – 35,97	33,37	3,45	11,61	905 682
31,99 – 35,01	34,99	4,42	12,39	931 029
44,36 – 68,93	49,41	5,46	22,89	3 095 587
72,36 – 94,63	90,68	6,62	29,16	3 336 224
100,30 – 113,75	107,65	7,46	39,40	767 500

Note

[1]*There was no requirement under IFRS to value the options prior to 31 March 2005.*

The following shares and options are available for allocation:

	Group	
	2009	
	Percentage of total issued shares	**Number of shares ’000**
Maximum shares and options available	**10,0**	**71 821**
Shares and options subject to the trust	**(0,9)**	**(6 298)**
Balance of shares and options available	**9,1**	**65 523**
	2008	
	Percentage of total issued shares	Number of shares ’000
Maximum shares and options available	10,0	68 028
Shares and options subject to the trust	(1,5)	(9 967)
Balance of shares and options available	8,5	58 061

55. Share-based payments *(continued)*

55.2 Batho Bonke Capital (Proprietary) Limited

The Group entered into a black economic empowerment (BEE) transaction with Batho Bonke Capital (Proprietary) Limited in July 2004. The shares issued in terms of the transaction vested immediately. Due to the shares issued vesting immediately and also as a result of the issue being before 1 January 2005, the provisions of IFRS 2 Share-based payments were not applicable. In the current period 49,9% of the options were repurchased from Batho Bonke (Proprietary) Limited at a discount to their fair value. Batho Bonke utilised the proceeds to exercise 11 970 536 options. The Group provided bridging finance for the remaining 24 678 764 options. The life of these options was effectively extended for three months, effective 1 June 2009. The modification did not result in an increase in the fair value of these options and therefore, in terms of the provisions of IFRS 2, no cost was recognised in the statement of comprehensive income in the current period.
The bridging finance was redeemed on 1 September 2009 and Batho Bonke Capital (Proprietary) Limited exercised the balance of the options outstanding.

The number and weighted average exercise price of share options are as follows:

	Weighted average exercise price R	Group Number of options 2009 '000	2008 '000
Outstanding at the beginning of the year	48 – 69	**73 152**	73 152
Exercised during the year	68,30	**(36 649)**	—
Repurchased during the year	—	**(36 503)**	—
Outstanding at the end of the year	48 – 69	**—**	73 152
Of which are exercisable	48 – 69	**—**	73 152

55.3 Absa Group Limited Employee Share Ownership Administrative Trust

As of the implementation date (1 July 2004), all employees of South African wholly owned subsidiaries (excluding executive directors of Absa Group Limited and Absa Bank Limited), were eligible to participate in this one-off equity-settled share-based payment scheme. Each employee who elected to participate was issued and allotted 200 compulsory redeemable cumulative option-holding preference shares against a receipt of the R400,00 subscription price. A maximum of 7 315 200 preference shares were available for allocation to the trust.

On 1 July 2004, 6 085 200 preference shares were issued. The preference shares receive a dividend calculated on the par value of the preference shares at a rate of 72% of the prime overdraft rate. These dividends are compounded and paid semi-annually in arrear on 30 September and 31 March each year. The Group will redeem the preference shares on exercise of the options by the employee or on forfeiture of the options on the final option exercise date. Options vest after three years from the date of issue and are forfeited after five years from the date of issue. Options can be exercised on 1 March, 1 June, 1 September or 1 December each year. Exercise may occur in lots of 100 only and on payment of the option strike price, which will vary between R48,00 and R69,00 dependent on the 30-day volume weighted trading price on the JSE.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price R	Group Number of options 2009 '000	2008 '000
Outstanding at the beginning of the year	48 – 69	**559**	946
Exercised during the year	67,23	**(539)**	(368)
Forfeited during the year	48 – 69	**(20)**	(19)
Outstanding at the end of the year	48 – 69	**—**	559
Of which are exercisable	48 – 69	**—**	559

Options exercised during the year resulted in 539 200 (2008: 367 600) shares being allocated at an average exercise price of R67,23 (2008: R66,87) each. The related weighted average share price at the time of exercise was R98,99 (2008: R102,94).

55. Share-based payments *(continued)*

55.4 Absa Group Limited Phantom Performance Share Plan (Phantom PSP)

The Phantom PSP is a cash-settled plan and payments made to participants in respect of their awards are in the form of cash. The Phantom PSP shares (and any associated notional dividend shares) are awarded at no cost to the participants. The amount that is ultimately paid to the participants is equal to the market value of a number of ordinary shares, as determined after a three-year vesting period. The vesting of the Phantom PSP awards will be subject to non-market performance conditions which will be measured over a three-year period, starting on the first day of the financial year in which the award is made. The awards will vest after three years to the extent that the performance conditions are satisfied. These awards are forfeited in total if the Group's performance fails to meet the minimum performance criteria.

	Group Number of options	
	2009 '000	2008 '000
Outstanding at the beginning of the year	**2 201**	2 323
Exercised during the year	**(982)**	—
Forfeited during the year	**(33)**	(139)
Granted during the year	**—**	17
Outstanding at the end of the year	**1 186**	2 201

The options outstanding at the statement of financial position date have no exercise price and a weighted average contractual life of 0,2 years (2008: 1,1 years).

As the terms and conditions of this share scheme dictate that options be exercised immediately on vesting, at any given time there are no options which have vested but have not yet been exercised.

Fair value assumptions of share options granted in the previous year

The fair value of the Phantom PSP awards at grant date is based on the share price at grant date. The Group multiplies the initial fair value by a factor as determined by the rules of the scheme to reflect expectations for the number of shares that will vest based on the performance conditions. At each reporting date the Group adjusts the liability to reflect differences:

- between the share price at grant date and the share price at valuation date;
- in expectation of the number of shares that will vest subject to the performance of the Group; and
- between actual and expected forfeited shares.

55.5 Absa Group Limited Executive Share Award Scheme (ESAS)

The ESAS is an equity-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of ordinary shares. Such an initial allocation is held in trust or in the name of the participant. If the participant is in the employ of the Group after the three-year vesting period, the participant will receive 20% matched options. If the bonus award remains in the ESAS for another two years, the participant receives another 10% matched options. Dividends, in the form of additional shares, are paid to participants on the ordinary shares, awarded on exercise of the options, as if the shares were held from inception. The number of dividend shares awarded is therefore calculated on the initial share allocation and on the 20% and/or 10% matched shares, over the three- or five-year period. Employees that received a performance bonus in excess of a predetermined amount were compelled to place a set percentage of their bonus award into the ESAS. Employees also had the option of utilising more of their bonus award for voluntary ESAS options.

55. Share-based payments *(continued)*

55.5 Absa Group Limited Executive Share Award Scheme (ESAS) *(continued)*

The following number of initial options allocated in terms of the scheme are eligible for the 20% and/or 10% matched options:

	Group Number of options 2009 '000	Group Number of options 2008 '000
Outstanding at the beginning of the year	**1 015**	37
Forfeited during the year	**(155)**	(41)
Granted during the year	**1 324**	1 019
Outstanding at the end of the year	**2 184**	1 015

The options outstanding at the statement of financial position date have no exercise price and a weighted average contractual life of 3,8 years (2008: 3,1 years). None of these options were exercisable at the statement of financial position date.

Fair value assumptions of share options granted during the current and previous year

The fair value of the ESAS awards at grant date is based on the share price at grant date. The Group considers adjustments to reflect expectations for options that might be forfeited before the shares vest.

For purposes of determining the expected life and number of options to vest, historical exercise and forfeiture patterns were used.

55.6 Absa Group Limited Phantom Joiners Share Award Plan (JSAP)

The JSAP is a cash-settled share-based payment arrangement that enables the Group to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited phantom shares. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accrue to the participant over the vesting period which can be over two, three, five or six years.

	Group Number of options 2009 '000	Group Number of options 2008 '000
Outstanding at the beginning of the year	**954**	312
Exercised during the year	**(246)**	(127)
Forfeited during the year	**(90)**	(19)
Granted during the year	**305**	788
Outstanding at the end of the year	**923**	954

The options outstanding at the statement of financial position date have no exercise price and a weighted average contractual life of 2,5 years (2008: 2,9 years).

As the terms and conditions of this share scheme dictate that options be exercised immediately on vesting, at any given time there are no options which have vested but have not yet been exercised.

Fair value assumptions of share options granted during the current and previous year

The fair value of the JSAP awards at grant date is based on the share price at grant date. The Group considers adjustments to reflect expectations for options that might be forfeited before the shares vest. At each reporting date the Group adjusts the liability to reflect differences:

- between the share price at grant date and the share price at valuation date; and
- between actual and expected forfeited shares.

55. Share-based payments *(continued)*

55.7 Absa Group Limited Phantom Executive Share Award Scheme (Phantom ESAS)

The Phantom ESAS is a cash-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of ordinary shares. If the participant is in the employ of the Group after the three-year vesting period, the participant will receive 20% matched phantom options. If the bonus award remains in the Phantom ESAS for another two years, the participant receives an additional 10% bonus phantom options. Dividend phantom shares are paid to participants on the ordinary phantom shares as if the shares were held from inception. The number of dividend phantom shares awarded is therefore calculated on the initial allocation and on the 20% and/or 10% bonus phantom shares, over the three- or five-year period. Employees that received a performance bonus in excess of a predetermined amount were compelled to place a set percentage of their bonus award into the Phantom ESAS. Employees also had the option of utilising more of their bonus award for voluntary ESAS options.

The following number of initial options allocated in terms of the scheme are eligible for the 20% and/or 10% matched options:

	Group Number of options	
	2009 ’000	2008 ’000
Outstanding at the beginning of the year	**554**	456
Exercised during the year	**(111)**	—
Forfeited during the year	**(13)**	(26)
Granted during the year	**25**	124
Outstanding at the end of the year	**455**	554
Of which are exercisable	**38**	—

The options outstanding have no exercise price and a weighted average contractual life of 2,1 years (2008: 3,0 years).

Fair value assumptions of share options granted during the current and previous year

The fair value of the Phantom ESAS awards at grant date is based on the share price at grant date. The Group considers adjustments to reflect expectations of options that might be forfeited before the shares vest. At each reporting date the Group adjusts the liability to reflect differences:

- between the share price at grant date and the share price at valuation date; and
- between actual and expected forfeited shares.

55.8 Absa Group Limited Performance Share Plan (PSP)

The PSP is an equity-settled share-based payment arrangement. Participants are awarded a number of nil-cost options. These options will be converted into Absa Group Limited shares after a three-year vesting period and on achieving performance conditions attached to the award. The vesting of the PSP awards will be subject to non-market and market-related performance conditions which will be measured over a three-year period, starting on the first day of the financial year in which the award is made. The awards will vest after three years to the extent that the performance conditions are satisfied. These awards are forfeited in total if the Group performance fails to meet the minimum performance criteria.

	Group Number of options	
	2009 ’000	2008 ’000
Outstanding at the beginning of the year	**2 008**	—
Forfeited during the year	**(180)**	(126)
Granted during the year	**1 589**	2 134
Outstanding at the end of the year	**3 417**	2 008

55. Share-based payments *(continued)*

55.8 Absa Group Limited Performance Share Plan (PSP) *(continued)*

The options outstanding at the statement of financial position date have no exercise price and a weighted average contractual life of 1,8 years (2008: 2,2 years). None of these options were exercisable at the statement of financial position date.

Fair value assumptions of share options granted during the current and previous year

The fair value of the PSP awards at grant date is based on the share price at grant date. The Group considers adjustments to reflect expectations for options that might be forfeited before the shares vest. For purposes of determining the expected life and number of options to vest, historical exercise and forfeiture patterns were used.

56. Acquisitions and disposals of subsidiaries

56.1 Acquisitions of subsidiaries during the current year

56.1.1 On 31 January 2009, the Group acquired an additional 35,2% interest in Abseq Properties (Proprietary) Limited increasing its shareholding to 85,0%. Abseq Properties (Proprietary) Limited was previously recognised as an associate designated at fair value through profit or loss. Abseq Properties (Proprietary) Limited contributed a net profit before tax of R10 million to the Group for the period 31 January 2009 to 31 December 2009. If the acquisition had occurred on 1 January 2009, the Group's revenue would have been R8 million higher and the total profit for the year would have been R1 million higher.

	Group
	2009
	Fair value recognised on acquisition Rm
Other assets	36
Previously held interest (recognised in investments)	(199)
Investments in associates and joint ventures	40
Investment property	1 352
Deposits from banks	(8)
Other liabilities	(860)
Deferred tax liabilities	(160)
Minority interest	(60)
Net assets acquired	**141**
Satisfied by:	
Cash outflow on acquisition	166
Fair value of net assets acquired	(141)
Goodwill	**25**

The goodwill is attributed to the synergies expected to arise after the Group's acquisition of Abseq Properties (Proprietary) Limited. The cost of acquisition includes directly attributable costs including legal, audit and other professional fees. No contingent liabilities were recognised as a result of the acquisition and no contingent consideration is payable.

56. Acquisitions and disposals of subsidiaries *(continued)*

56.1 Acquisitions of subsidiaries during the current year *(continued)*

56.1.2 On 1 June 2009, the Group acquired a 100% interest in Blue Age Properties 60 (Proprietary) Limited.

	Group 2009 Fair value recognised on acquisition Rm
Net assets acquired	**0**
Satisfied by:	
Cash outflow on acquisition	**0**
Fair value of net assets acquired	**0**
Goodwill	**—**
Net cash outflow due to acquisitions	**166**

56.2 Acquisitions of subsidiaries during the prior year

56.2.1 On 1 October 2008, the Group acquired an additional 50,0% interest in Ngwenya River Estate (Proprietary) Limited thereby giving the Group control over the entity. The fair values of the assets and liabilities were determined provisionally in the prior year based on best estimates as valuations were in the process of being finalised. The prior year's values were adjusted in the current year to reflect the finalisation of the fair values:

	Group		
	Provisional fair values 2008 Rm	IFRS 3 adjustment 2008 Rm	Adjusted fair values 2008 Rm
Other assets	—	99	99
Property and equipment	81	(81)	—
Other liabilities	(25)	(27)	(52)
Deferred tax liability	—	(5)	(5)
Net assets acquired	56	(14)	42
Total consideration	56	4	60
Fair value of net assets acquired	(56)	14	(42)
Goodwill	—	18	18

Included in the total consideration is a cash outflow on acquisition of R36 million.

56. Acquisitions and disposals of subsidiaries *(continued)*

56.2 Acquisitions of subsidiaries during the prior year *(continued)*

56.2.2 On 10 November 2008, the Group acquired an additional 50,0% interest in The Ballito Junction Development (Proprietary) Limited thereby giving the Group control over the entity. The fair values of the assets and liabilities were determined provisionally in the prior year based on best estimates as valuations were in the process of being finalised. The prior year's values were adjusted in the current year to reflect the finalisation of the fair values:

	Group		
	Provisional fair values 2008 Rm	IFRS 3 adjustment 2008 Rm	Adjusted fair values 2008 Rm
Cash, cash balances and balances with central banks	1	(1)	—
Other assets	9	(6)	3
Investment property	161	(6)	155
Property and equipment	4	—	4
Deferred tax asset	4	(2)	2
Other liabilities	(163)	58	(105)
Net assets acquired	16	43	59
Total consideration	28	14	42
Fair value of net assets acquired	(16)	(43)	(59)
Goodwill/(negative goodwill)	12	(29)	(17)

Included in the total consideration is a cash outflow on acquisition of R6 million.

56.2.3 The Group has a 92,5% interest in the IFU Property Fund. The Group is deemed to have control over the fund from 2008 and the investment has been consolidated.

Details of the net assets acquired and goodwill arising are as follows:

	Group 2008 Rm
Loans and advances to banks	10
Other assets	4
Investment property	231
Deferred tax asset	27
Other liabilities	(128)
Minority interest	(10)
Net assets acquired	134
Satisfied by:	
Value of shares issued	134
Fair value of net assets acquired	(134)
Goodwill	—

56. Acquisitions and disposals of subsidiaries *(continued)*

56.2 Acquisitions of subsidiaries during the prior year *(continued)*

56.2.4 On 6 December 2008, the Group acquired an additional 2,6% interest in Abvest Holdings (Proprietary) Limited increasing its shareholding to 100,0%. Details of the net assets acquired and goodwill arising are as follows:

	Group 2008 Rm
Cash, cash balance and balances with central banks	0
Net assets acquired	0
Satisfied by:	
Cash outflow on acquisition	3
Fair value of net assets acquired	0
Goodwill	3

56.2.5 On 29 January 2008, the Group acquired a 100,0% interest in Diluculo Investments (Proprietary) Limited, which is now a wholly owned subsidiary.

Satisfied by:	
Cash outflow on acquisition	0
Fair value of net assets acquired	0
Goodwill	—

56. Acquisitions and disposals of subsidiaries *(continued)*

56.2 Acquisitions of subsidiaries during the prior year *(continued)*

56.2.6 The Group acquired a further 23,7% and 26,6% in Meeg Bank Limited on 7 March 2008 and 14 November 2008, respectively. The Group's shareholding has consequently increased to 100,0% at a cost of R53 million on 7 March 2008 and R36 million on 14 November 2008.

Meeg Bank Limited contributed profit before tax of R9 million for the period from the acquisition date to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's share of the revenue from Meeg Bank Limited revenue would have been R126 million and profit before tax would have been R32 million. Details of the net assets acquired and goodwill arising are as follows:

	Group 2008 Rm
Cash, cash balances and balances with central banks	338
Statutory liquid asset portfolio	16
Other assets	14
Loans and advances to customers	865
Investments	2
Property and equipment	16
Deferred tax asset	1
Other liabilities and sundry provisions	(40)
Deposits due to customers	(1 101)
Minority interest	(30)
Net assets acquired	81
Satisfied by:	
Cash outflow on acquisition	53
Transfer from investments in associates and joint ventures	27
Total consideration	80
Fair value of assets acquired	(81)
Negative goodwill	(1)

56.2.7 On 1 October 2008, Absa Group Limited acquired 50,0% plus one share in Woolworths Financial Services (Proprietary) Limited from Woolworths (Proprietary) Limited.

Woolworths Financial Services contributed a net profit before tax of R49 million to the Group for the period 1 October 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's share of the revenue from Woolworths Financial Services (Proprietary) Limited would have been R867 million and profit before tax would have been R232 million.

Details of the net assets acquired and goodwill arising are as follows:	
Cash, cash balances and balances with central banks	535
Other assets	99
Current tax assets	42
Loans and advances to customers	5 419
Deferred tax assets	43
Intangible assets	186
Customer lists	178
Other	8
Property and equipment	11
Other liabilities and sundry provisions	(2 991)
Current tax liabilities	(8)
Debt securities in issue	(2 179)
Deferred tax liabilities	(73)
Minority interest	(542)
Net assets acquired	542
Satisfied by:	
Cash outflow on acquisition	875
Deferred consideration	28
Attributable costs	3
Total consideration	906
Fair value of net assets acquired	(542)
Goodwill	364

The goodwill is attributed to the synergies expected to arise after the Group's acquisition of Woolworths Financial Services (Proprietary) Limited.

56. Acquisitions and disposals of subsidiaries *(continued)*

56.2 Acquisitions of subsidiaries during the prior year *(continued)*

56.2.8 On 6 February 2008, Absa Consultants and Actuaries (Proprietary) Limited acquired a pension fund administration portfolio from Glenrand MIB Benefit Services (Proprietary) Limited as a separate business by way of acquiring the contractual relationships together with the workforce. Details of the net assets acquired and goodwill arising are as follows:

	Group 2008 Rm
Intangible asset: Customer list	5
Net assets acquired	5
Satisfied by:	
Cash outflow on acquisition	27
Fair value of net assets acquired	(5)
Goodwill	22

56.2.9 During 2008 an additional payment was made for the acquisition of Ambit Management Services (Proprietary) Limited, which took place in 2007. This payment was the result of a deferred payment agreement and amounted to R22 million.

Cash outflow due to acquisitions	1 022
Total cash and cash equivalents acquired	873

56.3 Disposal of subsidiaries during the prior year

On 1 December 2008 Absa Manx Insurance Company Limited (incorporated in Isle of Man), a wholly owned subsidiary of Absa Group Limited, disposed of Absa Syndicate Investments Holdings Limited (incorporated in the United Kingdom) and Absa Syndicate Investments Limited (incorporated in the United Kingdom) to a third party. The net assets of Absa Syndicate Investments Holdings Limited as at the date of disposal were as follows:

Cash, cash balances and balances with central banks	44
Other assets	1
Other liabilities and sundry provisions	(13)
Current tax liabilities	(8)
Net asset value	24
Satisfied by:	
Loss on disposal	(12)
Investment in subsidiary	22
Dividend receivable	(10)
Total consideration	—

57. Financial risks

57.1 Introduction

Risk management is fundamental to the Group's business and plays a crucial role in enabling management to operate more effectively in a changing environment. Over time it has evolved into one of the Group's core capabilities. It is integral to the evaluation of strategic alternatives and the setting of objectives, all within a risk management framework that ensures alignment with the Group's risk appetite and overall strategy.

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

It is the policy of the Group board to maintain an independent internal audit function to undertake internal audit work throughout the Group. The objective of the internal audit function is to provide reliable, valued and timely assurance to the board and executive management over the effectiveness of controls mitigating current and evolving high risks and in doing so enhancing the controls culture within the Group.

Information regarding the board and its various committees can be found in the corporate governance statement of the shareholder report.

57. Financial risks *(continued)*

57.1 Introduction *(continued)*

The Group board is responsible for annually approving the Group's risk appetite. This risk appetite is translated into risk limits per business unit and per risk type. Adherence to these limits is monitored and reported and culminates in a risk-reward profile for the Group. Risks not specifically addressed by risk appetite are addressed in the Group's risk management framework.

Oversight of risk management is the responsibility of two board subcommittees: the Group Risk and Capital Management Committee (GRCMC) and the Group Audit and Compliance Committee (GACC).

The GACC assists the board with regard to financial information, accounting policies, internal control and compliance matters. The GRCMC's function is to assist the board in fulfilling its responsibilities with regard to risk management and to ensure compliance with the requirements of the Banks Act regarding risk and capital management.

57.2 The year under review

The global banking industry experienced a continuation of setbacks as a result of the deterioration of global economic conditions. The recessionary conditions and rising unemployment levels were the key characteristics of 2009 in many developed markets, while some emerging markets experienced a marked slowdown in economic activity.

During the year a number of interventions were put in place by global policy makers to enable a recovery in the global markets. These interventions have to date been able to reintroduce an element of stability in the global markets and the first signs of a recovery were noted in the last quarter of 2009 in most developed and emerging markets.

Through an embedded risk governance structure, a continuous focus on credit, the managing of the bank's daily liquidity position, and the monitoring of the Group's risk-weighted assets demand, the Group responded expediently to the challenging economic conditions experienced during 2009 and ensured compliance with minimum regulatory and board-approved capital targets.

The Group also monitors on a continuous basis risk trends in business areas where the environment is changing and/or its growth rates are increasing to ensure that the Group remains within its set risk appetite. For each of the risk trends, the Group Executive Committee (Group Exco) and the board are informed on changes in the environment relating to the specific risk trend, the Group's positioning and exposure, and actions being taken or planned.

All financial data is as at 31 December 2009 unless otherwise indicated.

Retail credit risk

2009 was a challenging year from a Retail perspective. A significant increase in impairments was driven by the general worsening economic environment.

An improvement is apparent in the early delinquencies of Absa Retail, especially towards the end of 2009. The trajectory in late delinquencies are less favourable due to the increase in accounts under debt review.

The investment in collections during 2008 continued in 2009. The optimisation of our collection activities contributed towards the rehabilitation of arrears.

Although the realisation of security was under pressure during 2009, an improvement became apparent during the last two months of the year.

Looking forward, the improvements of 2009 are expected to continue into 2010 as the Group will maintain a continuous review of the credit policy environment. This has enabled a number of credit policy relaxations, especially in the secured – AVAF and Home loan portfolios.

Wholesale credit risk

Absa Corporate and Business Bank (ACBB)

The Wholesale environment has experienced deterioration in credit quality due to the global recession, which has resulted in a large increase in watch list and impairment numbers. During the last quarter of 2009 the inflow started to moderate. A number of industries have been adversely affected by the global credit environment including:

- retailing;
- manufacturing;
- automotive;
- steel; and
- commercial real estate.

The Group has invested substantially in its business support and recoveries environment to create the necessary capacity and to ensure robust processes to deal with distressed companies and industries.

Absa Capital

The global economic crisis experienced across all markets in 2009 resulted in a general slowdown in new business origination and more careful ongoing reviews of the existing portfolio. This included an overall assessment of high risk industries and the relevant key risk drivers to ensure appropriate and early remedial action.

In conducting the abovementioned reviews it was clearly evident that the portfolio remains acceptably diversified and that correlation is not a feature. Some concentration to the retail sector is present although it has been well managed and is expected to correct during the course of the new trading year. A feature of the portfolio remains that the majority of the exposure is to investment grade counterparties.

57. Financial risks *(continued)*

57.2 The year under review *(continued)*

General

One of the main focus areas over the last 12 months has been the initiative to migrate to the Basel II Advanced Internal Ratings Based (AIRB) approach. Various work streams are under way to ensure readiness by 2011.

Significant progress has been made in the migration to the AIRB requirements, the advantages of which are:

- optimised risk and capital management;
- embedding a culture of improved risk management and a revised credit management process; and
- risk-based pricing of exposures.

Market risk

In respect of traded market risk in Absa Capital, regulatory approval was maintained for use of the internal models approach to measure general trading book position risk regulatory capital requirements, with specific risk reported in accordance with the regulatory standardised approach. To ensure readiness for anticipated additional future traded market risk regulation and capital requirements, we have commenced in 2009 with building the additional incremental risk and stress risk models in line with recent Basel II recommendations. These models will undergo further testing towards implementation in 2010. We remain focused on efficient use of risk capital across trading desks and products, and on our relatively low capital consuming client flow business (which is our primary focus).

The Group continues to manage its non-traded banking book interest rate risk within defined risk appetite. This includes maintenance of its hedging programme for structural products and equity towards ensuring lower interest rate risk and a higher degree of stability of the mismatch margin component of the net interest margin over a full interest rate cycle. The Group however remains exposed to reset risk, arising from the timing difference between predominantly prime linked assets being funded with liabilities with a three month repricing profile after hedging. This timing difference had an adverse income statement impact during the rapidly decreasing interest rate environment experienced in 2009. Other focus areas during 2009 included: proactive consideration of mitigants against the risk of margin compression from liability interest rate floors in the downward rate cycle, risk management refinements in respect of prepayment and recruitment risk that may arise from fixed rate customer loan offering, and innovative solutions to mitigate the inflation risk arising from inflation-linked fund raising.

Liquidity and funding risk

While international financial markets experienced significant stress in 2009, the South African domestic money market liquidity remains largely unaffected. Overall the Group's key liquidity risk metrics, which have been formulated to achieve a prudent liquidity profile, were maintained at acceptable levels. Through ongoing stress testing, scenario analysis and contingency planning, the Group continues to actively manage its stress liquidity buffers applying Basel II and best international practice. Overall the Group's liquidity position remains strong.

Group Treasury and Absa Capital successfully raised secondary bank capital through issuing a consumer price index (CPI)-linked bond and CPI-linked senior unsecured bonds. The bond issue was the first time that a South African bank issued an inflation-linked subordinated bond into the domestic capital market. This long-term funding raised supported the Group's liquidity objectives.

The Group achieved further improvement in its capital structure by issuing R1,9 billion inflation-linked subordinated debt instruments (Tier II capital) during 2009.

Insurance risks

The Financial Services Board is in the process of developing a new solvency regime for both the short-term and long-term insurance industry. The Solvency Assessment and Management (SAM) regime will use as basis the principles of the Solvency II Directive as adopted by the European Parliament, but adapted to South African specific circumstances where necessary. Absa Insurance Company and Absa Life will be involved in the consultative process that will commence in 2010. The target date for implementation of the new regime is January 2014.

Basel II and capital management

Approval for the use of the Internal Ratings Based (IRB) approach in respect of credit risk, the Internal Models Approach (IMA) for market risk, and the Advanced Measurement Approach (AMA) for operational risk was endorsed by the SARB. Although the Group received approval, the robustness of internal models and of risk management processes will be under increased scrutiny and the Group needs to continuously demonstrate the following:

- adequacy of capital to ensure financial stability; and
- robust mechanisms to manage risks within the business by successfully entrenching the internal capital adequacy assessment process (ICAAP) and the use test.

The embedment of the use test principles is a continuous process that will be enhanced over time in areas such as strategy setting, stress testing and incentives linked to the risk/reward principle.

57. Financial risks *(continued)*

57.2 The year under review *(continued)*

Key Basel II focus areas for 2009 included:

- the further enhancement of risk models and the monitoring thereof;
- the development of the AIRB approach for wholesale credit risk in the Absa Capital and Absa Commercial and Business Banking operations, continuing in 2010; and
- continuous review and analysis of international regulatory changes in reaction to the international financial crisis to ensure best practice.

Capital supply was constrained during 2009. The financial market crisis severely impacted the ability of financial institutions to issue capital market instruments and execute securitisation transactions. Lower profits owing to pressure on consumers also resulted in reduced capital supply.

Given the constraints in the credit environment over the financial year, the Group remains vigilant to the potential effect of pro-cyclicality introduced by Basel II and will continue to focus on appropriate levels of capital. In this regard, the board has resolved to increase the target capital adequacy ratios for 2010 to 10,5% (2009: 10%) for Tier I capital and 13,0% (2009: 13,0%) for the total capital adequacy ratio.

The Group is adequately capitalised above the minimum regulatory requirement and the board-approved targets. This was as a result of the emphasis placed by the Capital Management Committee on risk-weighted asset growth as well as the slower than expected asset growth.

58. Credit risk

58.1 Introduction

Credit risk is the risk of loss arising from the failure of a client or counterparty to fulfil its obligations to the Group. In the context of traded products, the definition of credit risk also includes the risk of losses arising from mark-to-market requirements due to, for example, changes in credit spreads. The credit risk that the Group faces arises mainly from commercial and consumer loans and advances, including credit card lending and trading transactions. The Group dedicates considerable resources to controlling credit risk effectively.

The Group's strategy as a financial intermediary does not entail the elimination of credit risk but rather to take on credit risk in a well controlled, planned and targeted manner pursuant to its business objectives. Its approach to measuring credit risk is therefore designed to ensure that it can be assessed accurately in all its forms, and that relevant, timely and accurate credit risk information is available to the relevant decision makers at an operational and at a strategic level at all times.

At a strategic level, the Group seeks to manage its credit risk profile within the constraints of its overall risk appetite and to structure its portfolio so that it provides optimal returns for the level of risk taken. Operationally, credit risk management is governed by the overall risk appetite framework and aims to ensure that the risk inherent in individual exposures or certain business portfolios is appropriately managed through the economic cycle.

The Group optimises its credit and overall risk profile by diversifying risk and revenue sources, growing fee-based and recurring revenues and minimising its breakeven point by carefully managing fixed costs. Other credit risk management objectives include closely monitoring risk-taking and long-term exposure to illiquid assets. The Group continually looks for opportunities to strengthen its credit risk controls, with particular attention to avoiding undue concentrations.

As such, IRB risk concepts are used extensively across the Group in a variety of processes, most notably in the approval of credit exposures, but also in assessing and determining portfolio and origination strategy, the assessment of risk-adjusted performance and the strategic planning process.

At all levels of the Group, sound corporate governance, oversight policies and employee integrity are recognised as critical to effectively managing credit risk and protecting the interests of shareholders.

In addition to drawn loans and advances, the Group is exposed to other credit risks. These exposures comprise loan commitments, contingent liabilities, financial guarantees, debt securities, other exposures arising in the course of trading activities, settlement risk and debt securities. The risks are managed in a similar way to those in loans and advances, and are subject to the same or similar approval and governance processes.

The nature of the credit risks among these exposures differ considerably:

- Loan commitments may become loans and the risks are thus similar to those attached to loans.
- Contingent liabilities (such as guarantees, assets pledged as security, acceptances and endorsements) have historically experienced low loss rates.
- Losses arising from exposures held for trading (derivatives and debt securities) are accounted for as trading losses, rather than credit charges, even though the decrease in value causing the loss may be attributable to credit deterioration.

The most significant other credit risks are in respect of guarantees, irrevocable loan commitments, debt securities, available-for-sale debt instruments, settlement risk, and reinsurance risks.

58. Credit risk *(continued)*

58.1 Introduction *(continued)*

Guarantees and irrevocable loan commitments: The Group is exposed to loss through financial guarantees, acceptances and endorsements, and irrevocable loan commitments it issues to customers and commitments to provide loan finance which cannot be withdrawn once entered into. The credit risks associated with such contracts are managed in a similar way to loans and advances.

Debt securities: Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments which are secured by pools of financial assets. Managing the risks associated with debt securities differs in two important respects from the process for risk management of loans and advances. Firstly, a market price is generally available for a bond or other debt security, which is a good indication of creditworthiness. Secondly, many debt securities are rated by independent rating agencies, which is a further indication of credit quality. However, even with continuous monitoring by the rating agencies, there is often a lag between a credit event and re-rating. Therefore, while useful, external ratings can only inform and, as a result, are not a substitute for the credit assessment undertaken for each exposure by the Group, using its own grading system.

Settlement risk: The Group is also exposed to settlement risk in its dealings with other financial institutions. These risks arise, for example, in foreign exchange transactions when the Group pays away its side of the transaction to another bank or counterparty before receiving payment from the third party. The risk is that the third party may not meet its obligation. It also arises on derivative contracts where the carrying value of the financial asset is related to the credit condition of the counterparty.

While these exposures are of short duration, they can be significant. In recent years, settlement risk has been reduced by several industry initiatives that have enabled simultaneous and final settlement of transactions to be made (such as payment-versus-payment through continuous linked settlement and delivery-versus-payment in central bank money).

The Group has worked with its peers in the development of these arrangements. As a result, the majority of high-value transactions are increasingly settled by such mechanisms. Where these mechanisms are not available, the risk is further reduced by dealing predominantly with highly rated counterparties, holding collateral and limiting the size of the exposures according to the rating of the counterparty. Furthermore, credit risk is manifested as country risk where difficulties may arise in the country in which the exposure is domiciled, thus impeding or reducing the value of the asset, or where the counterparty is the country itself. Thus the rating of any counterparty domiciled in another country is limited to the rating of the country.

Amounts due from insurance policyholders, intermediaries and third parties: The Group limits the levels of insurance credit risk that it accepts by placing limits on its exposure to a single counterparty and to geographical and industry segments. Exposures to individual insurance policyholders, intermediaries and third parties are managed by the internal credit control departments on a daily basis to ensure recoverability of amounts.

Reinsurance risk: Reinsurers may fail to honour contractual obligations. Reinsurers settle insurance contract liabilities on a monthly basis and therefore Absa Life and Absa Insurance are not exposed to significant credit risk from the reinsurers perspective. There is no concentration of credit risk on reinsurers as the risk is spread across companies with strong credit ratings.

Cell captive risk: Absa Life and Absa Insurance Risk Management Services are registered to conduct cell captive business. Preference shares are issued to each cell owner according to the preference shareholder's agreement with the respective cell owner. Each cell captive owner is responsible for the solvency of each cell, and the Group therefore does not carry any underwriting risk as the business is 50% reinsured to a third party. Cells and claims are limited to funds in the cell for first party cells.

58.2 Credit risk management

In managing credit risk, the Group applies the five-step risk management process outlined in the principal risks policy (PRP), which is supported by the individual credit risk control frameworks. This policy is approved by the board of directors on recommendation from the GRCMC and defines the roles of key individuals and committees in the risk management process.

Under delegated authority from the Group Chief Executive, the Group Risk Officer has appointed principal risk owners for retail and wholesale credit risks who are responsible for the design of the retail and wholesale credit risk control frameworks across the Group and within the individual business areas. The frameworks are approved by the GRCMC, which is also responsible for approving the Group's credit risk appetite under delegated authority from the board.

The credit risk control frameworks provide a structure within which credit risk is managed and for which compulsory credit policies are prescribed. These policies are approved by the Credit Risk Committee (CRC).

58. Credit risk *(continued)*

58.2 Credit risk management *(continued)*

Each cluster is responsible for the identification, measurement, management, control and reporting of credit risk within their business portfolio. The credit risk management teams of each business unit within the clusters report to the Chief Credit Officer (CCO) of the respective clusters. In turn, the CCO reports to the executive directors of that cluster. The cluster CCO and Group Credit Risk are accountable to the Group Risk Officer, who in turn reports to the Group Chief Executive.

Those corporate accounts which are deemed to contain heightened levels of risk are recorded on graded problem loan lists known as either watch lists or early warning lists. These are updated monthly and circulated to the relevant risk control points. Once listing has taken place, exposure is carefully monitored and, where possible, exposure reductions are effected. These lists are graded in line with the perceived severity of the risk attached to the lending. Businesses with exposure to corporate customers all work to three categories of increasing concern. By the time an account becomes impaired it will normally, but not necessarily, have passed through all three categories, which reflects the need for ever-increasing caution and control. Where a customer's financial health gives grounds for concern, it is immediately placed into the appropriate category. All customers are subject to a full review of all facilities on, at least, an annual basis. Interim reviews may be undertaken if circumstances dictate.

Within the retail banking portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow impairment to be monitored on a portfolio basis. It is consistent with the Group's policy of raising an impairment allowance as soon as objective evidence of impairment is identified as a result of one or more loss events. Where models are used, they are based on customers' personal and financial performance information over recent periods as a predictor for future performance. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

The Group manages country risk by setting a country risk appetite, which is known as the country guideline and agreed at the CRC. All cross-border or domestic foreign currency transactions are aggregated to give the current utilisation, in terms of country loss given default (CLGD), against country appetite. The level of CLGD incurred by a counterparty transaction will largely depend on three main factors: the country severity, the product severity and the counterparty grade.

CLGD is incurred in the country of direct risk, defined as where the majority of operating assets are held. This may differ from the country of incorporation. However, where transactions are secured with collateral, the country risk can be transferred from the country of the borrower to the country of the collateral provider. This is only permitted where the collateral sufficiently covers the borrowing and is not expected to decrease over time.

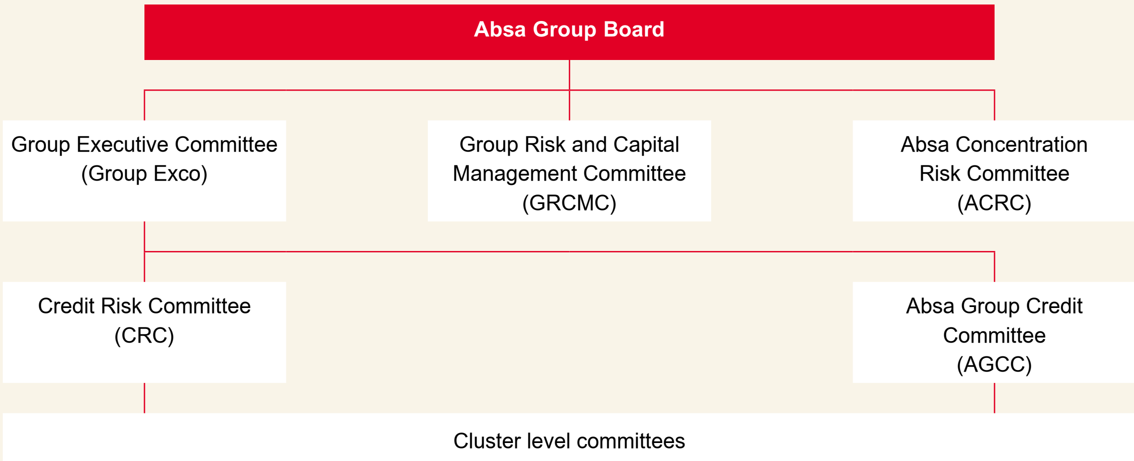
Country risk grades are assigned to all countries where the Group has, or is likely to have, exposure and are reviewed every quarter to ensure they remain appropriate. Country grades, which are derived from long-term sovereign foreign currency ratings, range from one (lowest probability of default) to 21 (highest probability of default). A ceiling is applied where a country is graded 12 or worse so that the counterparty cannot be graded better than the country, unless some form of protection is available in the event of a cross-border event, such as a significant portion of a counterparty's assets or income being held or generated in hard currency.

The principal committees that review credit risk management, formulate and review overall Group credit policies, and resolve all significant credit policy issues, are the CRC, the Absa Concentration Risk Committee (ACRC) and the GRCMC. The ACRC and the Absa Group Credit Committee (AGCC) are the highest level of credit sanctioning committees in the Group. The cluster-level credit committees support these board committees and Group Exco from an operational perspective. This is reflected in the following diagram.

58. Credit risk *(continued)*

58.2 Credit risk management *(continued)*

Figure 1 Credit risk governance: committee structure



The CRC is chaired by the Group Risk Officer and meets on a regular basis. The CRC exercises oversight of the Group's credit risk profile, by reviewing and challenging the size and constitution of the respective business portfolios and ensuring credit risk remains within the Group's risk appetite. Additionally, the CRC ensures that the credit risk framework is in line with best practice and compliant with Basel II. The CRC reports to the GRCMC on credit risk matters on a quarterly basis. In addition, the CRC is responsible for the approval of the relevant Group credit policies.

GACC considers and debates the adequacy and effectiveness of the Group's credit control framework regularly on the basis of quarterly control reports including reports prepared by internal audit. In addition, the GACC reviews impairment allowances and regulatory reports. When required, both the GRCMC and the GACC also receive in-depth reports on specific credit risk-related issues. The proceedings of both committees are reported to the board.

58.3 Credit risk measurement

The Group's credit risk measurement and management processes are tailored to the specific requirements of the respective credit portfolios and thus differ across business areas.

The Group's internal risk rating systems can be classified in terms of the three major Basel II approaches: Standardised, Foundation and AIRB. At present, the majority of the Group's exposure is covered by rating approaches and systems in accordance with the IRB approaches.

The Group aims to continuously improve its risk measurement and management capabilities and is employing approaches in a number of the Standardised and Foundation IRB portfolios that are more sophisticated than those required by the regulators. Subject to SARB approval, the Group aims to transition all its domestic portfolios to the AIRB approach for regulatory capital calculation purposes over the next year.

Portfolios subject to the Standardised approach

The Group's African operations, including National Bank of Commerce Limited (Tanzania) and Barclays Bank Mozambique S.A., and the Group's statutory reserve and liquid asset portfolio are subject to the Standardised approach. This is largely due to the challenging data and information infrastructure environment in these markets, which the Group seeks to address as part of its overall Africa strategy and the associated deployment of common IT systems.

Credit risk is managed through governance structures similar to those used in South Africa and on the basis of policies that are closely aligned with those used across the domestic operations. The respective management frameworks are approved by the Executive and Board Committees of the respective entities and monthly reports are reviewed and discussed by the CRC which may initiate specific remediating actions, as appropriate.

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

Portfolios subject to the Foundation IRB approach

Regulatory capital requirements for the domestic corporate, specialised lending, purchased receivables, sovereign and bank portfolios are calculated on the basis of the foundation IRB approach. The Group intends to migrate these portfolios to the Advanced approach over the next year.

The Group employs statistical, structural and expert-based models for these portfolios, which have either been developed internally or are based on services offered by external vendors.

For the majority of clients, default risk is assessed on the basis of financial and cash flow forecasts as well as a number of qualitative factors that are incorporated in the models in a structured fashion. External ratings are also used where these are available, in particular for financial institutions and foreign country sovereign ratings. The latter are used in the calculation of country grades, which are used in the assessment of country risk ceilings where lending transactions are executed outside South Africa.

Portfolios subject to the AIRB approach

The domestic retail portfolios, including retail small and medium enterprises (SMEs), utilise the AIRB approach for regulatory capital calculations. The retail portfolio comprises of residential home loans, vehicle and asset finance, personal loans, overdrafts and credit cards as well as a number of joint ventures that give rise to credit exposures of similar types.

The rating process for these portfolios relies on automated application and behavioural scoring on the basis of statistical models. A number of factors play an important role in the credit approval process for retail portfolios in addition to the risk assessment based on the Group's scoring systems. These include the following, namely:

- regulatory policies, such as those related to the National Credit Act (NCA), in particular with respect to affordability modelling;
- internal high-risk policies, designed to incorporate negative internal or external information with respect to particular portfolios or product sub-segments in the approval process;
- product specific policies, such as those related to various types of collateral used in different portfolios and those reflecting different portfolio risk characteristics in pricing decisions; and
- risk appetite considerations, ie mandate and scale constraints across various portfolios that are used to target an optimal structure of the overall credit portfolio.

Behavioural scores and associated probability of default (PD) are updated monthly for credit risk management and regulatory capital calculation purposes.

The Group's approaches to measuring credit risk seek to align with international best practice and are, in all substantial aspects, aligned with the approaches and methodology employed by Barclays Bank PLC. The assessment of credit risk relies heavily on quantitative models and tools, which have, to a large degree, been developed internally and which are supplemented by vendor solutions in a number of areas.

As such, credit risk is broken down into the common risk components of PD, expose at default (EAD) and loss-given default (LGD) that are modelled at a client, facility and portfolio level. These risk components are then used in the calculation of a number of aggregate risk measures such as expected loss (EL), regulatory capital and economic capital (EC). The models used by the Group for this purpose are compliant with Basel II requirements as discussed in subsequent sections of this report.

At present, the Group applies both Standardised and IRB approaches to various portfolios for the purpose of calculating regulatory capital requirements but, in many cases, uses more sophisticated approaches for the management of risk internally.

The following sections provide an overview of the aforementioned concepts and their usage in the assessment of credit risk across the Group's portfolios.

Probability of Default (PD)

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

- point in time (PIT) PD, which is reflective of current economic, industry and borrower circumstances; and

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

- through the cycle (TTC) PD, which reflects the Group's assessment of the borrower's long-run average propensity to default in the next year, taken over the course of a full economic cycle.

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

For communication and comparison purposes the Group maps its PD estimates to a 21 default grade (DG) master scale, which has been aligned to the SARB 26 grade scale used for regulatory reporting purposes.

Exposure at Default (EAD)

The EAD denotes the total amount the organisation expects to be outstanding to a particular customer at the time of default. The Group calculates these estimates for each facility through models developed on the basis of internal and external default data as well as credit expert's experience with particular products or client groups.

Loss Given Default (LGD)

The third major risk component measures the loss expected on a particular facility in the event of default and thus recognises any credit risk mitigants that the Group may employ such as collateral or credit hedges. LGD estimates are calculated as a percentage of EAD through models based on internal and external loss data as well as credit expert's judgement and are primarily driven by the type and amount of collateral held. The Group modifies its LGD estimates to distinguish between expected losses over the course of an economic cycle and loss estimates during periods of economic stress (downturn LGD).

Expected Loss (EL) and capital requirements

The three components described namely, PD, EAD and LGD, are building blocks used in a variety of applications that measure credit risk across the entire portfolio. EL is a measurement of loss which enables the application of consistent credit risk measurement across all retail and wholesale credit exposures.

They are the basis for regulatory and economic capital calculations. EL figures are calculated as the product of TTC PD, EAD and downturn LGD and represent the organisation's best estimate of losses over the next year based on long-run estimates that span an entire business cycle.

These estimates are also used in a range of applications, including pricing, customer and portfolio strategy, and performance measurement. EL estimates are, occasionally, compared to impairment figures but it should be noted that whilst they may be similar, they are calculated on a different basis and for distinctly different purposes and should thus not be expected to match one another.

EL is therefore a statistical estimate of the average loss for the loan portfolio for the next 12 months, based on a long-term average loss tendency that incorporates at least one business cycle. This type of measure therefore provides a measure of loss that is independent of the current credit conditions for a particular customer type, and is much more stable over time. It is primarily used in the capital measurement processes.

58.3.1 Maximum exposure to credit risk

For financial assets recognised in the statement of financial position, the exposure to credit risk equals the carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantee was called upon (contract value). For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The following represents the maximum exposure, at the statement of financial position date, to credit risk for on- and off statement of financial position financial instruments, before taking into account any collateral held or other credit enhancements and after the allowance for impairment and netting where appropriate.

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.1 Maximum exposure to credit risk *(continued)*

(a) Credit risk exposures relating to on-statement of financial position assets

	Group	
	2009 Rm	2008 Rm
Balances with other central banks	**827**	1 124
Balances with the SARB	**10 983**	12 648
Money market assets	**3 612**	6 349
Cash, cash balances and balances with central banks (refer to note 2)	**15 422**	20 121
Land Bank bills	**493**	492
RSA government bonds	**25 467**	19 160
Reverse repurchase agreements	**1 941**	4 100
SARB debentures	**223**	1 814
Treasury bills	**5 819**	7 477
Statutory liquid asset portfolio (refer to note 3)	**33 943**	33 043
Other loans and advances to banks	**27 100**	27 415
Reverse repurchase agreements	**8 932**	17 247
Loans and advances to banks (refer to note 4)	**36 032**	44 662
Debt instruments	**10 715**	5 178
Derivative assets	**31 836**	65 407
Money market assets	**3 837**	1 464
Trading portfolio assets (refer to note 5)	**46 388**	72 049
Derivatives designated as cash flow hedging instruments	**1 946**	2 530
Derivatives designated as fair value hedging instruments	**612**	609
Hedging portfolio assets (refer to note 5)	**2 558**	3 139
Accounts receivable	**5 477**	6 496
Collateral	**7 931**	4 541
Settlement accounts	**1 667**	3 374
Other assets (refer to note 6)	**15 075**	14 411

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.1 Maximum exposure to credit risk *(continued)*

(a) Credit risk exposures relating to on-statement of financial position assets *(continued)*

	Group 2009 Rm	Group 2008 Rm
Retail banking	**326 985**	337 518
Cheque accounts	**4 106**	4 344
Credit cards	**17 434**	18 047
Instalment credit agreements	**39 599**	46 250
Loans to associates and joint ventures	**6 187**	5 441
Microloans	**2 563**	3 688
Mortgages	**244 708**	246 655
Other advances	**321**	1 571
Personal and term loans	**12 067**	11 522
Absa Corporate and Business Bank	**120 230**	120 253
Corporate	**22 178**	18 553
Large and Medium	**74 967**	74 170
Other	**23 085**	27 530
Absa Capital	**55 768**	73 898
Other	**647**	475
Loans and advances to customers (refer to note 9)	**503 630**	532 144
Insurance contracts	**474**	422
Investment contracts	**245**	481
Reinsurance assets (refer to note 11)	**719**	903
Debt instruments	**11 297**	11 306
Investments (refer to note 12)	**11 297**	11 306
Total assets subject to credit risk (refer to note 58.3.2)	**665 064**	731 778
Assets not subject to credit risk[1]	**52 676**	42 379
Total assets per the statement of financial position	**717 740**	774 157

Amounts reflected are net of impairments.

(b) Credit risk exposures relating to off-statement of financial position items

	Group 2009 Rm	Group 2008 Rm
Financial guarantees	**1 007**	1 001
Guarantees	**10 484**	9 484
Irrevocable facilities	**54 517**	29 753
Letters of credit	**5 007**	6 429
Other contingencies	**5**	25
	71 020	46 692

Comparatives have been reclassified and restated, refer to note 1.26.

Note

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

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.1 Maximum exposure to credit risk *(continued)*

(c) Financial assets and liabilities designated at fair value through profit or loss

The following represents the maximum exposure at the statement of financial position date to credit risk of financial instruments designated at fair value through profit or loss, before taking into account any collateral held or other credit enhancements.

	Group	
	2009 Rm	2008 Rm
Assets		
Cash, cash balances and balances with central banks (refer to note 2)	**2 271**	5 182
Statutory liquid asset portfolio (refer to note 3)	**3 636**	8 273
Loans and advances to banks (refer to note 4)	**2 403**	7 169
Loans and advances to customers (refer to note 9)	**9 374**	7 947
Investments (refer to note 12)	**9 127**	8 522
	26 811	37 093
Liabilities		
Deposits from banks (refer to note 18)	**7 319**	9 002
Other liabilities (refer to note 20)	**294**	139
Deposits due to customers (refer to note 22)	**12 552**	11 419
Debt securities in issue (refer to note 23)	**1 741**	6 069
Liabilities under investment contracts (refer to note 24)	**12 446**	10 377
Borrowed funds (refer to note 26)	**718**	672
	35 070	37 678

At the statement of financial position date, the Group did not use credit derivatives as a mechanism to hedge its exposure to credit risk for financial assets and financial liabilities designated at fair value.

(d) Contractual obligation at maturity of financial liabilities designated at fair value through profit or loss

The following represents the carrying value of financial liabilities designated at fair value through profit or loss and the amount which the Group is contractually required to pay to the holder of the obligation at maturity.

	Group			
	2009		2008	
	Carrying value Rm	**Contractual obligation Rm**	Carrying value Rm	Contractual value Rm
Liabilities				
Deposits from banks (refer to note 18)	**7 319**	**7 423**	9 002	9 034
Other liabilities (refer to note 20)	**294**	**294**	139	129
Deposits due to customers (refer to note 22)	**12 552**	**12 539**	11 419	8 972
Debt securities in issue (refer to note 23)	**1 741**	**1 828**	6 069	4 748
Liabilities under investment contracts (refer to note 24)	**12 446**	**12 446**	10 377	10 366
Borrowed funds (refer to note 26)	**718**	**811**	672	765
	35 070	**35 341**	37 678	34 014

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.1 Maximum exposure to credit risk *(continued)*

(e) Increase/(decrease) in fair value attributable to changes in credit risk during the year

	Group	
	2009 Rm	2008 Rm
Assets		
Loans and advances to customers	**(9)**	24
Investments	**—**	26

(f) Cumulative increase in fair value attributable to changes in credit risk

	Group	
	2009 Rm	2008 Rm
Assets		
Loans and advances to customers	**15**	24
Investments	**26**	26

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

- Internal risk grading system: The cumulative change in fair value due to changes in credit risk is calculated by assigning to each customer an internal risk grading based on the customer's probability of default. The risk grading determines the credit spread incorporated in the valuation curve. Changes in the risk grading will result in a change in fair value of the loan due to changes in credit risk. The change in fair value is calculated by stripping out the trading margin from the fixed rate instruments to determine the split between interest and credit movement.
- Constant credit spread approach: The cumulative change in fair value due to changes in credit risk is calculated by assigning to each customer a credit spread based on the contractual credit spread of the loan or receivable at the time of origination. The assigned credit spread is incorporated in the valuation curve. Changes are made to the credit spread used only if a change in credit spread for the counterparty is observed externally.

For financial liabilities designated at fair value through profit or loss no change in fair value due to change in credit risk was recognised.

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.2 Financial assets subject to credit risk

For the purposes of the Group's disclosure regarding credit quality, the maximum exposure to credit risk of financial assets at the statement of financial position date has been analysed as follows:

	Cash, cash balances and balances with central banks[1] Rm	**Statutory liquid assets portfolio Rm**	**Loans and advances to banks Rm**
Neither past due nor impaired (refer to note 58.3.3(a))	**15 422**	**33 943**	**36 032**
Past due but not impaired (refer to note 58.3.5)	—	—	—
Impaired (refer to note 58.3.6(a))	—	—	—
Impairment allowance (refer to notes 10 and 58.3.7)	—	—	—
Identified impairments	—	—	—
Identified collective	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Identified individual	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Unidentified impairments	—	—	—
Carrying value of financial assets (refer to note 58.3.1(a))	**15 422**	**33 943**	**36 032**

	Cash, cash balances and balances with central banks[1] Rm	Statutory liquid assets portfolio Rm	Loans and advances to banks Rm
Neither past due nor impaired (refer to note 58.3.3(a))	20 121	33 043	44 662
Past due but not impaired (refer to note 58.3.5)	—	—	—
Impaired (refer to note 58.3.6(a))	—	—	—
Impairment allowance (refer to notes 10 and 58.3.7)	—	—	—
Identified impairments	—	—	—
Identified collective	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Identified individual	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Unidentified impairments	—	—	—
Carrying value of financial assets (refer to note 58.3.1(a))	20 121	33 043	44 662

Notes

[1]*Cash, cash balances and balances with central banks exclude coins and bank notes which are not subject to credit risk.*
[2]*Trading portfolio assets and investments exclude equity instruments and commodities as they are not subject to credit risk.*
[3]*Other assets exclude prepayments, constructed assets held for sale, repossessed properties, cash under management and deferred costs which are not subject to credit risk.*

Group

2009

Trading portfolio assets[2] Rm	**Hedging portfolio assets Rm**	**Other assets[3] Rm**	**Loans and advances to customers Rm**	**Reinsurance assets Rm**	**Investments[2] Rm**	**Total Rm**
46 388	**2 558**	**15 001**	**454 991**	**719**	**11 297**	**616 351**
—	**—**	**59**	**4 607**	**—**	**—**	**4 666**
—	**—**	**23**	**57 190**	**—**	**—**	**57 213**
—	**—**	**(8)**	**(13 158)**	**—**	**—**	**(13 166)**
—	**—**	**(8)**	**(11 999)**	**—**	**—**	**(12 007)**
—	**—**	**—**	**(1 839)**	**—**	**—**	**(1 839)**
—	**—**	**—**	**(1 170)**	**—**	**—**	**(1 170)**
—	**—**	**—**	**(669)**	**—**	**—**	**(669)**
—	**—**	**(8)**	**(10 160)**	**—**	**—**	**(10 168)**
—	**—**	**—**	**(8 766)**	**—**	**—**	**(8 766)**
—	**—**	**(8)**	**(1 394)**	**—**	**—**	**(1 402)**
—	**—**	**—**	**(1 159)**	**—**	**—**	**(1 159)**
46 388	**2 558**	**15 075**	**503 630**	**719**	**11 297**	**665 064**

2008

Trading portfolio assets[2] Rm	Hedging portfolio assets Rm	Other assets[3] Rm	Loans and advances to customers Rm	Reinsurance assets Rm	Investments[2] Rm	Total Rm
72 049	3 139	14 330	495 315	903	11 306	694 868
—	—	65	2 711	—	—	2 776
—	—	20	42 976	—	—	42 996
—	—	(4)	(8 858)	—	—	(8 862)
—	—	(4)	(7 428)	—	—	(7 432)
—	—	—	(946)	—	—	(946)
—	—	—	(475)	—	—	(475)
—	—	—	(471)	—	—	(471)
—	—	(4)	(6 482)	—	—	(6 486)
—	—	—	(4 800)	—	—	(4 800)
—	—	(4)	(1 682)	—	—	(1 686)
—	—	—	(1 430)	—	—	(1 430)
72 049	3 139	14 411	532 144	903	11 306	731 778

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.3 Financial assets neither past due nor impaired

The Group categorises its current exposures according to a 21-grade internal rating scale DG that corresponds to a statistical probability of customers in that rating class defaulting within a 12-month period. An indicative mapping of the DG buckets to the equivalent international rating agency scales can be performed as illustrated in the table below:

DG mapping (to risk-rated or credit-scored models)				Rating agency mappings (international rating scales)		
DG	Min PD (>)	Max PD (≤)	PD (midpoint)	Standard & Poor's (S & P)	Moody's	Fitch
1	0,000%	0,020%	0,010%	AAA	Aaa	AAA
2	0,020%	0,030%	0,025%	AA	Aa	AA
3	0,030%	0,050%	0,040%	A+	A1	A+
4	0,050%	0,100%	0,075%	A/A-	A2/A3	A/A-
5	0,100%	0,150%	0,125%	BBB+	Baa1	BBB+
6	0,150%	0,200%	0,175%	BBB+/BBB	Baa1/Baa2	BBB+/BBB
7	0,200%	0,250%	0,225%	BBB	Baa2	BBB
8	0,250%	0,300%	0,275%	BBB/BBB-	Baa2/Baa3	BBB/BBB-
9	0,300%	0,400%	0,350%	BBB-	Baa3	BBB-
10	0,400%	0,500%	0,450%	BBB-/BB+	Baa3/Ba1	BBB-/BB+
11	0,500%	0,600%	0,550%	BB+	Ba1	BB+
12	0,600%	1,200%	0,900%	BB	Ba2	BB
13	1,200%	1,550%	1,375%	BB/BB-	Ba2/Ba3	BB/BB-
14	1,550%	2,150%	1,850%	BB/BB-	Ba2/Ba3	BB/BB-
15	2,150%	3,050%	2,600%	BB-	Ba3	BB-
16	3,050%	4,450%	3,750%	B+	B1	B+
17	4,450%	6,350%	5,400%	B+/B	B1/B2	B+/B
18	6,350%	8,650%	7,500%	B	B2	B
19	8,650%	11,350%	10,000%	B-	B3	B-
20	11,350%	18,650%	15,000%	CCC+	Caa1	CCC+
21	18,650%	99,999%	30,000%	CCC	Caa2	CCC
Defaulted	100,000%	100,000%	100,000%	D	D	D

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

Default grades 1 – 11

These financial assets have a lower probability of default than other assets. Typically these customers will have a probability of default of less than 0,6%.

Default grades 12 – 19

Financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies.

Default grades 20 – 21

These financial assets' probability of default have deteriorated to such an extent that they are included in a watch-list for regular review. Assets so classified must have well-defined weaknesses that exacerbate the probability of default. They are characterised by the distinct possibility that the obligor will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.3 Financial assets neither past due nor impaired *(continued)*

Financial assets neither past due nor impaired can be analysed according to the internal rating system used in the Group's business. The credit quality of financial assets subject to credit risk, that were neither past due nor impaired, based on the Group's internal ratings, were as follows:

(a) Credit risk exposures relating to on-statement of financial position assets

	Group			
	2009			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Balances with other central banks	827	—	—	827
Balances with the SARB	10 983	—	—	10 983
Money market assets	3 612	—	—	3 612
Cash, cash balances and balances with central banks	**15 422**	**—**	**—**	**15 422**
Land Bank bills	493	—	—	493
RSA government bonds	25 467	—	—	25 467
Reverse repurchase agreements	1 941	—	—	1 941
SARB debentures	223	—	—	223
Treasury bills	5 819	—	—	5 819
Statutory liquid asset portfolio	**33 943**	**—**	**—**	**33 943**
Other loans and advances to banks	26 181	919	—	27 100
Reverse repurchase agreements	8 932	—	—	8 932
Loans and advances to banks	**35 113**	**919**	**—**	**36 032**
Debt instruments	10 715	—	—	10 715
Derivative assets	27 736	4 092	8	31 836
Money market assets	3 550	287	—	3 837
Trading portfolio assets	**42 001**	**4 379**	**8**	**46 388**
Derivatives designated as cash flow hedging instruments	1 946	—	—	1 946
Derivatives designated as fair value hedging instruments	612	—	—	612
Hedging portfolio assets	**2 558**	**—**	**—**	**2 558**
Accounts receivable	5 402	1	—	5 403
Collateral	7 931	—	—	7 931
Settlement accounts	1 652	15	—	1 667
Other assets	**14 985**	**16**	**—**	**15 001**
Retail banking	43 168	226 501	16 453	286 122
Cheque accounts	646	2 883	389	3 918
Credit cards	178	12 932	1 864	14 974
Instalment credit agreements	2 320	30 784	1 680	34 784
Loans to associates and joint ventures	405	5 487	295	6 187
Microloans	552	1 137	458	2 147
Mortgages	36 258	165 473	10 815	212 546
Other advances	333	—	—	333
Personal and term loans	2 476	7 805	952	11 233

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.3 Financial assets neither past due nor impaired *(continued)*

(a) Credit risk exposures relating to on-statement of financial position assets *(continued)*

	Group			
	2009			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Absa Corporate and Business Bank	43 551	66 239	3 399	113 189
Corporate	12 866	8 143	48	21 057
Large and Medium	23 736	42 900	2 719	69 355
Other	6 949	15 196	632	22 777
Absa Capital	32 531	22 200	337	55 068
Other	612	—	—	612
Loans and advances to customers	**119 862**	**314 940**	**20 189**	**454 991**
Insurance contracts	474	—	—	474
Investment contracts	245	—	—	245
Reinsurance assets	**719**	—	—	**719**
Debt instruments	8 926	2 371	—	11 297
Investments	**8 926**	**2 371**	—	**11 297**
Total (refer to note 58.3.2)	**273 529**	**322 625**	**20 197**	**616 351**

	2008			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Balances with other central banks	1 124	—	—	1 124
Balances with the SARB	12 648	—	—	12 648
Money market assets	6 349	—	—	6 349
Cash, cash balances and balances with central banks	20 121	—	—	20 121
Land Bank bills	492	—	—	492
RSA government bonds	19 160	—	—	19 160
Reverse repurchase agreements	4 100	—	—	4 100
SARB debentures	1 814	—	—	1 814
Treasury bills	7 477	—	—	7 477
Statutory liquid asset portfolio	33 043	—	—	33 043
Other loans and advances to banks	27 413	2	—	27 415
Reverse repurchase agreements	17 247	—	—	17 247
Loans and advances to banks	44 660	2	—	44 662
Debt instruments	5 178	—	—	5 178
Derivative assets	61 188	4 184	35	65 407
Money market assets	1 464	—	—	1 464
Trading portfolio assets	67 830	4 184	35	72 049
Derivatives designated as cash flow hedging instruments	2 493	37	—	2 530
Derivatives designated as fair value hedging instruments	602	7	—	609
Hedging portfolio assets	3 095	44	—	3 139
Accounts receivable	6 393	22	—	6 415
Collateral	4 541	—	—	4 541
Settlement accounts	3 374	—	—	3 374
Other assets	14 308	22	—	14 330
Retail banking	54 521	231 700	17 508	303 729
Cheque accounts	1 163	2 790	408	4 361
Credit cards	193	9 138	6 894	16 225
Instalment credit agreements	6 070	33 206	2 720	41 996
Loans to associates and joint ventures	652	4 489	300	5 441
Microloans	683	1 822	880	3 385
Mortgages	41 832	173 344	5 301	220 477
Other advances	1 057	157	22	1 236
Personal and term loans	2 871	6 754	983	10 608

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.3 Financial assets neither past due nor impaired *(continued)*

(a) Credit risk exposures relating to on-statement of financial position assets *(continued)*

	Group			
	2008			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Absa Corporate and Business Bank	47 137	67 422	2 745	117 304
Corporate	6 283	11 744	243	18 270
Large and Medium	34 253	36 218	2 080	72 551
Other	6 601	19 460	422	26 483
Absa Capital	54 715	18 872	181	73 768
Other	514	—	—	514
Loans and advances to customers	156 887	317 994	20 434	495 315
Insurance contracts	422	—	—	422
Investment contracts	481	—	—	481
Reinsurance assets	903	—	—	903
Debt instruments	11 306	—	—	11 306
Investments	11 306	—	—	11 306
Total (refer to note 58.3.2)	352 153	322 246	20 469	694 868

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.4 Financial assets renegotiated

Certain of the Group's loans and advances to customers would have defaulted if their terms had not been renegotiated.

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

	Group	
Loans and advances to customers	**2009 Rm**	2008 Rm
Retail banking	**1 712**	734
Cheque accounts	**11**	1
Instalment credit agreements	**1**	—
Microloans	**2**	—
Mortgages	**1 569**	728
Other advances	**2**	1
Personal and term loans	**127**	4
Absa Corporate and Business Bank	**872**	975
	2 584	1 709

Notes

[1]*Only assets included in loans and advances at the statement of financial position date.*

[2]*Assets are only transferred to the neither past due nor impaired classification once the customer demonstrates the ability to make the contractual payments for a specified period.*

In the event that a customer loan becomes past due, and the customer cannot temporarily afford to pay the arrears or monthly instalments, the customer could qualify for a remediation period to give him/her the opportunity to rectify the situation. On expiry of the remediation period the customer's situation is reassessed and the rectification of the account or the renegotiation of the terms of the agreement are explored. The terms of the agreement can only be permanently altered once in a 12-month period and is subject to affordability assessments and customer risk. The renegotiated term of the contract is limited by the maximum legally allowed financing term for the specific product.

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.5 Financial assets that are past due but not impaired

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

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

	Group					
	2009					
	Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Total Rm
Accounts receivable	40	8	—	5	6	59
Other assets	40	8	—	5	6	59
Retail banking	734	59	71	108	1 435	2 407
Cheque accounts	3	2	2	4	44	55
Instalment credit agreements	23	4	2	2	45	76
Mortgages	708	53	67	68	1 346	2 242
Personal and term loans	—	—	—	34	—	34
Absa Corporate and Business Bank	813	529	149	62	646	2 199
Large and Medium	812	528	122	56	636	2 154
Other	1	1	27	6	10	45
Absa Capital	1	—	—	—	—	1
Loans and advances to customers	1 548	588	220	170	2 081	4 607
Past due but not impaired (refer to note 58.3.2)	1 588	596	220	175	2 087	4 666

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.5 Financial assets that are past due but not impaired *(continued)*

	Group 2008					
	Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Total Rm
Accounts receivable	19	2	4	—	40	65
Other assets	19	2	4	—	40	65
Retail banking	494	115	98	110	1 111	1 928
Cheque accounts	1	4	1	4	20	30
Instalment credit agreements	32	3	2	5	40	82
Mortgages	456	106	94	100	1 042	1 798
Personal and term loans	5	2	1	1	9	18
Absa Corporate and Business Bank	497	61	5	30	190	783
Large and Medium	497	61	5	30	136	729
Other	—	—	—	—	54	54
Loans and advances to customers	991	176	103	140	1 301	2 711
Past due but not impaired (refer to note 58.3.2)	1 010	178	107	140	1 341	2 776

For details of the collateral held against the above loans and advances to customers, refer to note 58.4.

58.3.6 Identified impairments on financial assets

The Group's credit policy considers the following to be key indicators (albeit not the only indicators) of default:

- The borrower is unlikely to pay its credit obligation in full, without recourse by the Group to actions such as realising any security held.
- The obligor is overdue.

In the wholesale portfolio, the identified impairment is calculated on accounts that are reflected on management watch-lists (pre-legal environment) and accounts currently going through the legal workout process.

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

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.6 Identified impairments on financial assets *(continued)*

(a) Analysis of identified impairment

	Group					
	2009			2008		
	Original carrying amount Rm	Impairment allowance Rm	Revised carrying amount Rm	Original carrying amount Rm	Impairment allowance Rm	Revised carrying amount Rm
Accounts receivable	23	(8)	15	20	(4)	16
Other assets	23	(8)	15	20	(4)	16
Retail banking	48 720	(9 643)	39 077	38 515	(6 098)	32 417
Cheque accounts	369	(195)	174	265	(160)	105
Credit cards	5 102	(2 587)	2 515	3 297	(1 450)	1 847
Instalment credit agreements	6 013	(1 185)	4 828	5 676	(1 313)	4 363
Microloans	789	(358)	431	647	(366)	281
Mortgages	34 986	(4 687)	30 299	27 463	(2 422)	25 041
Personal and term loans	1 461	(631)	830	1 167	(387)	780
Absa Corporate and Business Bank	7 178	(1 926)	5 252	4 087	(1 312)	2 775
Corporate	1 353	(200)	1 153	563	(228)	335
Large and Medium	4 948	(1 229)	3 719	2 060	(724)	1 336
Other	877	(497)	380	1 464	(360)	1 104
Absa Capital	1 246	(419)	827	374	(18)	356
Other	46	(11)	35	—	—	—
Loans and advances to customers	57 190	(11 999)	45 191	42 976	(7 428)	35 548
Total (refer to note 58.3.2)	57 213	(12 007)	45 206	42 996	(7 432)	35 564

For details of the collateral held against the above loans and advances to customers, refer to note 58.4.

58.3.7 Reconciliation of total impairments (identified and unidentified)

	Group					
	2009					
Impairment of loans and advances to customers	Opening balance Rm	Net present value unwind on non-performing book Rm	Exchange differences Rm	Amounts written off Rm	Impairment raised Rm	Closing balance Rm
Retail banking	6 656	(792)	—	(4 206)	8 606	10 264
Absa Corporate and Business Bank	1 921	(147)	(1)	(394)	957	2 336
Absa Capital	242	(6)	(2)	(7)	320	547
Other	39	—	—	(28)	—	11
	8 858	(945)	(3)	(4 635)	9 883	13 158

58. Credit risk *(continued)*

58.3 Credit risk measurement *(continued)*

58.3.7 Reconciliation of total impairments (identified and unidentified) *(continued)*

	Group					
	2008					
Impairment of loans and advances to customers	Opening balance Rm	Net present value unwind on non-performing book Rm	Exchange differences Rm	Amounts written off Rm	Impairment raised Rm	Closing balance Rm
Retail banking	3 600	(483)	—	(2 279)	5 818	6 656
Absa Corporate and Business Bank	1 782	(44)	—	(297)	480	1 921
Absa Capital	245	(2)	—	(30)	29	242
Other	39	—	—	—	—	39
	5 666	(529)	—	(2 606)	6 327	8 858

58.4 Credit risk mitigation, collateral and other credit enhancements

The Group uses a number of techniques to mitigate credit risk, including the taking of collateral, on and off statement of financial position netting agreements and selective hedging through credit derivatives. Depending on the Group's assessment of a client's financial capacity, facilities may be provided on an unsecured basis but commonly one or more forms of security are sought in the credit approval process.

The Group's businesses are mandated to take certain types of collateral depending on the type of product, portfolio and client. Where collateral is taken, applicable policies and business processes ensure that funds can only be released once the relevant charges over the security have been perfected and all required documentation has been obtained.

The Group's policies with respect to assessing, taking and managing collateral are aligned with regulatory requirements for capital calculation purposes but are, in some cases, more specific to ensure robust and efficient processes that exceed these minimum requirements. As such, the applicable credit policies clearly set out:

- what items of security are permissible and qualify as credit risk mitigants;
- what requirements have to be met for valuation purposes;
- which operational requirements must be met by the collateral management process for the collateral to be recognised as a credit risk mitigant; and
- how collateral valuations should be adjusted based on the Group's experience when used to calculate their potential value as credit risk mitigant.

58. Credit risk *(continued)*

58.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

Collateral types used by the Group, grouped by type of asset.

Assets subject to credit risk on statement of financial position	Type of collateral[1]
The following types of collateral are currently held against assets subject to credit and consistent with accepted market practice:	
Cash, cash balances and balances with central banks	Deposits from customers and cession of ring-fenced bank accounts with cash
Loans and advances to banks	Bonds and guarantees Cash Listed equities RSA government bonds
Loans and advances to customers	Assignment of debtors Bonds over properties (commercial and residential) Call options to holding companies Charge on property Cession on loan accounts Debentures Governmental guarantees Guarantees from shareholders and directors Insurance policies Life insurance policies Listed equities Netting agreements Parental guarantees Personal and other company guarantees Pledged securities Property and equipment Put options from holding companies or other companies within the Absa Group Shares Suretyships

Note

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

Valuation of collateral

Any security taken as part of the credit decision process is valued according to the applicable credit policies at the time of credit approval and at regular intervals thereafter. The Group uses a number of approaches for the revaluation of collateral, including physical inspection, statistical indexing and price volatility modelling. For example, in the retail residential property portfolios market values are re-estimated monthly on the basis of data published by an external data provider (Lightstone), whilst market valuations of motor vehicles are established monthly on the basis of data published by Mead and McGrouther.

For significant items of security, physical inspections and expert valuations are carried out at regular intervals but at least annually. Collateral valuations are also updated when an account enters the legal/recovery process to ensure that an appropriate impairment allowance can be calculated. In the wholesale portfolios these valuations are reviewed regularly to ensure that any impairments raised remain at an appropriate level, including potential gains in the valuation of marketable securities and other market-related instruments that may lead to a partial release of the impairment allowance.

The collateral management process is focused on the efficient handling and processing of a large number of cases in the retail portfolio and the lower end of the corporate sector, thus relying heavily on the Group's consolidated collateral and document management systems. For larger wholesale exposures and capital markets transaction collateral is managed jointly between the credit and legal functions as transactions and associated legal agreements are often bespoke in nature, in particular where credit derivatives or customised netting agreements are used as a risk mitigant. All security structures and legal covenants are reviewed at least annually to ensure that they remain fit for purpose and consistent with accepted market practice.

Due to the nature of the Group's business a certain degree of risk concentration in the collateral portfolios cannot be avoided. The Group manages these risks through mandate and scale limits that differ across the individual portfolios, for example:

58. Credit risk *(continued)*

58.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

- Vehicle and asset finance: limits are placed on the tenure of loans.
- Home loans: limits are placed on property values and Loan to Value (LTV) ratios.
- Commercial property finance: limits are placed on the type of asset (eg industrial or retail) and geographical area.

Due to the structure of the South African financial markets, a certain level of concentration with respect to derivative counterparties is also to be expected. The Group manages this type of concentration risk through mandate and scale limits as well as sophisticated, simulation based exposure models that support a rigorous credit analysis and ongoing monitoring of these counterparties, the Group's mark-to-market exposure and associated risk levels.

Types of guarantor and credit derivative counterparties

In the commercial, corporate and financial sector, the Group often places reliance on a third party guarantor, which may be a parent company to the obligor, a major shareholder or a bank. Similarly, credit derivative transactions are often used to hedge specific parts of any single-name risk in the wholesale portfolio. For these transactions the most common counterparties or issuers are banks, non-bank financial institutions (NBFIs), large corporates, parastatals and governments. The credit worthiness of the guarantor or derivative counterparty/issuer is assessed as part of the credit approval process and the value of such a guarantee or derivative contract is adjusted accordingly for the purpose of calculating internal LGD estimates.

Use of netting agreements, International Swaps and Derivatives Association (ISDA) master agreements and Collateral Support Annexes (CSAs)

In line with international market practice, the Group endeavours to utilise netting agreements wherever possible. The Group primarily employs the ISDA master agreements as well as the respective CSAs which provide for standardised and commonly accepted processes for the managing of collateral and margin calls over the lifetime of the transaction.

CSAs may create an obligation on the Group unrelated to the underlying instruments in the event of a credit downgrade. Only a small number of the Group's agreements make use of such a tiered structure and an instantaneous downgrade by one rating grade from the current AA-rating (S&P and Fitch) would not trigger any such clauses and create a requirement for the Group to post additional collateral.

58.4.1 Fair value of collateral for loans past due but not impaired and loans individually impaired

Financial assets that are past due or individually assessed as impaired (specifically impaired) are for the most part collateralised or subject to other forms of credit enhancements. The effects of such arrangements are taken into account in the calculation of the impairment allowance held against them.

The fair value of collateral and other credit enhancements held in respect of loans and advances to customers past due but not impaired and individually assessed as impaired is as follows:

	Group	
Fair value of collateral for loans past due but not impaired and individually impaired	**2009 Rm**	2008 Rm
Retail banking	**38 434**	25 759
Cheque accounts	**83**	48
Instalment credit agreements	**4 636**	3 273
Microloans	**—**	2
Mortgages	**33 588**	22 321
Personal and term loans	**127**	115
Absa Corporate and Business Bank	**7 156**	3 646
Corporate	**1 313**	345
Large and Medium	**5 601**	2 306
Other	**242**	995
	45 590	29 405
Carrying values of loans past due but not impaired (refer to note 58.3.5)	**4 607**	2 711
Carrying values of loans individually impaired (refer to note 58.3.6 (a))	**57 190**	42 976

58. Credit risk *(continued)*

58.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

58.4.1 Fair value of collateral for loans past due but not impaired and loans individually impaired *(continued)*

A shortfall exists between the fair value of collateral held and the carrying values of loans and advances past due but not impaired and individually assessed as impaired. This is owing to the Group using a probability of default when assessing certain of the individually impaired loans.

58.4.2 Enforcement of collateral

Carrying value of assets held by the Group at the statement of financial position date as a result of the enforcement of collateral, was as follows:

	Group	
Loans and advances to customers	**2009 Rm**	2008 Rm
Residential properties		
Opening balance	**340**	172
Acquisitions	**103**	295
Disposals	**(99)**	(127)
Closing balance	**344**	340

Any properties repossessed are made available for sale in an orderly and timely fashion, with any proceeds realised being used to reduce or repay any outstanding loan. The Group does not, as a rule, occupy repossessed properties for its business use.

58.5 Credit risk concentration

The Group seeks to develop and sustain a credit portfolio in line with its chosen strategy and target risk profile. As such, it measures and manages concentration risk through various approaches and metrics as part of its ongoing credit portfolio management processes. The most important considerations used in this process are the following:

- Maximum allocation guidelines (MAG) are in place to ensure that the size of exposure to any one counterparty is related to its credit quality and does not exceed a certain overall threshold. A distinction is made between corporate, sovereign and bank counterparties. Furthermore, country risk policies are aligned to MAGs to ensure a reasonable degree of geographic diversification.

  The Group also uses lending policies to limit exposure to certain industries in accordance with its economic forecasts (for example, a reduction in the exposure guidelines for commercial real estate lending has successfully curtailed the Group's exposure to this sector during the downturn in the property market).
- Mandate and scale limits, which are also a direct articulation of the Group's risk appetite, are applied at all levels of the organisation. Operationally, they may take the form of caps on high LTV mortgages or the maximum permissible residual value risk in relation to vehicle lease agreements. Strategically, the Group's mandate and scale limits are used to determine the overall size and risk characteristics of the credit portfolio.

Breaches of exposure guidelines as well as breaches of mandate and scale limits (or other risk limits) are monitored closely and excesses are reported, reviewed and decided-upon at the CRC and the GRCMC. A number of mitigating actions may be mandated by the respective committee, which may include changes in the origination strategy as well as a reduction in individual client limits.

58. Credit risk *(continued)*

58.5 Credit risk concentration *(continued)*

58.5.1 Analysis of credit risk concentration by industry

The following table reflects the Group's credit exposures at their carrying amounts, as categorised by the industry sectors of counterparties at the statement of financial position date:

	Cash, cash balances and balances with central banks Rm	**Statutory liquid asset portfolio Rm**	**Loans and advances to banks Rm**	**Trading and hedging portfolio assets Rm**	**Other assets Rm**
Agriculture	**—**	**—**	**—**	**15**	**—**
Construction and property	**—**	**—**	**—**	**2**	**138**
Consumer (home loans)	**—**	**—**	**—**	**—**	**8**
Consumer (other personal lending)	**—**	**—**	**—**	**47**	**187**
Electricity	**—**	**—**	**—**	**1 682**	**2**
Finance	**15 422**	**—**	**36 032**	**37 812**	**13 367**
Government	**—**	**33 943**	**—**	**7 908**	**380**
Manufacturing	**—**	**—**	**—**	**338**	**10**
Mining	**—**	**—**	**—**	**338**	**11**
Other	**—**	**—**	**—**	**13**	**939**
Services	**—**	**—**	**—**	**281**	**30**
Transport	**—**	**—**	**—**	**342**	**—**
Wholesale	**—**	**—**	**—**	**168**	**3**
Subject to credit risk	**15 422**	**33 943**	**36 032**	**48 946**	**15 075**

	Cash, cash balances and balances with central banks Rm	Statutory liquid asset portfolio Rm	Loans and advances to banks Rm	Trading and hedging portfolio assets Rm	Other assets Rm
Agriculture	—	—	—	1	—
Construction and property	—	—	—	13	104
Consumer (home loans)	—	—	—	—	5
Consumer (other personal lending)	—	—	—	—	961
Electricity	—	—	—	—	—
Finance	20 121	—	44 662	68 088	9 489
Government	—	33 043	—	1 066	1 289
Manufacturing	—	—	—	—	—
Mining	—	—	—	—	—
Other	—	—	—	5 982	2 531
Services	—	—	—	38	2
Transport	—	—	—	—	—
Wholesale	—	—	—	—	30
Subject to credit risk	20 121	33 043	44 662	75 188	14 411

Note

[1]During the year the Group reassessed its sectorial classifications and realigned some exposures to better reflect the counterparty to the exposure. This has resulted in Construction and Property sector increasing by R988 million, Consumer (home loans) increasing by R71 711 million, Consumer (Other) decreasing by R18 433 million, Finance decreasing by R4 439 million, Manufacturing decreasing by R4 002 million. Other decreasing by R18 562 million, Services decreasing by R34 938 million, Transport decreasing by R7 165 million and Wholesale increasing by R1 897 million.

Group

2009

Loans and advances to customers[1] Rm	**Re-insurance assets Rm**	**Invest-ments Rm**	**Financial guarantees Rm**	**Guarantees Rm**	**Irrevocable facilities Rm**	**Letters of credit Rm**	**Other contin-gencies Rm**	**Total Rm**
17 439	**—**	**—**	**—**	**217**	**10**	**12**	**—**	**17 693**
53 370	**—**	**3 248**	**—**	**981**	**166**	**505**	**—**	**58 410**
256 769	**—**	**1 655**	**—**	**—**	**—**	**—**	**—**	**258 432**
38 887	**—**	**—**	**—**	**3 446**	**9 726**	**11**	**—**	**52 304**
2 276	**—**	**—**	**64**	**463**	**866**	**75**	**—**	**5 428**
41 638	**719**	**1 468**	**256**	**670**	**41 642**	**1 437**	**—**	**190 463**
3 929	**—**	**1 011**	**—**	**14**	**—**	**—**	**—**	**47 185**
11 954	**—**	**189**	**562**	**554**	**6**	**297**	**—**	**13 910**
6 534	**—**	**1 137**	**125**	**66**	**3**	**636**	**—**	**8 850**
23 413	**—**	**879**	**—**	**2 154**	**1 706**	**1 646**	**5**	**30 755**
21 575	**—**	**1 337**	**—**	**668**	**37**	**221**	**—**	**24 149**
8 584	**—**	**373**	**—**	**119**	**240**	**69**	**—**	**9 727**
17 262	**—**	**—**	**—**	**1 132**	**115**	**98**	**—**	**18 778**
503 630	**719**	**11 297**	**1 007**	**10 484**	**54 517**	**5 007**	**5**	**736 084**

2008

Loans and advances to customers Rm	Re-insurance assets Rm	Invest-ments Rm	Financial guarantees Rm	Guarantees Rm	Irrevocable facilities Rm	Letters of credit Rm	Other contin-gencies Rm	Total Rm
17 972	—	—	—	23	—	—	—	17 996
52 376	—	3 859	—	430	13	651	—	57 446
261 944	—	—	—	—	—	—	—	261 949
41 045	—	—	—	364	9 207	4	—	51 581
2 111	—	233	94	—	1 143	—	—	3 581
40 759	903	4 813	539	733	3 151	2 405	—	195 663
5 646	—	1 249	—	—	—	—	—	42 293
15 086	—	—	351	521	2 712	1 383	—	20 053
10 508	—	649	—	617	1 797	8	—	13 579
26 408	—	—	—	6 116	2 336	1 592	25	44 990
27 929	—	429	—	298	241	121	—	29 058
11 452	—	74	—	145	6 252	28	—	17 951
18 908	—	—	17	237	2 901	237	—	22 330
532 144	903	11 306	1 001	9 484	29 753	6 429	25	778 470

58. Credit risk *(continued)*

58.5 Credit risk concentration *(continued)*

58.5.2 Analysis of credit risk concentration by geographical sector

The following table reflects the Group's credit exposure at their carrying amounts, as categorised by geographical region as at the statement of financial position date. For this table, the Group has allocated exposures to regions based on the country of domicile of the Group's counterparties.

	Group				
	2009				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia, Americas and Australia Rm	Total Rm
On-statement of financial position exposures					
Cash, cash balances and balances with central banks	13 098	2 167	157	—	15 422
Statutory liquid asset portfolio	33 943	—	—	—	33 943
Loans and advances to banks	17 238	843	16 614	1 337	36 032
Trading and hedging portfolio assets	28 687	373	19 544	342	48 946
Other assets	14 886	144	27	18	15 075
Loans and advances to customers	490 682	8 264	4 423	261	503 630
Reinsurance assets	533	—	186	—	719
Investments	10 850	426	21	—	11 297
Subject to credit risk (refer to note 58.3.1(a))	609 917	12 217	40 972	1 958	665 064
Off-statement of financial position exposures					
Financial guarantees	944	—	63	—	1 007
Guarantees	9 879	605	—	—	10 484
Irrevocable facilities	53 048	1 037	432	—	54 517
Letters of credit	4 577	428	2	—	5 007
Other contingencies	5	—	—	—	5
Subject to credit risk (refer to note 58.3.1(b))	68 453	2 070	497	—	71 020

58. Credit risk *(continued)*

58.5 Credit risk concentration *(continued)*

58.5.2 Analysis of credit risk concentration by geographical sector *(continued)*

	Group 2008				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia, Americas and Australia Rm	Total Rm
On-statement of financial position exposures					
Cash, cash balances and balances with central banks	18 262	1 811	48	—	20 121
Statutory liquid asset portfolio	33 043	—	—	—	33 043
Loans and advances to banks	19 958	1 028	23 024	652	44 662
Trading and hedging portfolio assets	21 331	313	39 687	13 857	75 188
Other assets	14 060	105	244	2	14 411
Loans and advances to customers	509 313	12 959	4 450	5 422	532 144
Reinsurance assets	670	—	233	—	903
Investments	9 994	1 312	—	—	11 306
Subject to credit risk (refer to note 58.3.1(a))	626 631	17 528	67 686	19 933	731 778
Off-statement of financial position exposures					
Financial guarantees	574	333	94	—	1 001
Guarantees	9 146	337	1	—	9 484
Irrevocable facilities	23 420	721	272	5 340	29 753
Letters of credit	6 069	360	—	—	6 429
Other contingencies	25	—	—	—	25
Subject to credit risk (refer to note 58.3.1(b))	39 234	1 751	367	5 340	46 692

59. Market risk

Market risk is the risk that the Group's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. Market risk mainly arises from trading activities and equity investments. The Group is also exposed to market risk through non-traded interest rate risk in its banking book.

The Group's market risk management objectives include:

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

59.1 Management and control responsibilities

Market risk is managed in terms of the Group's market risk control framework, in line with the Group's principal risks policy requirements. Under delegated authority from the Group Chief Executive, the Group Risk Officer has appointed a principal risk owner for market risk who is responsible for the design of the market risk control framework, which is approved by the GRCMC.

59. Market risk *(continued)*

59.1 Management and control responsibilities *(continued)*

The board approves the market risk appetite for trading and non-trading activities, within which the GRCMC approves the market risk appetite for lower categories of market risk. Market risk limits are set within the context of the approved market risk appetite. The Market Risk Committee (MRC) is the Exco appointed subcommittee that governs market risk across the Group and meets monthly to review, approve and make recommendations concerning the market risk profile including risk appetite, limits and utilisation. The Group Investment Committee is the Exco appointed subcommittee responsible for the approval and monitoring of all equity investments and divestments within a set governance framework. The new ventures and asset policy requires that a specific sign-off procedure be followed prior to the approval of an investment. The policy requires that regular investment performance reviews be conducted.

The head of each business, assisted by the business risk management team, is accountable for all market risks associated with its activities, which are reported to business risk governance and control committees. Each business is responsible for the identification, measurement, management, control and reporting of market risk as outlined in the market risk control framework. Oversight and support is provided to the business by the central market risk team.

59.2 Traded market risk

The Group's policy is to concentrate its traded market risk exposure within Absa Capital. This includes transactions where Absa Capital acts as principal with clients or with the market. For maximum efficiency, Absa Capital manages client and market activities together.

In Absa Capital, market risk occurs in both the trading book and the banking book as defined for regulatory purposes. Interest rate risk in Absa Capital's banking book is subjected to the same rigorous measurement and control standards as described later on for its traded market risk, but the associated sensitivities are reported in the interest rate risk in the banking book section further on.

59.2.1 Risk measurement

The techniques used to measure and control traded market risk include daily value at risk, tail risk and stress testing.

DVaR is an estimate of the potential loss that might arise from unfavourable market movements if the current positions were to be held unchanged for one business day, measured to a confidence level of 95%. Daily losses exceeding the DVaR figure are likely to occur, on average, five times in every 100 business days. In 2009, the confidence level was changed from 98% to 95% to guard against incidence of significant market movements making the existing measure more volatile and less effective for risk management purposes. Switching to 95% makes DVaR more stable and consequently improves management, transparency and control of the market risk profile.

Absa Capital uses an internal DVaR model based on the historical simulation method. Two years of unweighted historical price and rate data is applied and updated daily. This internal model is also used for measuring value at risk over both a 1-day and 10-day holding period at a 99% confidence level for regulatory back testing and regulatory capital calculation purposes respectively. The value at risk model has been approved by the SARB for regulatory capital calculation purposes. The model approval covers general market (position) risk across all approved interest rate, foreign exchange, commodity, equity and traded credit products.

There are a number of considerations that should be taken into account when reviewing the DVaR numbers. These are as follows:

- Historical simulation assumes that the past is a good representation of the future. This may not always be the case.
- The assumed time horizon will not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon.
- DVaR does not indicate the potential loss beyond the selected percentile.
- Intra-day risk is not captured.
- Prudent valuation practices are used in the DVaR calculation when there is difficulty obtaining rate/price information.

The performance of the DVaR model is regularly assessed for continued suitability. The main approach employed is a technique known as back testing, which counts the number of days when trading losses exceed the corresponding DVaR estimate. Back testing results for Absa Capital's trading book DVaR model were satisfactory for 2008 and 2009.

To complement DVaR, tail risk metrics, stress testing and other sensitivity measures are used. Tail risk metrics highlight the risk beyond the percentile selected for DVaR, whereas stress testing provides an indication of the potential size of losses that could arise in extreme conditions. Formal daily monitoring and reporting to senior management of tail risk metrics commenced in 2009 to complement DVaR at the lower 95% confidence level, whereas daily stress testing monitoring and reporting to senior management is already well embedded.

59. Market risk *(continued)*

59.2 Traded market risk *(continued)*

59.2.2 Analysis of traded market risk exposure

The table below reflects the 95% DVaR statistics for Absa Capital's trading book activities. Numbers for the year ended 31 December 2008 have been restated from a 98% to a 95% confidence level.

Absa Capital's traded market risk exposure, as measured by average total DVaR, increased by 63% to R31,65 million (2008: R19,37 million). This was mainly owing to a R13,11 million increase in average interest rate DVaR from increased client trading activity and portfolio positioning in line with slowing economic conditions and monetary policy easing.

Absa Capital trading book DVaR: Summary table

	Year ended 31 December 2009			As at 31 December 2009	Year ended 31 December 2008			As at 31 December 2008
	Average Rm	**High[1] Rm**	**Low[1] Rm**	**2009 Rm**	Average Rm	High[1] Rm	Low[1] Rm	2008 Rm
Interest rate risk[2]	**23,96**	**38,85**	**10,90**	**18,10**	10,85	21,55	2,24	12,41
Foreign exchange risk	**12,09**	**42,01**	**0,61**	**2,60**	8,40	36,25	0,29	3,15
Equity risk	**10,91**	**27,69**	**6,53**	**10,96**	10,83	21,15	5,74	16,94
Commodity risk	**0,59**	**3,00**	**0,01**	**0,69**	0,75	2,72	0,02	0,03
Diversification effect	**(15,90)**	**n/a**	**n/a**	**(9,27)**	(11,46)	n/a	n/a	(7,98)
Total DVaR[3]	**31,65**	**56,44**	**15,36**	**23,08**	19,37	37,47	7,36	24,55

Notes

[1] *The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted from the above table.*

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

[3] *The total value at risk over a 10-day holding period at a 99% confidence level as at the statement of financial position date was R118,52 million (2008: R114,66 million).*

59. Market risk *(continued)*

59.3 Interest rate risk in the banking book

Interest rate risk is the risk that the Group's financial position may be adversely affected as a result of changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, as well as from certain structural exposures within the Group's statement of financial position, mainly due to repricing timing differences between assets, liabilities and equity. These risks impact both the earnings and the economic value of the Group.

The Group's objective for management of interest rate risk in the banking book is to ensure a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle. This is achieved by hedging material exposures with the external market. A limits framework exists to ensure that retained risk remains within approved appetite.

Risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Group's interest rate risk exposure within limits. Where possible, hedge accounting is applied to derivatives that are used to hedge interest rate risk in the banking book. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules as stipulated in the Group's accounting policies are followed.

As part of Group Treasury's statement of financial position management role, interest rate exposures arising from the repricing mismatches of assets and liabilities in the domestic banking book are transferred from the businesses to Group Treasury through matched funds transfer pricing. These positions are aggregated and the net exposure is hedged with the market via Absa Capital. Mainly owing to timing considerations, interest rate risk can arise when some of the net position stays with Group Treasury.

Structural interest rate risk arises from the variability of income from non-interest-bearing products, managed variable rate products and the Group's equity, and is managed by Group Treasury.

Interest rate risk also arises in each of the African subsidiary treasuries in the course of statement of financial position management and facilitating customer activity. The risk is managed by local treasury functions subject to modest risk limits and other controls.

59.3.1 Risk measurement

Annual earnings at risk (AEaR) measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks, yield curve twists and inversions as appropriate.

Structural balances are typically hedged using a portfolio of swaps where the maturity is based on the assumed stability of the underlying balance. The AEaR calculation takes into account both the underlying structural balance and the hedges.

Other complementary techniques used to measure and control non-traded interest rate risk include repricing gaps, daily value at risk, economic value of equity sensitivity and stress testing.

59.3.2 Repricing profile

The repricing profile of the Group's domestic and Africa subsidiary bank books is depicted in the table to follow. Instruments are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets according to management's judgement and analysis, based on the most likely repricing behaviour. For example, retail deposits are repayable on demand or at short notice, but form a stable base for the Group's operations and liquidity needs because of the broad customer base (numerically and by depositor type).

The repricing profile shows that the consolidated banking book remains asset-sensitive, or positively gapped, as interest-earning assets reprice sooner than interest-paying liabilities, before and after derivative hedging activities. Thus, future net interest income remains vulnerable to a decrease in market interest rates. Asset-sensitivity, as represented by the cumulative 12-month interest rate gap, showed a small increase from 2008 to 2009.

During 2008, the Group completed the hedging build phase for its structural products and equity by increasing its receive fixed/pay floating swaps. The structural hedging programme contributes to interest rate mismatch margin stability over an interest rate cycle. The programme was maintained throughout 2009, within acceptable deviation limits set in line with approved appetite.

59. Market risk *(continued)*

59.3 Interest rate risk in the banking book *(continued)*

59.3.2 Repricing profile *(continued)*

Expected repricing profile at the statement of financial position date

	31 December 2009			
	On demand – 3 months Rm	**4 – 6 months Rm**	**7 – 12 months Rm**	**Over 12 months Rm**
Domestic bank book[1]				
Interest rate sensitivity gap	**138 427**	**(36 726)**	**(37 867)**	**(34 183)**
Derivatives[2]	**(112 850)**	**31 191**	**27 194**	**54 466**
Net interest rate sensitivity gap	**25 577**	**(5 535)**	**(10 673)**	**20 283**
Cumulative interest rate gap	**25 577**	**20 042**	**9 369**	**29 652**
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	**3,8**	**3,0**	**1,4**	**4,4**
Foreign subsidiary bank books[3]				
Cumulative interest rate gap	**602**	**207**	**(400)**	**(133)**
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	**6,2**	**2,1**	**(4,2)**	**(1,4)**
Total				
Cumulative interest rate gap	**26 179**	**20 249**	**8 969**	**29 519**
Cumulative gap as a percentage of the Group's total assets (%)	**3,6**	**2,8**	**1,2**	**4,1**

	31 December 2008			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	131 453	(32 568)	(36 442)	(35 859)
Derivatives[2]	(114 007)	19 646	40 522	53 839
Net interest rate sensitivity gap	17 446	(12 922)	4 080	17 980
Cumulative interest rate gap	17 446	4 524	8 604	26 584
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	2,4	0,6	1,2	3,6
Foreign subsidiary bank books[3]				
Cumulative interest rate gap	515	285	(127)	166
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	4,6	2,6	(1,1)	1,5
Total				
Cumulative interest rate gap	17 961	4 809	8 477	26 750
Cumulative gap as a percentage of the Group's total assets (%)	2,3	0,6	1,1	3,5

Notes

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

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

[3]*Includes National Bank of Commerce (Tanzania) and Barclays Bank Mozambique S.A.*

59. Market risk *(continued)*

59.3 Interest rate risk in the banking book *(continued)*

59.3.3 Sensitivity analysis – Impact on net interest income

The table below shows the annual earnings at risk in the Group's domestic and Africa subsidiaries' bank books for 100 and 200 basis point (bps) up and down movements in interest rates. Assuming no management action in response to interest rate movements, a hypothetical immediate and sustained parallel decrease of 100 basis points in all interest rates would result in a pretax reduction in projected 12-month net interest income of R375 million. A similar increase would result in an increase in projected 12-month net interest income of R403 million.

Annual earnings at risk for a 100 and 200 basis point (bps) change in interest rates

	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
As at 31 December 2009				
Domestic bank book[1] (Rm)	**(736)**	**(367)**	**395**	**805**
Percentage of the relevant net interest income (%)	**(3,7)**	**(1,8)**	**2,0**	**4,0**
Foreign subsidiary bank books[2] (Rm)	**(16)**	**(8)**	**8**	**16**
Percentage of the relevant net interest income (%)	**(1,9)**	**(1,0)**	**1,0**	**1,9**
Total (Rm)	**(752)**	**(375)**	**403**	**821**
Percentage of the Group's net interest income (%)	**(3,4)**	**(1,7)**	**1,8**	**3,8**
Percentage of the Group's equity (%)	**(1,3)**	**(0,7)**	**0,7**	**1,5**
As at 31 December 2008				
Domestic bank book[1] (Rm)	(744)	(393)	355	666
Percentage of the relevant net interest income (%)	(3,6)	(1,9)	1,7	3,2
Foreign subsidiary bank books[2] (Rm)	(5)	(2)	2	5
Percentage of the relevant net interest income (%)	(0,6)	(0,3)	0,3	0,6
Total (Rm)	(749)	(395)	357	671
Percentage of the Group's net interest income[3] (%)	(3,4)	(1,8)	1,6	3,0
Percentage of the Group's equity[3] (%)	(1,4)	(0,7)	0,7	1,3

Notes

[1]*Includes Absa Bank domestic banking book, which includes exposures held in the Absa Capital banking book.*
[2]*Includes National Bank of Commerce (Tanzania) and Barclays Bank Mozambique S.A.*
[3]*Restated 31 December 2008 net interest income number had a negligible impact on reported 2008 sensitivity numbers.*

The Group's banking book exposure to non-ZAR interest rates remained small for both reporting dates. African subsidiaries contribute around 2% of the total net interest income sensitivity for both reporting dates.

59.3.4 Sensitivity analysis – impact on equity

Interest rate changes affect equity (capital) in the following three ways:

- Higher or lower profit after tax resulting from higher or lower net interest income.
- Higher or lower available-for-sale reserves reflecting higher or lower fair values of available-for-sale financial instruments.
- Higher or lower values of derivatives held in the cash flow hedging reserve.

The pretax effect from net interest income sensitivity is reported in note 59.3.3. The effect of taxation can be estimated using the tax rate of 28% (2008: 28%).

The equity sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and available-for-sale portfolios which are marked-to-market through reserves. The impact on equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and derivatives designated as cash flow hedges, for an assumed change in interest rates.

59. Market risk *(continued)*

59.3 Interest rate risk in the banking book *(continued)*

59.3.4 Sensitivity analysis – impact on equity *(continued)*

The decreased sensitivity of cash flow hedge reserves from 2008 to 2009 is due to the change in fixed rate exposure experienced at this point of the interest rate cycle compared to the previous year.

The increased sensitivity of available-for-sale reserves from 2008 to 2009 is due to additional statutory liquid assets purchased during the year, classified as available-for-sale.

Sensitivity of reserves to interest rate movements

	2009			2008		
	Impact on equity as at 31 December Rm	**Maximum impact[1] Rm**	**Minimum impact[1] Rm**	Impact on equity as at 31 December Rm	Maximum impact[1] Rm	Minimum impact[1] Rm
+ 100 basis point parallel move in all yield curves						
Available-for-sale reserve	**(580)**	**(580)**	**(177)**	(100)	(168)	(64)
Cash flow hedging reserve	**(1 476)**	**(1 670)**	**(1 471)**	(1 596)	(1 598)	(899)
Total	**(2 056)**	**(2 056)**	**(1 754)**	(1 696)	(1 696)	(1 002)
As a percentage of equity at 31 December (%)	**(3,6)**	**(3,6)**	**(3,1)**	(3,2)	(3,2)	(1,9)
– 100 basis point parallel move in all yield curves						
Available-for-sale reserve	**580**	**580**	**177**	100	168	64
Cash flow hedging reserve	**1 476**	**1 670**	**1 471**	1 596	1 598	899
Total	**2 056**	**2 056**	**1 754**	1 696	1 696	1 002
As a percentage of equity at 31 December (%)	**3,6**	**3,6**	**3,1**	3,2	3,2	1,9

Note

[1] *The maximum and minimum impacts reported for each reserve category did not necessarily occur for the same month as the maximum and minimum impact reported for the total.*

59. Market risk *(continued)*

59.4 Interest return on average balances

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

	Group					
	2009			2008[1]		
	Average balance Rm	Average rate %	Interest income/ (expense) Rm	Average balance Rm	Average rate %	Interest income/ (expense) Rm
Assets						
Cash, cash balances and balances with central banks	**1 741**	**8,90**	**155**	1 869	14,87	278
Statutory liquid asset portfolio	**30 409**	**8,97**	**2 728**	25 363	11,47	2 909
Loans and advances to customers and banks	**537 655**	**11,51**	**61 868**	536 960	13,54	72 713
Investments	**14 256**	**3,88**	**553**	15 437	4,41	680
Other interest[2]	**—**	**—**	**(57)**	—	—	(320)
Interest-earning assets	**584 061**	**11,17**	**65 247**	579 629	13,16	76 260
Non-interest-earning assets	**165 431**	**—**	**—**	143 760	—	—
Total assets	**749 492**	**8,71**	**65 247**	723 389	10,55	76 260
Liabilities						
Deposits due to customers and from banks	**412 749**	**(6,31)**	**(26 065)**	407 404	(8,24)	(33 588)
Debt securities in issue	**174 622**	**(9,33)**	**(16 293)**	158 279	(11,94)	(18 905)
Borrowed funds	**12 069**	**(10,31)**	**(1 244)**	11 064	(12,86)	(1 423)
Other interest[2]	**—**	**—**	**209**	—	—	(238)
Interest-bearing liabilities	**599 440**	**(7,24)**	**(43 393)**	576 747	(9,39)	(54 154)
Non-interest-bearing liabilities	**85 667**	**—**	**—**	95 142	—	—
Total liabilities	**685 107**	**(6,33)**	**(43 393)**	671 889	(8,06)	(54 154)
Equity						
Capital and reserves						
Attributable to ordinary equity holders of the Group:						
Share capital	**1 280**	**—**	**—**	1 381	—	—
Share premium	**3 314**	**—**	**—**	2 338	—	—
Other reserves	**2 163**	**—**	**—**	279	—	—
Retained earnings	**51 774**	**—**	**—**	42 324	—	—
	58 531	**—**	**—**	46 322	—	—
Minority interest – ordinary shares	**1 210**	**—**	**—**	539	—	—
Minority interest – preference shares	**4 644**	**—**	**—**	4 639	—	—
Total equity	**64 385**	**—**	**—**	51 500	—	—
Total equity and liabilities	**749 492**	**(5,79)**	**(43 393)**	723 389	(7,49)	(54 154)
Net interest margin on average interest-bearing assets		**3,74**			3,81	
Net interest margin on average assets		**2,92**			3,06	

Daily averages have been used to calculate the average balances.

Notes

[1]*Comparatives have been reclassified and restated, refer to note 1.26.*

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

59. Market risk *(continued)*

59.5 Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

59.5.1 Currency concentration

The tables to follow summarise the Group's assets and liabilities at carrying amounts, categorised by currency, as at the statement of financial position date.

	Group					
	2009					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	17 860	77	—	3	2 657	20 597
Statutory liquid asset portfolio	33 943	—	—	—	—	33 943
Loans and advances to banks	22 536	11 368	1 083	611	434	36 032
Trading portfolio assets	53 298	3 246	409	1 233	3 593	61 779
Hedging portfolio assets	(3 737)	(191)	—	6 486	—	2 558
Other financial assets	15 421	50	17	—	132	15 620
Loans and advances to customers	493 182	6 475	39	184	3 750	503 630
Reinsurance assets	499	48	172	—	—	719
Investments	27 163	1 623	169	177	432	29 564
Financial assets	660 165	22 696	1 889	8 694	10 998	704 442
Non-financial assets	n/a	n/a	n/a	n/a	n/a	13 298
Total assets						717 740
Liabilities						
Deposits from banks	29 981	9 103	290	66	176	39 616
Trading portfolio liabilities	31 953	13 487	729	1 046	6 507	53 722
Hedging portfolio liabilities	527	—	38	—	—	565
Other financial liabilities	9 648	136	5	—	632	10 421
Deposits due to customers	339 347	3 750	104	796	6 760	350 757
Debt securities in issue	165 442	—	—	5 934	—	171 376
Liabilities under investment contracts	11 648	475	323	—	—	12 446
Policyholder liabilities under insurance contracts	3 136	—	—	—	—	3 136
Borrowed funds	13 530	—	—	—	—	13 530
Financial liabilities	605 212	26 951	1 489	7 842	14 075	655 569
Non-financial liabilities	n/a	n/a	n/a	n/a	n/a	5 681
Total liabilities						661 250
Equity						56 490
Total equity and liabilities						717 740
Gross currency position of financial assets and liabilities	n/a	(4 255)	400	852	(3 077)	(6 080)
Credit commitments						
Financial guarantee contracts	531	259	—	—	217	1 007
Capital commitments	928	—	—	—	—	928
Contingencies	53 914	557	—	46	—	54 517

Note

All non-monetary items are classified based on the location of the asset, or where it will most reasonably be realised.

59. Market risk *(continued)*

59.5 Foreign exchange risk *(continued)*

59.5.1 Currency concentration *(continued)*

	Group 2008					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	22 304	78	1	6	2 439	24 828
Statutory liquid asset portfolio	33 043	—	—	—	—	33 043
Loans and advances to banks	33 024	5 511	3 957	1 705	465	44 662
Trading portfolio assets	43 946	32 297	340	1 657	639	78 879
Hedging portfolio assets	(3 218)	(1 815)	—	8 172	—	3 139
Other financial assets	17 275	9	10	—	105	17 399
Loans and advances to customers	515 560	11 864	581	19	4 120	532 144
Reinsurance assets	664	134	105	—	—	903
Investments	24 990	582	171	46	1 191	26 980
Financial assets	687 588	48 660	5 165	11 605	8 959	761 977
Non-financial assets	n/a	n/a	n/a	n/a	n/a	12 180
Total assets						774 157
Liabilities						
Deposits from banks	34 815	7 033	4 299	8 032	454	54 633
Trading portfolio liabilities	49 123	19 635	2 165	1 302	512	72 737
Hedging portfolio liabilities	1 080	—	—	—	—	1 080
Other financial liabilities	9 700	200	13	8	1 247	11 168
Deposits due to customers	371 527	3 690	28	668	6 368	382 281
Debt securities in issue	157 941	—	—	7 959	—	165 900
Liabilities under investment contracts	9 628	644	105	—	—	10 377
Policyholder liabilities under insurance contracts	3 076	—	—	—	—	3 076
Borrowed funds	12 296	—	—	—	—	12 296
Financial liabilities	649 186	31 202	6 610	17 969	8 581	713 548
Non-financial liabilities	n/a	n/a	n/a	n/a	n/a	7 316
Total liabilities						720 864
Equity						53 293
Total equity and liabilities						774 157
Gross currency position of financial assets and liabilities	n/a	17 458	(1 445)	(6 364)	378	10 027
Credit commitments						
Financial guarantee contracts	1 001	—	—	—	—	1 001
Capital commitments	703	—	—	—	—	703
Contingencies	29 753	—	—	—	—	29 753

Note

All non-monetary items are classified based on the location of the asset, or where it will most reasonably be realised.

59. Market risk *(continued)*

59.5 Foreign exchange risk *(continued)*

59.5.2 Transactional and translational foreign exchange risk

The Group is exposed to two sources of foreign exchange risk:

- Transactional foreign exchange risk: Transactional foreign exchange exposures arise as a result of banking assets and liabilities which are not denominated in the functional currency of the transacting entity. The Group's foreign exchange risk management policy does not allow material open positions to be taken outside the Absa Capital trading book. Foreign exchange risk in the trading book is managed by Absa Capital and monitored primarily via open position and DVaR limits. In accordance with this policy, there were no material net currency exposures outside the Absa Capital trading book at either 31 December 2009 or 2008 that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income.
- Translational foreign exchange risk: The Group has various investments in foreign subsidiaries or associates which have functional currencies other than the South African rand (ZAR). Translational foreign exchange risk is the risk that exchange rate fluctuations will create volatility in the rand value of these net investments. This may in turn impact the statement of comprehensive income, equity or capital ratios.

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

  - a higher or lower profit after tax, arising from changes in the exchange rates used to translate items in the consolidated statement of comprehensive income;
  - a higher or lower currency translation reserve within equity, representing the retranslation of the net assets of non-ZAR entities, arising from changes in the exchange rates used to translate the net assets at the statement of financial position date, net of the effects of any hedges of net investments; and
  - changes in the value of non-monetary available-for-sale investments denominated in foreign currencies impacting the available-for-sale reserve.

The main functional currencies in which the Group's business is transacted are ZAR and, on a lesser scale, US dollar, sterling, euro, Tanzanian shilling and Mozambican metical. Translational foreign currency risk can be mitigated through hedging using for example forward foreign exchange contracts, or by financing with borrowings in the same currency as the functional currency involved.

The Group's policy is to economically hedge foreign currency net investments, where practical, after taking consideration of market liquidity, cost of hedging, the materiality of the exposure and exchange control regulations. Based on these considerations, the Group does not currently actively hedge foreign currency net investments, but the risk is monitored regularly to consider the need for mitigating actions towards minimising material fluctuations.

59.6 Equity investment risk

Note 12 provides a breakdown of investments. An analysis is provided of the sensitivity of investments reported in note 12 to equity price/value movements.

The foreign currency concentration analysis for investments is indicated in note 59.5. For those investments held in the banking books of the Group, the interest rate risk sensitivity is reported in note 59.3.

The MRC regularly reviews all market risks relating to investments in line with the defined risk appetite of the Group, with regular reports to the GRCMC.

59.6.1 Equity risk relating to the Group's investments, excluding insurance activities' investments

The main equity investment portfolios are the private equity portfolio managed by Absa Capital and the commercial property finance investment portfolios managed by Absa Corporate and Business Bank (ACBB). These investments are longer-term investments held for non-trading purposes, and are managed in terms of the new ventures and asset framework in accordance with the purpose and strategic benefits of such investments, rather than on mark-to-market considerations only. The Group Investment Committee (GIC) considers, approves and monitors all investments or divestments of the Group in accordance with its terms of reference, the new ventures and asset framework, the directives of the Group Chief Executive and the directives of the board.

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. The table in note 59.6.3 illustrates risk through the sensitivity impact on pretax profit and loss and equity for a reasonably possible 5% variance in equity prices based on the accounting treatment of these investments.

59.6.2 Equity and interest rate risk relating to insurance activities' investments

For the policyholder portfolio it is policy where possible to follow a matched investment strategy in terms of assets backing non-linked policyholder liabilities.

The shareholders' investments are susceptible to equity market fluctuations. To manage the equity risk, a hedge structure has been implemented for the equity portfolio. In terms of this structure, protection is obtained to ensure that the possibility of negative returns is reduced for the financial year.

The following table presents a summary of the estimated sensitivity of investment balances (listed equities, unlisted equities and money market assets) for movements in market values.

59. Market risk *(continued)*

59.6.3 Sensitivity analysis – impact on profit and loss and equity

	As at 31 December 2009			As at 31 December 2008		
	Fair value Rm	**Impact on profit and loss Rm**	**Impact on equity Rm**	Fair value Rm	Impact on profit and loss Rm	Impact on equity Rm
Group listed and unlisted equity investments, excluding insurance activities' investments[1]	**7 143**			6 842		
5% increase in equity values		**345**	**12**		299	43
5% decrease in equity values		**(345)**	**(12)**		(299)	(43)
Insurance activities' listed and unlisted equity investments[2,3]	**2 131**			1 709		
5% increase in equity values		**77**			68	
5% decrease in equity values		**(47)**			(53)	

Notes

[1]*2008 values were restated in accordance with the broader coverage achieved under insurance activities' investments. This amounted to a fair value decrease of R562 million and subsequently a decrease in the sensitivity relating to impact on profit and loss.*

[2]*The above sensitivities were only calculated on shareholder and policy holder assets and exclude all assets linked to investment contracts due to the fact that these assets and liabilities are 100% matched.*

[3]*Hedges are in place to reduce downside market risk on equities. This assists to hedge downside risk on equities if the market values decrease with more than 15% and will result in counterparties sharing in positive returns if the market values increase with between 16,3% and 25,0% (2008: between 16,3% and 25,0%).*

60. Liquidity risk

60.1 Introduction

Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Liquidity risk refers to a bank's inability to continue operating as a going concern due to a lack of funding. The appropriate and efficient management of liquidity is of utmost importance to the Group in ensuring the confidence of the financial markets and to support the Group's business plan.

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

- all stakeholders in the Group are protected;
- financial market confidence is maintained at all times; and
- liquidity risk is managed in line with regulatory liquidity requirements.

Liquidity management can be defined as the ability to meet the Group's commitments as they fall due, whilst maintaining market confidence in the institution.

60.2 Liquidity risk management

Group Treasury is responsible for the management of liquidity risk on behalf of the Group. A key focus for Group Treasury is the institutionalisation of prudent liquidity risk management practices at all levels of business across the Group.

Liquidity risk is managed according to the Liquidity Risk Control Framework and Policy which sets out the framework for responsibilities, processes, reporting and assurance that supports the management of liquidity risk. The Liquidity Risk Control Framework and Policy is reviewed at least annually by the MRC and approved by the GRCMC. Liquidity Risk Control Framework and Policy incorporates the Contingency Funding and Liquidity Plan (CFLP), which is designed to manage and mitigate the effects of stress liquidity events.

Group Treasury applies an overall statement of financial position approach to managing liquidity risk, by consolidating all sources and applications of liquidity. In managing liquidity risk, the Group aims to maintain a balance between liquidity and profitability (cost of funding). In order to effectively manage liquidity risk, the Group is required to measure, monitor and manage on-statement of financial position and off-statement of financial position liquidity mismatch risk. In managing liquidity risk, cognisance is taken of business-as-usual liquidity conditions, stress liquidity scenarios, liquidity risk guidelines and limits as set by the GRCMC, regulatory requirements and requirements in terms of best practice liquidity contingency planning.

Liquidity risk relating to insurance activities is mainly addressed by ensuring that appropriate assets back insurance liabilities and that it has significant and sufficient liquid resources.

Liquidity risk is managed by maintaining sufficient liquid assets or assets that can be translated into liquid assets at short notice and without capital loss to meet cash flow requirements.

60. Liquidity risk *(continued)*

60.2 Liquidity risk management *(continued)*

Business-as-usual liquidity risk management

Business-as-usual liquidity management refers to the management of the Group's inward and outward of cash flows experienced in the course of conducting business. These needs in respect of the normal cash flow include, for example, meeting unexpected surges in loan demand or deposit withdrawals.

The business-as-usual environment tends to result in fairly high probability, low severity liquidity events and requires the balancing of the Group's day-to-day cash needs.

The Group's approach to managing business-as-usual liquidity needs focuses on a number of key areas including:

- the continuous management of net anticipated cash outflows (between assets and liabilities) within approved cash outflow limits set for periods of one day, one week and monthly out to one year;
- the active daily management of the funding and liquidity profile taking cognisance of the board-approved liquidity risk metrics designed to achieve the Group's business-as-usual liquidity risk tolerance, and position the Group to deal with stress liquidity events;
- the maintenance of a portfolio of highly liquid assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- the active participation in local money and capital markets required to support day-to-day funding needed to refinance maturities, meet customer withdraws and support growth in advances;
- the monitoring and managing of liquidity costs; and
- the ongoing assessment and evaluation of various funding sources designed to grow and diversify the Group's funding base in order to achieve an optimal funding profile and sound liquidity risk management.

The key liquidity risk metrics used to manage the Group's business-as-usual liquidity risk profile within the board-approved risk tolerance include the short-, medium- and long-term funding ratios, short-term maturity mismatches (at a contractual and behavioural level), cash outflow limits and concentration of deposits.

Stress liquidity risk management

Group Treasury performs liquidity scenario analysis and stress testing on a regular basis in order to assess the adequacy of the Group's stress funding sources, liquidity buffers and contingency funding strategies to meet unexpected outflows arising from Group specific, systemic and market stress events. Scenario analysis and stress testing encompasses a range of realistic adverse events, that whilst remote could have a material impact on the liquidity of the Group's operations. When analysing the Group's available sources of stress funding in relation to stress funding requirements, Group Treasury takes cognisance of market liquidity risk, which could impact the Group's ability to raise funding under a specific stress scenario.

Through scenario analysis and stress testing the Group aims to manage and mitigate liquidity risk by:

- determining, evaluating and testing the impact of adverse liquidity scenarios;
- identifying opportunities for rapid and effective responses to crisis situations;
- aiding management in planning for crisis avoidance or reducing the severity of a crisis; and
- setting liquidity limits, liquidity buffers and formulating a funding strategy designed to minimise liquidity risk.

Group Treasury's overall objective is to ensure that, under a moderate to high liquidity stress event, the Group's stress funding sources and liquidity buffers exceed the estimated stress funding requirements for a period of at least 30 days.

A detailed CFLP has been designed to protect depositors, creditors and shareholders under adverse liquidity situations. The contingency plan considers early warning indicators and sets out the crisis response strategy addressing sources of stress funding, strategies for crisis avoidance or minimisation and the internal/external communication strategy to be rolled out with key stakeholders.

60.3 Liquidity risk measurement

Monitoring and reporting of liquidity risk takes the form of net cash flow measurement and projection for the next day, next week and each month out to one year.

In addition to cash flow management, Group Treasury also monitors its money market shortage participation, the interbank funding ratio, short-, medium and long-term funding ratios, short-term contractual and behavioural maturity mismatches, as well as its off-statement of financial position liquidity risk. Sources of liquidity are regularly reviewed to maintain a wide diversification by provider, product and term.

Group Treasury monitors and manages the Group's liquidity position to ensure full regulatory compliance in respect of liquidity risk management and reporting.

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

60. Liquidity risk *(continued)*

60.3 Liquidity risk measurement *(continued)*

60.3.1 Liquidity risk measurement – discounted

	Group				
	2009				
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	17 324	2 424	849	—	20 597
Statutory liquid asset portfolio	—	10 383	11 866	11 694	33 943
Loans and advances to banks	8 627	6 845	18 881	1 679	36 032
Trading portfolio assets	61 779	—	—	—	61 779
Hedging portfolio assets	—	1 298	1 172	88	2 558
Other financial assets	5 658	9 955	7	—	15 620
Loans and advances to customers	122 022	30 858	68 756	281 994	503 630
Reinsurance assets	50	431	187	51	719
Investments	724	9 990	14 890	3 960	29 564
Financial assets	216 184	72 184	116 608	299 466	704 442
Non-financial assets	n/a	n/a	n/a	n/a	13 298
Total assets					717 740
Liabilities					
Deposits from banks	3 758	31 863	3 120	875	39 616
Trading portfolio liabilities	53 722	—	—	—	53 722
Hedging portfolio liabilities	—	172	305	88	565
Other financial liabilities	7 675	2 116	620	10	10 421
Deposits due to customers	223 297	106 545	8 345	12 570	350 757
Debt securities in issue	411	140 888	24 911	5 166	171 376
Liabilities under investment contracts	—	2 502	9 465	479	12 446
Policyholder liabilities under insurance contracts	—	1 516	2 690	(1 070)	3 136
Borrowed funds	—	2 082	8 082	3 366	13 530
Financial liabilities	288 863	287 684	57 538	21 484	655 569
Non-financial liabilities	n/a	n/a	n/a	n/a	5 681
Total liabilities					661 250
Equity					56 490
Total equity and liabilities					717 740
Net liquidity position of financial assets and liabilities	(72 679)	(215 500)	59 070	277 982	48 873

60. Liquidity risk *(continued)*

60.3 Liquidity risk measurement *(continued)*

60.3.1 Liquidity risk measurement – discounted *(continued)*

	Group 2008				
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	18 537	3 170	3 121	—	24 828
Statutory liquid asset portfolio	21	14 481	1 665	16 876	33 043
Loans and advances to banks	7 098	11 949	22 448	3 167	44 662
Trading portfolio assets	78 879	—	—	—	78 879
Hedging portfolio assets	—	281	2 729	129	3 139
Other financial assets	15 959	1 322	—	118	17 399
Loans and advances to customers	115 495	54 656	90 610	271 383	532 144
Reinsurance assets	176	172	462	93	903
Investments	443	6 604	14 758	5 175	26 980
Financial assets	236 608	92 635	135 793	296 941	761 977
Non-financial assets	n/a	n/a	n/a	n/a	12 180
Total assets					774 157
Liabilities					
Deposits from banks	7 910	46 484	189	50	54 633
Trading portfolio liabilities	72 737	—	—	—	72 737
Hedging portfolio liabilities	35	250	281	514	1 080
Other financial liabilities	9 345	837	740	246	11 168
Deposits due to customers	222 653	136 459	17 856	5 313	382 281
Debt securities in issue	104	127 547	32 681	5 568	165 900
Liabilities under investment contracts	—	1 633	7 875	869	10 377
Policyholder liabilities under insurance contracts	—	1 288	(847)	2 635	3 076
Borrowed funds	—	3 645	4 946	3 705	12 296
Financial liabilities	312 784	318 143	63 721	18 900	713 548
Non-financial liabilities	n/a	n/a	n/a	n/a	7 316
Total liabilities					720 864
Equity					53 293
Total equity and liabilities					774 157
Net liquidity position of financial assets and liabilities	(76 176)	(225 508)	72 072	278 041	48 429

60. Liquidity risk *(continued)*

60.4 Contractual maturity of financial liabilities – undiscounted basis

The table below reflects the cash flows payable by the Group under financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Group					
	2009					
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Deposits from banks	**3 758**	**32 142**	**3 146**	**875**	**(305)**	**39 616**
Trading portfolio liabilities	**53 722**	**—**	**—**	**—**	**—**	**53 722**
Hedging portfolio liabilities	**—**	**176**	**389**	**451**	**(451)**	**565**
Other financial liabilities	**7 675**	**2 233**	**801**	**—**	**(288)**	**10 421**
Deposits due to customers	**223 297**	**110 258**	**9 822**	**22 966**	**(15 586)**	**350 757**
Debt securities in issue	**411**	**147 417**	**33 700**	**11 032**	**(21 184)**	**171 376**
Liabilities under investment contracts	**—**	**2 853**	**10 588**	**1 716**	**(2 711)**	**12 446**
Borrowed funds	**—**	**3 775**	**12 012**	**6 764**	**(9 021)**	**13 530**
Total liabilities	**288 863**	**298 854**	**70 458**	**43 804**	**(49 546)**	**652 433**
Off-statement of financial position						
Financial guarantee contracts	**1 007**	**—**	**—**	**—**	**—**	**1 007**
Loan commitments	**54 517**	**—**	**—**	**—**	**—**	**54 517**

	2008					
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Deposits from banks	7 914	46 746	256	50	(333)	54 633
Trading portfolio liabilities	72 737	—	—	—	—	72 737
Hedging portfolio liabilities	35	252	340	1 455	(1 002)	1 080
Other financial liabilities	8 512	1 105	1 664	293	(406)	11 168
Deposits due to customers	222 951	143 422	26 352	20 449	(30 893)	382 281
Debt securities in issue	104	136 253	39 716	16 987	(27 160)	165 900
Liabilities under investment contracts	—	1 934	8 588	1 048	(1 193)	10 377
Borrowed funds	—	4 349	6 149	4 060	(2 262)	12 296
Total liabilities	312 253	334 061	83 065	44 342	(63 249)	710 472
Off-statement of financial position						
Financial guarantee contracts	1 001	—	—	—	—	1 001
Loan commitments	29 753	—	—	—	—	29 753

To manage the liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Group believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

61. Underwriting risk

In the Group, insurance underwriting activities are predominantly undertaken by Absa Life Limited, Absa Insurance Company Limited and Absa idirect Limited, with additional but limited insurance underwriting activities undertaken by Absa Insurance Risk Management Services Limited and Absa Manx Insurance Company Limited.

Underwriting risk is influenced by the type and nature of insurance activities undertaken and includes:

- the risk appetite of Absa Life and Absa Insurance;
- the nature of underwriting exposures involved in the products and services;
- portfolio characteristics; and
- the nature and extent of reinsurance cover.

Underwriting risk consists of life insurance underwriting risk and short-term insurance underwriting risk.

61.1 Short-term insurance underwriting risk

Short-term insurance underwriting risk is the risk associated with the short-term underwriting of fixed and/or moveable assets, accidents, guarantees and liabilities, and can be seen as the risk that the actual results of an insurer are impacted, and differ from expected results relating to assumptions with respect to the frequency and severity of claims.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. Absa Insurance has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

61.1.1 Personal property

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (ie flooding, storms, hail) and their consequences (ie subsidence claims).

These contracts are underwritten by reference to the replacement value of the properties and contents insured. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The Group does not wish to be exposed to any loss from a single risk that would increase the monthly loss ratio by more than a certain percentage, and retentions are set accordingly with reinsurance in place to cover the balance of the risk. A catastrophe reinsurance programme is in place to limit total liability regarding all losses emanating from a single loss event (ie earthquake, major storm and flooding).

61.1.2 Personal lines

The main cause of losses are motor vehicle accidents, theft and hijackings, while the relatively high crime levels are resulting in substantial total losses caused by events such as theft and burglary relating to contents and all risks insurance. Results are mostly affected by frequency.

61.1.3 Commercial and industrial

The portfolio comprises primarily of motor and non-motor sections. A large part of the book is represented by the agricultural crop section.

The main cause of motor losses are motor vehicle accidents, theft and hijackings.

The results of the agriculture portfolio may be affected by weather patterns such as drought, excessive rains and other major weather conditions. The overall results may further be affected by commodity prices, the exchange rate and overall conditions affecting agriculture. The book on both assets and crop insurance is growing, which has a positive effect on the spread of risk.

61.1.4 Niche contracts underwritten by underwriting management agents

Niche contracts include mainly heavy commercial vehicles and warranty contracts. Heavy commercial vehicles are similar in nature to commercial vehicles. Warranties are greatly influenced by the number of direct imports (especially at the lower end of the motor vehicle market), which have a higher cost of repairs as most of the spares need to be imported.

61.1.5 Accident and health

For accident and health-related contracts, an increase in accident behaviour (such as an increase in crime rate or worsening of driver behaviour) can give rise to an increase in frequency. An increase in terrorism may increase the frequency of claims on travel insurance. For the most part, all accident and health premiums are collected on a monthly basis and Absa Insurance has the right to increase premiums, provided notification is given to the customer.

61.1.6 Assumptions, changes in assumptions and sensitivities

Process used to decide on assumptions

Claim provision

Absa Insurance uses a case-by-case method to quantify its outstanding claims provisions. Individual estimates are obtained from skilled claims assessors and reviewed as and when new information regarding a claim becomes available. For each class of business, the claims provision includes the cost of indemnity (expected claim cost) and the associated handling costs. For each contract, the estimated claims provision is compared to the maximum loss payable under the terms of the policy and reduced to such amount if lower than the estimated loss.

61. Underwriting risk *(continued)*

61.1 Short-term insurance underwriting risk *(continued)*

61.1.6 Assumptions, changes in assumptions and sensitivities *(continued)*

IBNR (Incurred but not reported provision)

The IBNR provision, includes an amount for IBNER (incurred but not enough reported, ie where the Outstanding Claims Reserve (OCR) is insufficient). A stochastic reserving model is used to calculate the IBNR for all products, except motor warranty and legal products, where no IBNR is provided due to the nature of the risk and the resultant reporting pattern. For the portion of business where detailed data is available, the IBNR is calculated at financial year-end to have a 75% (2008: 85%) probability of being sufficient to cover actual claims still to be reported. Where data is not detailed enough, the IBNR is set to have a 95% (2008: 95%) probability of being sufficient. The change from an 85% to a 75% sufficiency level resulted in a R7 million reduction in IBNR.

Changes in assumptions

IBNR and outstanding claims reserves

Absa Insurance's IBNR and outstanding claims provision calculation takes into account past data, trends and recent experience in claims processing and loss ratios. This, together with changes in the underlying risk profile of the business, impacts the determination of the final balance.

Sensitivity analysis

Absa Insurance Company's IBNR provision is determined by taking into account various factors per class of business underwritten, including:

- the actual and expected claims experience;
- the actual and expected reporting patterns; and
- premium volumes.

These factors affect the sensitivity of the IBNR and to ensure provision adequacy, a minimum sufficiency level of 75% is maintained.

61.2 Life insurance underwriting risk

Life insurance underwriting risk is the risk associated with Absa Life Limited insuring the lives and/or health of individuals or groups of individuals.

The following unique risks inherent in a life insurance company which contribute to life insurance underwriting risk are considered in the risk management process:

- Individual risk is the risk inherent in a specific individual or population group; this can also be referred to as concentration risk.
- Group risk is the risk an insurance company is exposed to in respect of a concentration of employer groups, such as mining companies.
- Selection criteria of the company can expose the insurer to risk if it varies from the rest of the market, for example the waiver of HIV tests.
- Skewed exposure to individual risk is the risk that an individual may have a higher risk profile than that of the average individual insured.
- Specialised risk is the risk that the company takes on specific risks in respect of which it does not have the expertise required to evaluate the risk, eg an individual with asthma, or a special type of occupation.

Life insurance underwriting risk is managed during the underwriting process in the following manner:

- Annual reporting by the statutory actuary on the actuarial soundness of the premium rates in use and the profitability of the business, taking into consideration the reasonable benefit expectation of policyholders; all new rate tables are approved and authorised by the statutory actuary prior to being issued. An independent actuary appointed by the board of the life insurance company and approved by the Financial Services Board performs an evaluation of the financial soundness of the life insurance company at least once a year. The actuary, as part of his statutory duties, needs to report to the Registrar on the soundness of product design, pricing, and underwriting criteria and practices.
- Regular investigations into mortality and morbidity experience.
- Evaluation of all applications for risk cover in excess of specified limits by experienced underwriters against established standards.
- Defining of treaty limits where all exposures above a certain amount are reassured.
- Considering catastrophe insurance to protect the company against any catastrophe events.
- Setting guidelines and limits which must be adhered to by individual underwriters.
- Having skilled and experienced underwriting employees.
- Conducting facultative reassurance where individual risks are in excess of the set guidelines or the specific risk falls outside the expertise of the company.
- Conducting HIV tests for individual risks in excess of certain exposures.
- Conducting medical tests for individual risks in excess of certain exposures.
- Utilising reassurance manuals.
- Reviewing requirements and criteria to ensure alignment with the market.
- Ensuring that reassurance treaties cover the same risks which the company bears, and do not exclude specific events, eg terrorism.
- Analysing underwriting results.

Risk is monitored in Absa Life with reference to the actual claims experience, exposure analyses done during annual actuarial valuation, managing the underwriting costs per policy to ensure the right balance between the actual risk exposure and the cost of underwriting and the results of the underwriting process.

61. Underwriting risk *(continued)*

61.2 Life insurance underwriting risk *(continued)*

61.2.1 Expense risk

The Group's liabilities include an allowance for future maintenance and claim expenses on existing policies. This provision is calculated by determining the current level of maintenance and claim expenses per policy, which is then inflated at the assumed expense inflation rate. The Group is exposed to the risk that the per policy expense assumptions or assumed future inflation are too low. The risk is managed in various ways. In setting the per policy expense assumptions, annual expense investigations are conducted based on the most recent operating expenditure incurred in respect of the book of business. The Group's unit costs are monitored on a monthly basis to ensure that it remains within anticipated levels and to identify trends at an early stage. The assumed future inflation rate is based on observable, actual economic indicators.

61.2.2 Lapse risk

For certain lines of business significant expenses are incurred at the outset of a policy in the form of commission and/or underwriting costs. In the case of regular premium policies some time has to elapse before the Group is able to recoup such initial expenses. If a policy lapses before the costs have been recouped it will lead to a loss in respect of that policy. In some cases the Group is able to manage this risk by entering into 'claw-back' arrangements with financial advisors whereby some of the initial commission is paid back should the policy lapse within a certain period. The Group conducts annual investigations into its lapse experience to ensure that pricing and valuation assumptions are appropriate, relevant and in line with experience. The Group also makes additional allowance for higher than expected lapse rates in its liability calculations.

61.2.3 Model and data risk

In calculating its provisions the Group has to model the expected future cash flows from the in-force book of business. Modelling techniques or methodologies might be incorrect or inappropriate for certain classes of business, leading to incorrect projected cash flows and insufficient liabilities. The Group manages this risk by putting the models through rigorous checking procedures to ensure that the cash flows projected by the models are reasonable. External consultants are used to assist with these checks. The Group also ensures that its modelling methodologies are in line with any guidance issued by the Actuarial Society of South Africa (ASSA) or, in the absence of such guidance, with generally accepted actuarial methods. There is a risk that the policy data used to model the liabilities are incorrect or incomplete. This risk is managed by performing various reasonability checks on the data (such as illogical ages or dates of entry) and reconciling the data with both the previous valuation data download (ie a movement analysis) and with the financial statements.

61.2.4 Assumption risk

(a) Change and effect of assumptions since previous valuation

The valuation assumptions might deviate from actual experience in future. Best estimate assumptions are derived by using annual investigations into the demographic experience of the business. Economic assumptions are based on observable, actual economic indicators and are internally consistent. Margins are added to best estimate assumptions to allow for variability. These margins include compulsory margins according to PGN 104 of the ASSA and further discretionary margins where the Statutory Actuary deems it necessary. The effect of changes in assumptions from the previous reporting period is shown below:

	Increase/(decrease) on insurance liabilities	
Change in assumptions	**2009 Rm**	2008 Rm
Economic basis[1]	**(86)**	13
Expense assumptions[2]	**48**	44
Mortality and Aids assumptions[3]	**(16)**	(1)
Morbidity assumptions[4]	**—**	(45)
Lapse assumptions	**12**	(2)

Notes

[1] *The economic basis was changed in line with market movements. The assumptions about the future investment return on assets and future inflation were adjusted to reflect the change in gilt yields, resulting in a 2,0% per annum higher investment return assumption compared to the previous year.*

[2] *The expense assumptions were changed to reflect the result of the most recent expense investigation, conducted in the current year, increasing the liability by R48 million (2008: R44 million increase).*

[3] *The Aids mortality assumptions have remained unchanged since 2008 and are based on the Aids mortality investigation conducted in 2008.*

[4] *Disability and dread disease assumptions remained unchanged since 2008 based on the results of experience investigations conducted in 2009.*

61. Underwriting risk *(continued)*

61.2 Life insurance underwriting risk *(continued)*

61.2.4 Assumption risk *(continued)*

(b) Assumptions

The value of the in-force and new life business is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the best estimate assumptions used in determining the liabilities. These assumptions were based on recent experience investigations. The risk discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from that assumed. The economic assumptions used were as follows (gross of tax where applicable):

	2009 %	2008 %
Risk-free rate return	**9,50**	7,50
Equity return	**13,00**	11,00
Cash return	**7,50**	5,50
Overall investment return	**9,40**	7,40
Risk discount rate	**12,50**	10,50
Expense inflation	**6,00**	4,00

Margins are incorporated into the liabilities in order to mitigate assumption risk. The compulsory margins prescribed by ASSA in PGN 104 and which have been applied in the valuation of liabilities are summarised in the table below:

Assumption	**Margin**
Mortality	7,5% (increase for assurance) (2008: 7,5%)
Morbidity	10,0% (2008: 10,0%)
Lapse	25,0% (eg if the best estimate is 10,0%, the margin is 2,5%) (2008: 25,0%)
Surrenders	10,0% (increase or decrease, depending on which alternative increases liabilities) (2008: 10,0%)
Expenses	10,0% (2008: 10,0%)
Expense inflation	10,0% (of estimated escalation rate) (2008:10,0%)
Charge against investment return	25 basis points in the management fee or an equivalent asset-based or investment performance-based margin

61.2.5 Sensitivity analysis

The results of the sensitivities in the table below show that the assumptions regarding future mortality and morbidity experience have a major impact on the size of the actuarial liability. This is to be expected given the nature of the business (risk insurance). This implies that future developments in mortality and morbidity experience, whether positive or negative, will impact on profits in future years. These are of course the areas that are influenced by Aids. Next in importance is the impact of investment returns. Although a significant portion of the book, such as credit life, is short term, the mortgage protection business increases the duration of the business and hence the importance of future investment returns. The business is relatively well protected from changes in other assumptions.

	2009		2008	
	Insurance liability Rm	**Change %**	Insurance liability Rm	Change %
Central value (as published)	**1 361**	**—**	1 428	—
Mortality and morbidity +10%	**1 519**	**11,6**	1 640	11,4
Lapse rate +10%	**1 318**	**(3,1)**	1 371	(3,0)
Renewal and termination expense +10%	**1 397**	**2,7**	1 451	1,5
Expense inflation +1%	**1 389**	**2,1**	1 446	1,3
Investment return -1%	**1 438**	**5,7**	1 514	4,9

61. Underwriting risk *(continued)*

61.2 Life insurance underwriting risk *(continued)*

61.2.6 Mortality and morbidity risk

Applications for risk cover in excess of specified limits are reviewed by experienced underwriters and evaluated against established standards. Testing for HIV is carried out in all cases where the applications for risk cover exceed specified limits. Cover in excess of specified monetary or impairment limits is reinsured.

Mortality and morbidity risks for the main product lines are as follows:

- For mortgage protection and complex underwritten life business the main risks are mortality and morbidity. This is the only business that is individually underwritten. Premium rates differentiate by gender, age, smoker status, socio-economic class and occupation. Sub-standard risks generally receive additional premium loadings or might be declined. Correct pricing and effective underwriting, control the mortality and morbidity risks. Exposure in excess of a retention limit for each policy is reassured to reduce the variability of the claims experience and the exposure to a single life. Most policies have premium guarantee terms, which vary from one year (for yearly renewable business) to 25 years (for products that have an investment component attached). For products with an investment component the overall premium rate is guaranteed; the investment portion is not guaranteed and could be reduced at the discretion of the Group. However, it is a Group policy when products are priced to have no intention to increase premium rates over the policy term. Experience is monitored to confirm that actual experience is in line with pricing assumptions. Insurance and underwriting risks are monitored on a monthly basis by the Underwriting Committee which reports into the Absa Financial Services Risk, Governance and Control Committee.
- For funeral business the main risk is mortality, which is increased by high Aids rates experienced in the target market. The risk is also exacerbated by the fact that premium rates are the same irrespective of the age of policyholders (significant changes in the age profile of customers could impact on experience). Limitation of cover for certain pre-existing conditions for defined time periods, generally two years, applies. Strict experience monitoring limits the risk, combined with the contractual right to increase premiums with a three-month notice period. The intention is not to exercise this right, but the Group does have the option to do so. Reinsurance is not utilised as sums assured per individual life are small.
- For credit life business, the main risks are retrenchment and mortality. Treaty reassurance arrangements are in place whereby risk is shared with external business partners. The insurer retains the right to change premiums with a 30-day notice period. Premiums generally do not differentiate by gender, age or smoker status and demographic shifts might introduce additional insurance risk.
- For group life business the main risk is mortality risk. Treaty reassurance arrangements are in place where risk is shared with external business partners. Contracts and premium rates are reviewable annually. Another material risk is the accumulation of losses that may occur due to the geographical concentration of a group. Here the Group will consider additional catastrophe reinsurance cover in order to mitigate the risk to acceptable levels.

Since the nature of most product lines is large volumes with small sums assured per policy, with a wide geographical spread of business, very little concentration of insurance risk occurs. Possible concentration might arise for credit life in travel disasters (aircraft), but sums assured are generally low and investigations have concluded that it is not appropriate to reinsure such risks.

The Group is exposed to Aids risk as a result of providing mortality and morbidity cover on many of its products. The risk is that the allowance for Aids in the pricing and valuation basis is insufficient. This risk is managed in various ways. For business that is medically underwritten, which includes most of the mortgage protection business and all of the complex underwritten life business, HIV tests are performed as part of the normal underwriting process and cover is not provided to lives for which the mortality risk is uncertain or too high. For other lines of business such as funeral and credit life, general pre-existing condition clauses are used to protect the Group from anti-selection – a claim is not valid if it occurs within a certain period from inception, generally 24 months, as a result of a condition that has existed when the policy was incepted. Aids mortality investigations are performed from time to time. The most recent one was performed during the last quarter of 2008. The results of these investigations assist in setting the premium and mortality basis. Margins are also included in the valuation basis to allow for a worse than expected Aids risk experience.

61. Underwriting risk *(continued)*

61.3 Reinsurance risk

Absa Life reinsurance risk

Absa Life uses reinsurance to manage risk and to utilise the experience of reinsurance partners where it is deemed necessary, in accordance with a formal reinsurance policy that is approved by the board. In terms of this policy the Group uses reinsurance for large individual risks to protect the statement of comprehensive income, for risks where Absa Life needs to build knowledge and experience and to obtain technical assistance.

The Group uses catastrophe reinsurance for protection against a large number of dependent losses. This type of cover is normally used for group life insurance. Although major epidemics like avian flue might present catastrophe-type risks, reinsurance cover for such risks is difficult to obtain and not considered essential in the programme. The table below presents the credit rating of reinsurance assets recognised in the Group's statement of financial position, this excludes credit life reinsurance.

Reinsurer	Standard & Poor's rating	Description	Parental guarantee
Treaty and facultative reinsurer, 42,4% (2008: 53,5%) of business ceded	A+	Strong	No
Treaty and facultative reinsurer, 20,8% (2008: 13,9%) of business ceded	AAA	Extremely strong	Yes
Treaty and facultative reinsurer, 1,9% (2008: 2,2%) of business ceded	A	Strong	No
Treaty and facultative reinsurer, 20,8% (2008: 16,7%) of business ceded	AA-	Very strong	No

Although a parental guarantee is not in place for all companies, they are all 100% subsidiaries of their international parent companies and operate under the same name, effectively ensuring a parental guarantee. The Group considers reinsurers' ratings, notified disputes and collection experience in determining which assets should be impaired. As at 31 December 2009 the reinsurance assets were unimpaired as none of the reinsurance amounts receivable were past due.

Absa Insurance reinsurance risk

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any reinsurance contract. Reinsurers must be assigned a minimum 'A' rating by Standard and Poor's (or equivalent rating by Moody's or A.M. Best). Management must approve any exceptions to this rating with notification to the board.

61.4 Concentration of insurance risk

61.4.1 Life insurance

In respect of individual lives little concentration of insurance risk exists. Assets backing liabilities are well diversified and hence concentration risk is low. Liability exposure is well spread geographically. Concentration in terms of size of individual policies is low and retention limits are in place with excess reinsurance to cover large individual exposures.

The following table presents the concentration of benefits across three bands of benefits per life assured.

61. Underwriting risk *(continued)*

61.4 Concentration of insurance risk *(continued)*

Benefit band per life assured R'000	Gross of reinsurance Total benefits assured Rm	%	Net of reinsurance Total benefits assured Rm	%
2009				
0 – 250	**41 956**	**55**	**38 363**	**61**
250 – 500	**6 477**	**8**	**4 160**	**6**
500+	**28 667**	**37**	**20 626**	**33**
	77 100	**100**	**63 149**	**100**
2008				
0 – 250	43 133	61	40 133	67
250 – 500	2 675	4	84	0
500+	24 694	35	19 803	33
	70 502	100	60 020	100

In the case of Group Life business, geographical concentration of risk exists. In addition to comprehensive quota share reinsurance, the Group also uses catastrophe reinsurance to provide further protection against accumulation of losses on retained risks.

61.4.2 Short-term insurance

Geographically, the main risk concentrations are in Pretoria, Johannesburg and the East Rand. Approximately 9% (2008: 6%) of the total sum insured is concentrated in Pretoria with 13% (2008: 7%) in Johannesburg and 8% (2008: 6%) in the East Rand. The maximum expected loss for a 1 in 250 year event is a loss of R2 billion (2008: R1,7 billion based on one in 200 years). Catastrophe cover is purchased to cover losses up to R2 billion (2008: R1,7 billion).

62. Capital management

62.1 Introduction

Capital management strategy

In a time of extreme economic distress, such as currently prevailing, both domestically and globally, maintaining and preserving capital becomes the priority.

The Group's capital management strategy is focused on maximising shareholder value by optimising the level and mix of capital resources. Decisions on the allocation of capital resources, conducted as part of the strategic planning review, are based on a number of factors including return on economic and regulatory capital. This is conducted as part of the ICAAP and strategic planning review.

Capital management objectives of the Group

The Group has a number of capital management objectives, which are to:

- meet the individual capital ratios required by the Group's regulators and the board;

62. Capital management *(continued)*

62.1 Introduction *(continued)*

- maintain an adequate level of available capital resources as cover for the economic capital (EC) requirements calculated at a 99,95% confidence level;
- generate sufficient capital to support asset growth; and
- maintain an investment grade credit rating.

Importance of capital management

Capital is managed as a board-level priority in the Group, which reflects the importance of capital planning. The board is responsible for assessing and approving the Group's capital management policy, capital target levels, capital strategy and risk-based allocation. The capital ratios, together with the short- and medium-term capital plans, are set annually and reviewed monthly at the Capital Management Committee (CMC) and are reported at least quarterly to the board.

Cost of equity

The Group's average cost of equity for the year ended 31 December 2009 was 14,0% (2008: 16,0%). The cost of equity is based on the Capital Asset Pricing Model (CAPM).

62.2 Regulatory capital requirements

Minimum banking requirements

Capital adequacy and the use of regulatory capital are monitored by employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee) and implemented by the SARB or other host regulators for supervisory purposes. These techniques include the capital adequacy ratio calculation, which the SARB and other host regulators regard as a key supervisory tool.

Risk-weighted assets are determined by applying risk weights to statement of financial position assets and off-statement of financial position financial instruments according to the relative credit risk of the counterparty. The risk weighting for each statement of financial position asset and off-statement of financial position financial instrument is regulated by the Banks Act, No 94 of 1990 (as amended), or by regulations in the respective countries where the other banking licences are held. Included in the overall risk-weighted assets is a notional risk weighting for the trading book, calculated based on the market, counterparty and large exposure risks.

Minimum regulated entities' requirements

The capital requirements for regulated entities, other than banks, are determined in accordance with the stipulations of their respective regulators.

Minimum unregulated entities' requirements

The capital requirements are determined in accordance with the SARB capital requirements, which entail the application of a 9,75% capital requirement to the total on-statement of financial position and off-statement of financial position exposures, net of intragroup exposures.

Minimum insurance requirements

Insurance businesses are subject to separate regulations of which the most onerous is the Financial Services Board (FSB).

62.3 Qualifying capital

Banking entities

Regulatory guidelines define three tiers of capital resources:

- Primary (Tier I) capital comprises mainly shareholders' funds, including certain accounting reserves, hybrid debt instruments (in terms of Basel II) and non-redeemable, non-cumulative preference shares. Primary capital is the highest tier and can be used to meet trading and banking activity requirements.
- Secondary (Tier II) capital includes cumulative preference shares and subordinated debt (prescribed debt instruments). Tier II capital can also be used to support both trading and banking activities.
- Tertiary (Tier III) capital comprises prescribed unsecured subordinated debt with a minimum original maturity of two years. The use of Tier III capital is restricted to trading activities only. It is not eligible to support counterparty or settlement risk.

In addition, the Group makes provision for a prudence buffer in excess of the minimum capital requirements to ensure that banking entities are more than adequately capitalised.

Other regulated entities

The qualifying capital is determined in terms of the rules and regulations of the regulator responsible for the supervision of the entity.

Unregulated entities

Only primary capital as defined in the section titled 'Banking entities' above is regarded as qualifying capital.

62. Capital management *(continued)*

62.3 Qualifying capital *(continued)*

Insurance entities

Capital resource requirements are assessed at company level in accordance with the relevant regulations. Provision is also made for a prudence buffer in excess of the minimum capital requirements to ensure that insurance businesses are more than adequately capitalised.

Absa Life Limited

The statutory capital requirement of Absa Life Limited is based on the requirements of the Long-term Insurance Act, which is overseen by the FSB. Capital adequacy requirements are based on actuarial calculations that consider the risks to which the insurer is exposed.

Absa Insurance Company Limited

The statutory capital requirement of Absa Short Term Insurance is based on the requirements of the Short-term Insurance Act, which is overseen by the FSB. This requires an insurer to maintain a capital level equal to 25% of net written premiums (NWP).

The proposed solvency regime will require short-term insurers to hold capital up to a one in 200 year loss event. Absa Insurance Company holds capital in excess of minimum solvency requirements by allowing for an appropriate risk margin.

62.4 Target capital levels (unaudited)

One of the measurements used to ensure that the objectives for managing capital are met is the ability to meet the board target levels. Target capital levels have been set for the following regulated entities: Absa Group Limited, Absa Bank Limited, Absa Life Limited and Absa Insurance Company Limited. Target capital levels for all other entities are equal to the minimum regulatory requirements set by the respective regulators. The target capital adequacy threshold for the Group is as follows:

	2009 (unaudited)			
	Absa Group Limited %	Absa Bank Limited %	Absa Life Limited %	Absa Insurance Company Limited %
Total regulatory requirement	9,75	9,75	1 x CAR	25% x NWP
Buffer	3,25	3,25	1,5 x CAR	20% x NWP
Total capital target	**13,00[1]**	**13,00[1]**	**2,5 x CAR[2]**	**45% x NWP[3]**

Notes

[1]*Total capital adequacy ratio includes unappropriated profits.*

[2]*Capital adequacy requirement (CAR): Actuarial calculation of value at risk on insurance liabilities. 2,5 times (2008: 2,5) being the required capital level determined by the board.*

[3]*45% (2008: 60%) of net written premiums (NWP), being the required capital level determined by the board.*

62. Capital management *(continued)*

62.4 Target capital levels (unaudited) *(continued)*

Absa Bank Limited – Capital adequacy – statutory capital and risk-weighted assets

	2009 Risk-weighted assets Rm	2008 Risk-weighted assets Rm
Absa Bank Limited		
Risk-weighted assets		
Credit risk	**256 995**	252 839
Operational risk	**47 030**	39 098
Market risk	**9 662**	5 088
Equity investment risk	**32 194**	41 079
Other risk	**13 193**	14 767
	359 074	352 871

	2009 Qualifying capital Rm	**2009 Qualifying capital %[1]**	2008 Qualifying capital Rm	2008 Qualifying capital %[1]
Primary capital				
Ordinary share capital	**303**	**0,1**	303	0,1
Ordinary share premium	**10 465**	**2,9**	9 415	2,7
Preference share capital and premium	**4 644**	**1,3**	4 644	1,3
Reserves[2]	**28 757**	**8,0**	26 003	7,4
Deductions	**(2 430)**	**(0,7)**	(1 511)	(0,5)
50% of amount by which expected loss exceeds eligible provisions	**(1 968)**	**(0,6)**	(1 472)	(0,5)
50% of first loss credit enhancement provided in respect of a securitisation scheme	**(95)**	**(0,0)**	(39)	(0,0)
Other deductions	**(367)**	**(0,1)**	—	—
	41 739	**11,6**	38 854	11,0
Secondary capital				
Subordinated redeemable debt	**13 111**	**3,7**	12 210	3,5
Deductions	**(2 063)**	**(0,6)**	(1 521)	(0,5)
50% of amount by which expected loss exceeds eligible provisions	**(1 968)**	**(0,6)**	(1 472)	(0,5)
50% of first loss credit enhancement provided in respect of a securitisation scheme	**(95)**	**(0,0)**	(39)	(0,0)
Other deductions	**—**	**—**	(10)	(0,0)
	11 048	**3,1**	10 689	3,0
Total qualifying capital	**52 787**	**14,7**	49 543	14,0

Notes

[1]*Percentage of capital to risk-weighted assets.*
[2]*Reserves include unappropriated banking profits.*

62. Capital management *(continued)*
62.4 Target capital levels (unaudited) *(continued)*

Absa Group Limited – Capital adequacy – statutory capital and risk-weighted assets

	2009 Basel II Risk-weighted assets Rm	2008 Basel II Risk-weighted assets Rm
Absa Group Limited		
Risk-weighted assets		
Credit risk	**276 172**	276 706
Operational risk	**53 032**	44 689
Market risk	**9 662**	5 088
Equity investment risk	**28 657**	37 266
Other risk	**18 741**	17 248
	386 264	380 997

	2009 Qualifying capital Rm	**2009 Qualifying capital %[1]**	2008 Qualifying capital Rm	2008 Qualifying capital %
Primary capital				
Ordinary share capital	**1 432**	**0,4**	1 180	0,4
Ordinary share premium	**4 784**	**1,2**	2 251	0,6
Preference share capital and premium	**4 644**	**1,2**	4 644	1,2
Reserves[2]	**40 075**	**10,4**	37 747	9,9
Minority interest	**1 299**	**0,3**	1 042	0,3
Deductions	**(3 263)**	**(0,8)**	(2 715)	(0,8)
Goodwill	**(572)**	**(0,1)**	(577)	(0,2)
Financial and insurance entities not consolidated	**(120)**	**(0,0)**	(446)	(0,1)
50% of amount by which expected loss exceeds eligible provisions	**(1 833)**	**(0,5)**	(1 624)	(0,4)
50% of first loss credit enhancement provided in respect of a securitisation scheme	**(150)**	**(0,0)**	(68)	(0,1)
Other deductions	**(588)**	**(0,2)**	—	—
	48 971	**12,7**	44 149	11,6
Secondary capital				
Subordinated redeemable debt	**13 111**	**3,4**	11 711	3,1
General allowance for credit impairment, after deferred tax – standardised approach	**73**	**0,0**	37	0,0
Deductions	**(2 103)**	**(0,5)**	(2 148)	(0,6)
Financial and insurance entities not consolidated	**(120)**	**(0,0)**	(446)	(0,1)
50% of amount by which expected loss exceeds eligible provisions	**(1 833)**	**(0,5)**	(1 624)	(0,4)
50% of first loss credit enhancement provided in respect of a securitisation scheme	**(150)**	**(0,0)**	(68)	(0,1)
Other deductions	**—**	**—**	(10)	(0,0)
	11 081	**2,9**	9 600	2,5
Total qualifying capital	**60 052**	**15,6**	53 749	14,1

Notes

[1]*Percentage of capital to risk-weighted assets.*
[2]*Reserves include unappropriated banking profits.*

62. Capital management *(continued)*

62.4 Target capital levels (unaudited) *(continued)*

Capital adequacy ratios and targets

Absa Bank Limited	Target %	Regulatory constraint %	2009 %	2008 %
Total capital adequacy ratio	≥13,00	≥9,75	**14,7**	14,0
Core Tier I	≥8,00	n/a	**10,3**	9,7
Tier I capital adequacy ratio	≥10,00	≥7,00	**11,6**	11,0
Non-redeemable non-cumulative preference shares and hybrid debt instruments as a percentage of Tier I capital	n/a	≤25	**11,1**	12,0
Tier II and Tier III as a percentage of Tier I	n/a	≤100	**26,5**	27,6
Lower Tier II as a percentage of Tier I (subordinated debt) capital	n/a	≤50	**26,5**	27,6
Ordinary equity and reserves as a percentage of capital	n/a	n/a	**70,3**	69,0
Preference shares as a percentage of capital	n/a	n/a	**8,8**	9,4
Tier II and Tier III as a percentage of capital	n/a	n/a	**20,9**	21,6

		Capital adequacy ratio	
Other financial services	**Regulator**	**2009 %**	2008 %
Absa Life Limited	FSB	**3,6**	3,6
Absa Insurance Company Limited	FSB	**55,5**	79,6

62. Capital management *(continued)*

62.5 Basel II

The implementation of Basel II on 1 January 2008 provided the Group with an internationally recognised framework that incorporates best practice in risk and capital management. Under Basel II, banks are expected to hold capital commensurate with the risks assumed. Basel II places emphasis on three pillars:

- Pillar I – minimum capital requirement.
- Pillar II – supervisory review.
- Pillar III – market discipline.

Pillar I

The Group has received approval from the SARB to use the following approaches in order to calculate the regulatory capital requirement under Basel II:

- Retail credit risk – Advanced IRB.
- Wholesale credit risk – Foundation IRB.
- Operational risk – Advanced Measurement Approach.
- Market risk – Internal model.
- Equity investment risk IRB market-based – Simple risk weight approach.
- Africa – Standardised Approach.

Pillar II

With regard to Pillar II, our comprehensive EC framework ensures that all risks to capital are captured in the assessment of our capital requirement. The EC framework incorporates factors not taken into account by the Pillar I process such as interest rate risk in the banking book (treasury and retail market risk). The assessment of Absa's capital adequacy requirement under the EC environment is both conservative and robust.

Pillar III

In accordance with Pillar III requirements, the Group prepares a comprehensive, publicity available risk management report on a semi-annual basis. The report discloses the capital adequacy position, risk profile and risk management practices within the Group. Furthermore, the report incorporates strategies, processes, structure and organisation, scope and nature of risk management systems and reporting within the Group including risk mitigation strategies and their effectiveness.

63. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not held at fair value on the Group's statement of financial position:

	Group			
	2009		2008	
	Carrying value Rm	**Fair value Rm**	Carrying value Rm	Fair value Rm
Financial assets				
Balances with other central banks	**827**	**827**	1 124	1 124
Balances with the SARB	**10 983**	**10 983**	12 648	12 648
Coins and bank notes	**5 175**	**5 175**	4 707	4 707
Money market assets	**688**	**688**	56	56
Cash, cash balances and balances with central banks (refer to note 2)	**17 673**	**17 673**	18 535	18 535
Statutory liquid asset portfolio (refer to note 3)	**—**	**—**	25	25
Loans and advances to banks (refer to note 4)	**33 629**	**33 627**	37 493	37 499
Other assets (refer to note 6)	**15 620**	**15 620**	14 904	14 904
Retail banking	**326 985**	**327 511**	337 518	338 218
Cheque accounts	**4 106**	**4 106**	4 344	4 344
Credit cards	**17 434**	**17 434**	18 047	18 047
Instalment credit agreements	**39 599**	**39 899**	46 250	46 458
Loans to associates and joint ventures	**6 187**	**6 187**	5 441	5 441
Microloans	**2 563**	**2 721**	3 688	3 826
Mortgages	**244 708**	**244 776**	246 655	247 009
Other	**321**	**321**	1 571	1 571
Personal and term loans	**12 067**	**12 067**	11 522	11 522
Absa Capital	**47 871**	**48 029**	67 114	65 806
Absa Corporate and Business Bank	**118 237**	**118 503**	118 743	118 895
Corporate	**21 609**	**21 609**	18 401	18 401
Large and Medium	**73 543**	**73 690**	72 839	72 991
Other	**23 085**	**23 204**	27 503	27 503
Other	**517**	**517**	257	257
Loans and advances to customers – net of impairment (refer to note 9)	**493 610**	**494 560**	523 632	523 176
Investments (refer to note 12)	**408**	**408**	1 168	1 168
Total	**560 940**	**561 888**	595 757	595 307

63. Fair value of financial instruments *(continued)*

	Group 2009 Carrying value Rm	Group 2009 Fair value Rm	Group 2008 Carrying value Rm	Group 2008 Fair value Rm
Financial liabilities				
Deposits from banks (refer to note 18)	**32 297**	**32 337**	45 631	45 636
Other liabilities (refer to note 20)	**10 127**	**10 127**	10 621	10 621
Call deposits	**56 387**	**56 388**	62 303	62 299
Cheque account deposits	**92 265**	**92 265**	99 694	99 694
Credit card deposits	**1 868**	**1 868**	2 051	2 051
Fixed deposits	**98 095**	**98 342**	115 558	116 059
Foreign currency deposits	**9 011**	**9 011**	12 297	12 297
Liabilities to clients under acceptances	**3**	**3**	121	121
Notice deposits	**10 293**	**10 296**	7 297	7 297
Other deposits	**5 566**	**5 566**	12 098	12 098
Saving and transmission deposits	**64 717**	**64 717**	59 443	59 443
Deposits due to customers (refer to note 22)	**338 205**	**338 456**	370 862	371 359
Debt securities in issue (refer to note 23)	**163 589**	**165 059**	151 509	151 837
Borrowed funds (refer to note 26)	**7 221**	**7 436**	5 069	5 057
Total	**551 439**	**553 415**	583 692	584 510

64. Segment report

64.1 Segment report per geographical segment

	Group 2009 South Africa Rm	Rest of Africa Rm	Other foreign countries Rm	Total Rm
Net interest income – external	**20 894**	**822**	**138**	**21 854**
Non-interest income – external	**19 623**	**461**	**148**	**20 232**
Total assets	**700 852**	**9 633**	**7 255**	**717 740**

	2008 South Africa Rm	Rest of Africa Rm	Other foreign countries Rm	Total Rm
Net interest income – external	21 191	759	156	22 106
Non-interest income – external	20 060	454	307	20 821
Total assets	744 811	11 168	18 178	774 157

64. Segment report *(continued)*

64.2 Segment report per market segment

	Retail banking		Absa Corporate and Business Bank	
	2009 Rm	2008[1] Rm	**2009 Rm**	2008[1] Rm
Statement of comprehensive income				
Net interest income	**14 150**	14 407	**5 609**	5 819
Net interest income – external	**32 236**	39 144	**6 878**	7 210
Net interest income – internal	**(18 086)**	(24 737)	**(1 269)**	(1 391)
Impairment losses on loans and advances	**(7 778)**	(5 523)	**(872)**	(287)
Non-interest income	**11 615**	10 164	**3 100**	2 898
Non-interest income – external	**11 215**	9 767	**2 734**	2 481
Non-interest income – internal	**400**	397	**366**	417
Depreciation and amortisation	**(376)**	(348)	**(37)**	(30)
Operating expenses	**(13 089)**	(13 008)	**(4 347)**	(4 306)
Other impairments	**(25)**	13	**(52)**	—
Indirect taxation	**(320)**	(358)	**(47)**	(107)
Share of retained (losses)/earnings from associates and joint ventures	**(49)**	18	**4**	41
Operating profit before income tax	**4 128**	5 365	**3 358**	4 028
Taxation expense	**(1 102)**	(1 619)	**(1 002)**	(1 168)
Profit for the year	**3 026**	3 746	**2 356**	2 860
Profit attributable to:	**3 026**	3 746	**2 356**	2 860
Ordinary equity holders of the Group	**2 863**	3 628	**2 317**	2 823
Minority interest – ordinary shares	**163**	118	**38**	36
Minority interest – preference shares	**—**	—	**1**	1
	3 026	3 746	**2 356**	2 860
Headline earnings	**2 666**	3 600	**2 289**	2 749
Operating performance	**%**	%	**%**	%
Net interest margin on average assets	**3,05**	3,34	**4,06**	4,33
Net interest margin on average interest-bearing assets	**4,12**	4,38	**4,77**	5,49
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**2,34**	1,72	**0,75**	0,28
Non-interest income as a percentage of total operating income	**45,1**	41,4	**35,6**	33,2
Top-line growth[1]	**4,9**	15,2	**(0,1)**	20,7
Cost growth[1]	**0,8**	14,1	**1,1**	15,8
Cost-to-income ratio	**52,3**	54,4	**50,3**	49,7
Cost-to-assets ratio	**2,9**	3,1	**3,2**	3,2
Statement of financial position	**Rm**	Rm	**Rm**	Rm
Loans and advances to customers	**326 985**	337 518	**120 230**	120 253
Investments	**0**	920	**2 355**	2 479
Investments in associates and joint ventures	**259**	318	**123**	801
Other assets	**146 212**	127 698	**17 827**	15 681
Other assets – external	**7 204**	9 333	**7 020**	4 535
Other assets – internal[2]	**139 008**	118 365	**10 807**	11 146
Total assets	**473 456**	466 454	**140 535**	139 214

Notes

[1]*December 2008 comparatives have been related, refer to note 1.26. December 2007 comparatives have not been restated.*

[2]*Internal assets and liabilities include all interdivisional and intergroup asset and liability balances. Internal assets and liabilities for the Group are eliminated in 'Head office and intersegment eliminations'.*

Absa Capital		Bancassurance		Other		Head office and intersegment eliminations		Absa Group	
2009 Rm	2008[1] Rm	**2009 Rm**	2008[1] Rm	**2009 Rm**	2008[1] Rm	**2009 Rm**	2008[1] Rm	**2009 Rm**	2008[1] Rm
2 042	2 427	**21**	10	**45**	(578)	**(13)**	21	**21 854**	22 106
(18 132)	(24 326)	**12**	8	**945**	152	**(85)**	(82)	**21 854**	22 106
20 174	26 753	**9**	2	**(900)**	(730)	**72**	103	**—**	—
(318)	(30)	**(3)**	1	**1**	—	**3**	—	**(8 967)**	(5 839)
2 404	3 230	**3 372**	3 452	**(289)**	434	**30**	643	**20 232**	20 821
2 080	3 741	**3 653**	3 746	**(370)**	336	**920**	750	**20 232**	20 821
324	(511)	**(281)**	(294)	**81**	98	**(890)**	(107)	**—**	—
(152)	(32)	**(25)**	(24)	**(85)**	(88)	**(570)**	(484)	**(1 245)**	(1 006)
(2 157)	(2 397)	**(1 524)**	(1 353)	**66**	126	**1 439**	830	**(19 612)**	(20 108)
(1 371)	(1)	**(21)**	(29)	**88**	12	**(76)**	(13)	**(1 457)**	(18)
(79)	(65)	**(77)**	(57)	**(76)**	(61)	**(314)**	(76)	**(913)**	(724)
—	—	**—**	—	**—**	—	**(5)**	14	**(50)**	73
369	3 132	**1 743**	2 000	**(250)**	(155)	**494**	935	**9 842**	15 305
(41)	(856)	**(459)**	(485)	**434**	147	**(170)**	(7)	**(2 340)**	(3 988)
328	2 276	**1 284**	1 515	**184**	(8)	**324**	928	**7 502**	11 317
328	2 276	**1 284**	1 515	**184**	(8)	**324**	928	**7 502**	11 317
288	2 276	**1 284**	1 515	**(237)**	(466)	**325**	890	**6 840**	10 666
40	—	**—**	—	**—**	1	**—**	39	**241**	194
—	—	**—**	—	**421**	457	**(1)**	(1)	**421**	457
328	2 276	**1 284**	1 515	**184**	(8)	**324**	928	**7 502**	11 317
1 272	2 276	**1 300**	1 474	**(282)**	(377)	**376**	243	**7 621**	9 965
%	%	**%**	%	**%**	%	**%**	%	**%**	%
n/a	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**2,92**	3,06
n/a	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**3,74**	3,81
0,45	0,04	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**1,74**	1,19
54,1	57,1	**99,4**	99,7	**n/a**	n/a	**n/a**	n/a	**48,1**	48,5
(21,4)	37,5	**(2,0)**	10,8	**n/a**	n/a	**n/a**	n/a	**(2,0)**	20,4
(5,0)	59,8	**12,5**	19,9	**n/a**	n/a	**n/a**	n/a	**(1,2)**	14,5
51,9	42,9	**45,7**	39,8	**n/a**	n/a	**n/a**	n/a	**49,6**	49,2
0,5	0,6	**4,5**	4,1	**n/a**	n/a	**n/a**	n/a	**2,8**	2,9
Rm	Rm	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm
55 768	73 898	**268**	—	**131**	428	**248**	47	**503 630**	532 144
14 403	13 104	**12 016**	10 306	**151**	27	**639**	144	**29 564**	26 980
85	970	**—**	—	**—**	—	**20**	55	**487**	2 144
292 790	357 770	**31 146**	21 963	**72 119**	68 336	**(375 504)**	(378 559)	**184 059**	212 889
97 184	137 394	**30 289**	19 269	**38 531**	37 354	**3 831**	5 004	**184 059**	212 889
195 606	220 376	**857**	2 694	**33 588**	30 982	**(379 866)**	(383 563)	**—**	—
363 046	445 742	**43 430**	32 269	**72 401**	68 791	**(375 128)**	(378 313)	**717 740**	774 157

64. Segment report *(continued)*

64.2 Segment report per market segment *(continued)*

	Retail banking		Absa Corporate and Business Bank	
	2009 Rm	2008[1] Rm	**2009 Rm**	2008[1] Rm
Deposits due to customers	**132 966**	127 953	**104 628**	100 046
Other liabilities	**336 663**	334 577	**33 401**	36 678
Other liabilities – external	**8 597**	10 491	**6 275**	6 010
Other liabilities – internal[2]	**328 066**	324 086	**27 126**	30 668
Total liabilities	**469 629**	462 530	**138 029**	136 724
Financial performance	**%**	%	**%**	%
Return on average economic capital[3,4] (unaudited)	**14,2**	19,8	**18,2**	24,8
Return on average assets	**0,58**	0,83	**1,66**	2,04
Other (unaudited)				
Banking customer base per segment (millions)[4]	**11,4**	10,4	**0,3**	0,3
Attributable income from the rest of Africa (Rm)	**49**	54	**20**	20

64.3 Retail banking segment

	Retail Bank	
	2009	2008
Total revenue – external (Rm)	**8 959**	8 404
Net interest income – external (Rm)	**159**	537
Non-interest income – external (Rm)	**8 800**	7 867
Total revenue – internal (Rm)	**7 133**	6 382
Net interest income – internal (Rm)	**6 886**	6 165
Non-interest income – internal (Rm)	**247**	217
Attributable earnings (Rm)[5]	**3 086**	2 635
Headline earnings (Rm)	**2 889**	2 607
Impairment losses on loans and advances as a percentage of average loans and advances to customers (%)[6]	**3,60**	2,47
Cost-to-income ratio (%)	**62,0**	65,2
Loans and advances to customers (Rm)	**42 663**	44 413
Total assets (Rm)	**157 310**	142 698
Deposits due to customers (Rm)	**131 248**	126 049
Total liabilities (Rm)	**154 580**	140 346
Return on average economic capital (%) (unaudited)	**54,9**	48,5

Notes

[1]*December 2008 comparatives have been restated, refer to note 1.26. December 2007 comparatives have not been restated.*

[2]*Internal assets and liabilities include all interdivisional and intragroup asset and liability balances. Internal assets and liabilities for the Group are eliminated in 'Head office and intersegment eliminations'.*

[3]*Bancassurance return on average equity is 37,9% (December 2008: 42,4%) and Absa Group return on average equity is 15,5% (December 2008: 23,4%).*

[4]*Includes African operations.*

[5]*These results are after the allocation of head office and support changes.*

[6]*Refer to note 10 for the impairment charge to the statement of comprehensive income.*

Absa Capital		Bancassurance		Other		Head office and intersegment eliminations		Absa Group	
2009 Rm	2008[1] Rm	**2009 Rm**	2008[1] Rm	**2009 Rm**	2008[1] Rm	**2009 Rm**	2008[1] Rm	**2009 Rm**	2008[1] Rm
112 763	153 702	**—**	—	**—**	11	**400**	569	**350 757**	382 281
247 495	287 714	**40 002**	28 830	**31 747**	32 443	**(378 815)**	(381 659)	**310 493**	338 583
236 912	275 415	**33 382**	21 474	**27 587**	30 695	**(2 260)**	(5 502)	**310 493**	338 583
10 583	12 299	**6 620**	7 356	**4 160**	1 748	**(376 555)**	(376 157)	**—**	—
360 258	441 416	**40 002**	28 830	**31 747**	32 454	**(378 415)**	(381 090)	**661 250**	720 864
%	%	**%**	%	**%**	%	**%**	%	**%**	%
14,9	20,1	**100,2**	155,8	**n/a**	n/a	**n/a**	n/a	**18,2**	24,0
0,30	0,52	**3,74**	4,88	**n/a**	n/a	**n/a**	n/a	**1,02**	1,38
0,0	0,0	**—**	—	**—**	—	**—**	—	**11,7**	10,7
192	219	**0**	—	**24**	(42)	**—**	—	**285**	251

Absa Home Loans		Absa Card		Absa Vehicle and Asset Finance		Total	
2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
22 870	28 396	**5 465**	4 429	**6 157**	7 682	**43 451**	48 911
22 766	28 322	**3 473**	2 856	**5 838**	7 429	**32 236**	39 144
104	74	**1 992**	1 573	**319**	253	**11 215**	9 767
(19 737)	(24 246)	**(1 204)**	(1 372)	**(3 878)**	(5 104)	**(17 686)**	(24 340)
(19 906)	(24 426)	**(1 189)**	(1 373)	**(3 877)**	(5 103)	**(18 086)**	(24 737)
169	180	**(15)**	1	**(1)**	(1)	**400**	397
(1 299)	140	**811**	554	**265**	299	**2 863**	3 628
(1 299)	140	**811**	554	**265**	299	**2 666**	3 600
1,76	1,19	**7,13**	5,65	**2,05**	2,31	**2,34**	1,72
32,1	32,1	**38,6**	46,4	**37,0**	37,6	**52,3**	54,4
222 905	223 870	**17 574**	18 069	**43 843**	51 166	**326 985**	337 518
241 457	241 042	**24 146**	24 812	**50 543**	57 902	**473 456**	466 454
—	—	**1 711**	1 888	**7**	16	**132 966**	127 953
242 171	241 053	**23 044**	23 933	**49 834**	57 198	**469 629**	462 530
(18,3)	2,0	**28,1**	25,1	**7,4**	8,6	**14,2**	19,8

64. Segment report *(continued)*

64.4 Absa Corporate and Business Bank segment

	2009 Rm	Excluding CPF equities 2009 Rm	2008 Rm	Excluding CPF equities 2008 Rm
Statement of comprehensive income				
Net interest income	**5 609**	**5 609**	5 819	5 819
Impairment losses on loans and advances	**(872)**	**(872)**	(287)	(287)
Non-interest income	**3 100**	**2 948**	2 898	2 765
Net fee and commission income	**2 296**	**2 296**	2 321	2 321
Gains and losses from banking and trading activities	**303**	**151**	327	194
Gains and losses from investment activities	**13**	**13**	7	7
Other operating income	**488**	**488**	243	243
Operating expenses	**(4 384)**	**(4 384)**	(4 336)	(4 336)
Other	**(95)**	**(95)**	(66)	(66)
Operating profit before income tax	**3 358**	**3 206**	4 028	3 895
Taxation expense	**(1 002)**	**(957)**	(1 168)	(1 129)
Profit for the year	**2 356**	**2 249**	2 860	2 766
Profit attributable to:				
Ordinary equity holders of the Group	**2 317**	**2 210**	2 823	2 729
Minority interest – ordinary shares	**38**	**38**	36	36
Minority interest – preference shares	**1**	**1**	1	1
	2 356	**2 249**	2 860	2 766
Headline earnings	**2 289**	**2 182**	2 749	2 655

	2009 Rm	2008 Rm
Operating profit before income tax by business area		
Large	**1 808**	2 025
Medium	**971**	1 477
Corporate	**345**	317
Africa	**82**	76
CPF equity portfolio[1]	**152**	133
Listed	**84**	(98)
Unlisted	**68**	231
	3 358	4 028

Note

[1]*Includes realised and unrealised profits on CPF, this however excludes Absa wholly-owned subsidiaries.*

64. Segment report *(continued)*

64.5 Absa Capital

	Note	2009 Rm	2008 Rm
Statement of comprehensive income			
Net interest income	1	**2 042**	2 427
Impairment losses on loans and advances	1	**(318)**	(30)
Non-interest income	1,2	**2 404**	3 230
Operating expenses		**(2 309)**	(2 429)
Other		**(1 450)**	(66)
Operating profit before income tax		**369**	3 132
Taxation expense		**(41)**	(856)
Profit for the year		**328**	2 276
Profit attributable to:			
Ordinary equity holders of the Group		**288**	2 276
Minority interest – ordinary shares		**40**	—
		328	2 276
Headline earnings		**1 272**	2 276
Statement of financial position			
Loans and advances to customers		**55 768**	73 898
Total assets		**363 046**	445 742
Deposits due to customers		**112 763**	153 702
Total liabilities		**360 258**	441 416

Notes

	2009 Rm	2008 Rm
1. Revenue contribution[1]		
Investment banking	**1 794**	1 912
Markets	**3 264**	3 204
Private Equity and infrastructure Investments	**(1 191)**	356
Single Stock Futures and Other	**(2)**	(126)
Total Absa Capital revenue	**3 865**	5 346
Private Banking and Investment Management	**263**	281
	4 128	5 627
2. Gains and losses from banking and trading activities		
Net gains on investments	**(619)**	868
Financial instruments designated at fair value through profit or loss	**(621)**	868
Debt instruments	**(31)**	65
Equity instruments	**(590)**	803
Available-for-sale unwind from reserves	**2**	—
Net trading result	**2 340**	2 066
Net trading income excluding impact of hedge accounting	**2 349**	2 078
Ineffective portion of fair value hedges	**(10)**	1
ineffective portion of cash flow hedges	**1**	(13)
Other	**(166)**	(82)
	1 555	2 852

Note

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

64. Segment report *(continued)*

64.6 Bancassurance

Statement of financial position

	Note	2009 Rm	2008[1] Rm
Assets			
Cash balances and money market assets		**5 975**	7 752
Insurance operations	64.6.1	**5 241**	5 544
Other subsidiaries		**734**	2 208
Other assets[2]		**24 437**	13 114
Financial assets backing investment and insurance liabilities		**12 970**	11 332
Investments		**12 016**	10 306
Insurance operations		**11 899**	10 288
Other subsidiaries		**117**	18
Other assets backing shareholder investments and policyholder liabilities			
Insurance operations	64.6.1	**954**	1 026
Property and equipment		**48**	71
Total assets		**43 430**	32 269
Liabilities			
Other liabilities[2]		**24 627**	15 521
Liabilities under investment contracts		**12 446**	10 377
Policyholder liabilities under insurance contracts[3]		**2 898**	2 871
Deferred tax liabilities		**31**	61
Total liabilities		**40 002**	28 830
Total equity		**3 428**	3 439
Total equity and liabilities		**43 430**	32 269

Notes

[1]*Absa Manx Insurance Company Limited was moved from Bancassurance to Corporate centre during the year under review. Comparatives have been restated accordingly.*

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

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

64. Segment report *(continued)*

64.6 Bancassurance *(continued)*

64.6.1 Financial assets backing investments and insurance liabilities

	2009					
	Listed equity Rm	**Unlisted equity Rm**	**Debt instru-ments Rm**	**Other Rm**	**Cash balances and loans and advances to banks Rm**	**Total Rm**
Shareholder investments	**898**	**364**	**870**	**6**	**517**	**2 655**
Life	**789**	**6**	**240**	**6**	**161**	**1 202**
Non-life	**109**	**358**	**630**	**—**	**356**	**1 453**
Policyholder investments	**7 623**	**1 607**	**537**	**948**	**4 724**	**15 439**
Investment contracts[1]	**7 623**	**739**	**4**	**511**	**3 582**	**12 459**
Insurance contracts[1]	**—**	**868**	**533**	**437**	**1 142**	**2 980**
	8 521	**1 971**	**1 407**	**954**	**5 241**	**18 094**

	2008					
	Listed equity Rm	Unlisted equity Rm	Debt instru-ments Rm	Other Rm	Cash balances and loans and advances to banks Rm	Total Rm
Shareholder investments	832	179	1 322	98	454	2 885
Life	472	77	246	40	126	961
Non-life	360	102	1 076	58	328	1 924
Policyholder investments	6 032	1 176	747	928	5 090	13 973
Investment contracts[1]	6 032	478	6	481	3 450	10 447
Insurance contracts[1]	—	698	741	447	1 640	3 526
	6 864	1 355	2 069	1 026	5 544	16 858

64.6.2 Financial performance

	2009	2008
Assets under management (Rbn)	**254**	212
Return on average equity (%)	**37,9**	42,4
Solvency margin (%)	**55,5**	79,6

Note

[1]*Includes R725 million (2008: R607 million) in unlisted investment contracts representing Absa Life Limited's investment in the Absa General Fund. This fund is consolidated as an investment contract at an Absa Group level and disclosed as such in the consolidated financial statements.*

64. Segment report *(continued)*

64.6 Bancassurance *(continued)*

Statement of comprehensive income

		Life		Insurance	
	Note	**2009 Rm**	2008 Rm	**2009 Rm**	2008 Rm
Net earned premium		**1 291**	1 155	**2 554**	2 318
Net insurance claims		**(430)**	(390)	**(1 787)**	(1 531)
Investment income	64.6.3				
Policyholder investment contracts		**537**	653	**—**	—
Policyholder insurance contracts		**184**	(14)	**102**	127
Changes in investment and insurance liabilities					
Policyholder investment contracts		**(508)**	(620)	**—**	—
Policyholder insurance contracts		**60**	368	**—**	—
Other income		**(27)**	(7)	**27**	4
Gross operating income		**1 107**	1 145	**896**	918
Net commission paid by insurance companies[2]		**(207)**	(186)	**(400)**	(342)
Operating expenses		**(175)**	(171)	**(269)**	(210)
Other impairments and indirect taxation		**(81)**	(42)	**(2)**	(1)
Net operating income		**644**	746	**225**	365
Investment income on shareholder funds	64.6.3	**149**	102	**127**	211
Net profit on disposal of subsidiary[3]		**—**	—	**—**	—
Taxation expense		**(206)**	(217)	**(87)**	(78)
Profit attributable to ordinary equity holders of the Group		**587**	631	**265**	498

Notes

[1]*Absa Manx Insurance Company Limited was moved from Bancassurance to Corporate centre during the year under review. Comparatives have been restated accordingly.*

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

[3]*R37 million is accounted for as 'Exchange differences' in 'Other operating income' and R5 million loss is accounted for as part of 'Investment income on shareholder funds'.*

	Investments		Other		Total bancassurance	
	2009 Rm	2008 Rm	**2009 Rm**	2008[1] Rm	**2009 Rm**	2008[1] Rm
	—	—	**—**	—	**3 845**	3 473
	—	—	**—**	10	**(2 217)**	(1 911)
	—	—	**131**	(161)	**668**	492
	—	—	**—**	—	**286**	113
	—	—	**(112)**	182	**(620)**	(438)
	—	—	**—**	—	**60**	368
	725	680	**933**	827	**1 658**	1 504
	725	680	**952**	858	**3 680**	3 601
	—	—	**—**	—	**(607)**	(528)
	(311)	(355)	**(794)**	(641)	**(1 549)**	(1 377)
	(6)	(35)	**(10)**	(8)	**(98)**	(86)
	408	290	**149**	209	**1 426**	1 610
	16	14	**25**	31	**317**	358
	—	—	**—**	32	**—**	32
	(121)	(99)	**(45)**	(91)	**(459)**	(485)
	303	205	**129**	181	**1 284**	1 515

64. Segment report *(continued)*

64.6 Bancassurance *(continued)*

64.6.3 Investment income

	Life		Insurance	
	2009 Rm	2008 Rm	**2009 Rm**	2008 Rm
Policyholder investment contracts	**537**	653	**—**	—
Net interest income	**228**	257	**—**	—
Dividend income	**42**	20	**—**	—
Fair value gains	**267**	376	**—**	—
Policyholder insurance contracts	**184**	(14)	**102**	127
Net interest income	**70**	105	**102**	127
Dividend income	**44**	15	**—**	—
Fair value gains	**70**	(134)	**—**	—
Shareholder funds	**149**	102	**127**	211
Net interest income	**26**	12	**124**	61
Dividend income	**17**	27	**58**	83
Fair value gains	**106**	63	**(55)**	67
Total	**870**	741	**229**	338
Net interest income	**324**	375	**226**	188
Dividend income	**103**	61	**58**	83
Fair value gains	**443**	305	**(55)**	67

64.6.4 Operating performance

	Life		Insurance	
	2009 Rm	2008 Rm	**2009 Rm**	2008 Rm
Underwriting profit (Rm)	**n/a**	n/a	**130**	258
Underwriting margin (%)	**n/a**	n/a	**3,8**	10,2
Loss ratio (%)	**n/a**	n/a	**69,9**	66,0
Total net inflows (Rbn)	**n/a**	n/a	**n/a**	n/a

Note

[1]*Absa Manx Insurance Company Limited was moved from Bancassurance to Corporate Centre during the year under review. Comparatives have been restated accordingly.*

Investments 2009 Rm	Investments 2008 Rm	Other 2009 Rm	Other 2008[1] Rm	Total bancassurance 2009 Rm	Total bancassurance 2008[1] Rm
—	—	131	(161)	668	492
—	—	1	4	229	261
—	—	13	78	55	98
—	—	117	(243)	384	133
—	—	—	—	286	113
—	—	—	—	172	232
—	—	—	—	44	15
—	—	—	—	70	(134)
16	14	25	31	317	358
16	14	1	34	167	121
—	—	1	2	76	112
—	—	23	(5)	74	125
16	14	156	(130)	1 271	963
16	14	2	38	568	615
—	—	14	80	175	224
—	—	140	(248)	528	124
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
25	6	6	5	n/a	n/a

65. Derivatives

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Group's accounting policies.

At the statement of financial position date, the Group did not have any compound financial instruments with multiple embedded derivatives in issue.

65.1 Derivatives held for trading

The Group trades derivative instruments mainly on behalf of customers while the Group's own positions are insignificant. The Group transacts derivative contracts to address customer demands both as a market maker in the wholesale markets and in structuring tailored derivatives for customers.

65.2 Derivatives held for hedging

The Group enters into derivative transactions, which are designated and qualify as either fair value or cash flow hedges for recognised assets or liabilities or forecasted transactions.

Derivatives designated as fair value hedges

Fair value hedges are used by the Group to protect against changes in fair value of financial assets and liabilities owing to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

The Group recognised the following gains and losses on hedging instruments and hedging items:

	Group	
	2009 Rm	2008 Rm
Gains/(losses) on hedged items (assets) (refer to note 30)	**(734)**	1 157
Gains/(losses) on hedging instruments (assets) (refer to note 30)	**690**	(920)
Gains/(losses) on hedged items (liabilities) (refer to note 31)	**410**	(818)
Gains/(losses) on hedging instruments (liabilities) (refer to note 31)	**(269)**	830

Hedge effectiveness is measured using a statistical method and results would have to be within the 80% to 125% range in order for hedge accounting to be applied.

The amount of movement in fair value that has been recognised in the profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Group	
	2009 Rm	2008 Rm
Ineffectiveness (outside range) (refer to note 36)	**(16)**	107
Ineffectiveness (inside range)	**(197)**	(12)

65. Derivatives *(continued)*

65.2 Derivatives held for hedging *(continued)*

Derivatives designated as cash flow hedges

The objective of cash flow hedges is to protect against changes in future interest cash flows resulting from the impact of changes in market interest rate risk and reinvestment or reborrowing of current balances.

The Group uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. The Group applies hedge accounting for its non-trading interest rate risk in major currencies by analysing the expected cash flows on a group basis.

The Group is exposed to variability in future interest cash flows on non-trading portfolio assets and liabilities which bear interest at a variable rate. The Group designates interest rate swaps as hedging instruments in a cash flow hedging relationship to hedge the variability in cash flows owing to changes in interest rates.

A schedule indicating the periods when the hedged cash flows are expected to occur and when they are expected to affect the profit and loss component of the statement of comprehensive income as at the statement of financial position date is as follows:

	Group						
	2009						
	Less than 1 year Rm	**1 – 2 years Rm**	**2 – 3 years Rm**	**3 – 4 years Rm**	**4 – 5 years Rm**	**More than 5 years Rm**	**Total Rm**
Forecast receivable cash flow[1]	**863**	**555**	**317**	**110**	**22**	**2**	**1 869**
Forecast payable cash flow[1]	**(31)**	**(9)**	**(7)**	**(10)**	**(10)**	**(56)**	**(123)**
Net cash outflow	**832**	**546**	**310**	**100**	**12**	**(54)**	**1 746**
	2008						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast receivable cash flow[1]	1 167	695	454	310	112	25	2 763
Forecast payable cash flow[1]	(99)	(39)	(9)	(4)	(4)	(50)	(205)
Net cash outflow	1 068	656	445	306	108	(25)	2 558

Note

[1] *These balances are shown before taxation.*

65. Derivatives *(continued)*

65.2 Derivatives held for hedging *(continued)*

The following net gain/(loss) on cash flow hedges was recycled from other comprehensive income to the profit or loss component of the statement of comprehensive income:

	Group 2009 Rm	Group 2008 Rm
Interest and similar income (refer to note 30)	**244**	(1 301)
Interest expense and similar charges (refer to note 31)	**512**	(363)
Gains and losses from banking and trading activities (refer to note 36)	**(3)**	(18)
	753	(1 682)
Taxation	**(211)**	471
	542	(1 211)

The amount of movement in fair value that has been recognised in the profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Group 2009 Rm	Group 2008 Rm
Ineffectiveness (outside range) (refer to note 36)	**(3)**	(18)
Ineffectiveness (inside range)	**(65)**	(88)

65.3 Detailed breakdown of derivatives

The Group uses the following derivative instruments for both hedging and non-hedging purposes:

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- **Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (ie fixed rate for floating rate) or a combination of all these (ie cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.
- **Options** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange traded or negotiated between the Group and a customer.

65. Derivatives *(continued)*

65.3 Detailed breakdown of derivatives *(continued)*

	Group					
	2009				2008	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Trading						
Foreign exchange derivatives						
Foreign exchange forward	**303 205**	**(348)**	**7 978**	**(8 326)**	433 497	(1 469)
Currency swaps	**10 232**	**(645)**	**217**	**(862)**	97 606	1 561
OTC foreign exchange options	**17 042**	**205**	**527**	**(322)**	32 976	(96)
OTC foreign exchange options purchased	**8 975**	**524**	**527**	**(3)**	15 883	1 076
OTC foreign exchange options written	**8 067**	**(319)**	**—**	**(319)**	17 093	(1 172)
Other OTC foreign exchange derivatives	**27 278**	**(8)**	**11**	**(19)**	43 230	(10)
Exchange traded derivatives	**121 618**	**1**	**1**	**—**	—	—
Total foreign exchange derivatives	**479 375**	**(795)**	**8 734**	**(9 529)**	607 309	(14)
Interest rate derivatives						
Forward rate agreements (FRAs)	**1 217 162**	**116**	**1 053**	**(937)**	1 416 653	200
Currency interest rate swaps	**172 536**	**(596)**	**3 433**	**(4 029)**	20 569	(78)
Swaps	**38 014**	**49**	**132**	**(83)**	44 112	(127)
Interest rate swaps	**1 150 850**	**38**	**12 772**	**(12 734)**	1 128 595	(706)
OTC options on FRAs and swaps	**270 238**	**(40)**	**276**	**(316)**	185 412	89
OTC options on FRAs and swaps purchased	**108 261**	**276**	**276**	**—**	94 843	664
OTC options on FRAs and swaps written	**161 977**	**(316)**	**—**	**(316)**	90 569	(575)
OTC bond option contracts	**3 702**	**—**	**11**	**(11)**	7 106	(125)
OTC bond options purchased	**2 002**	**11**	**11**	**—**	4 065	225
Other bond options written	**1 700**	**(11)**	**—**	**(11)**	3 041	(350)
Other OTC interest rate derivatives	**643**	**32**	**77**	**(45)**	—	—
Exchange traded derivatives	**10 880**	**1**	**1**	**—**	—	—
Total interest rate derivatives	**2 864 025**	**(400)**	**17 755**	**(18 155)**	2 802 447	(747)
Balance carried forward	**3 343 400**	**(1 195)**	**26 489**	**(27 684)**	3 409 756	(761)

65. Derivatives *(continued)*

65.3 Detailed breakdown of derivatives *(continued)*

	Group					
	2009				2008	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Balance brought forward	**3 343 400**	**(1 195)**	**26 489**	**(27 684)**	3 409 756	(761)
Equity derivatives						
OTC options purchased	**13 785**	**1 436**	**1 436**	**—**	47 873	2 018
OTC options written	**18 409**	**(4 860)**	**—**	**(4 860)**	40 715	(4 026)
Equity futures	**230**	**(191)**	**—**	**(191)**	1 059	194
Other OTC equity derivatives	**11 357**	**(293)**	**729**	**(1 022)**	2 278	(78)
OTC equity derivatives	**43 781**	**(3 908)**	**2 165**	**(6 073)**	91 925	(1 892)
Exchange traded derivatives	**84 119**	**(1)**	**(1)**	**—**	178 150	—
Exchange traded options purchased	**23 444**	**—**	**—**	**—**	60 957	—
Exchange traded options written	**37 044**	**—**	**—**	**—**	60 343	—
Exchange traded futures	**23 631**	**(1)**	**(1)**	**—**	56 850	—
Other exchange traded equity derivatives	**148**	**(59)**	**—**	**(59)**	—	—
Non-qualifying hedges equity option	**—**	**—**	**—**	**—**	860	98
Total equity derivatives	**128 048**	**(3 968)**	**2 164**	**(6 132)**	270 935	(1 794)
Commodity derivatives						
Agricultural forwards	**5**	**(1)**	**3**	**(4)**	—	—
OTC agricultural options	**109**	**9**	**9**	**—**	18	(2)
OTC agricultural options purchased	**3**	**9**	**9**	**—**	—	—
OTC agricultural options written	**106**	**—**	**—**	**—**	18	(2)
OTC options on gold	**9 639**	**(4)**	**2 310**	**(2 314)**	11 144	173
OTC gold options purchased	**4 859**	**2 310**	**2 310**	**—**	5 572	2 903
OTC gold options written	**4 780**	**(2 314)**	**—**	**(2 314)**	5 572	(2 730)
Other OTC commodity derivatives	**5 557**	**(13)**	**568**	**(581)**	8 819	(68)
OTC commodity derivatives	**15 310**	**(9)**	**2 890**	**(2 899)**	19 981	103
Exchange traded agricultural derivatives	**24 651**	**11**	**11**	**—**	4 159	—
Exchange traded agricultural derivatives purchased	**637**	**—**	**—**	**—**	309	—
Exchange traded agricultural derivatives written	**635**	**—**	**—**	**—**	84	—
Exchange traded agricultural futures	**10 213**	**—**	**—**	**—**	3 766	—
Exchange traded gold options purchased	**13 166**	**11**	**11**	**—**	—	—
Total commodity derivatives	**39 961**	**2**	**2 901**	**(2 899)**	24 140	103
Balance carried forward	**3 511 409**	**(5 161)**	**31 554**	**(36 715)**	3 704 831	(2 452)

65.3 Detailed breakdown of derivatives *(continued)*

	Group					
	2009				2008	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Balance brought forward	3 511 409	(5 161)	31 554	(36 715)	3 704 831	(2 452)
Credit derivatives						
Credit derivatives purchased (swap)	1 694	45	115	(70)	6 717	(178)
Credit derivatives written (swap)	8 514	(30)	110	(140)	—	—
Embedded derivatives	2 413	22	57	(35)	7 367	199
Total credit derivatives	12 621	37	282	(245)	14 084	21
Total trading	3 524 030	(5 124)	31 836	(36 960)	3 718 915	(2 431)
Hedging						
Cash flow hedges						
Interest rate swaps	105 975	1 852	1 946	(94)	130 354	2 282
Forward foreign exchange	117	(38)	—	(38)	376	(35)
Equity options	—	—	—	—	24	(2)
Total cash flow hedges	106 092	1 814	1 946	(132)	130 754	2 245
Fair value hedges						
Interest rate swap	2 359	58	491	(433)	6 005	129
Currency swap	6 005	121	121	—	24 943	(315)
Total fair value hedges	8 364	179	612	(433)	30 948	(186)
Total hedges	114 456	1 993	2 558	(565)	161 702	2 059
Total derivative instruments	3 638 486	(3 131)	34 394	(37 525)	3 880 617	(372)

65. Derivatives *(continued)*

65.3 Detailed breakdown of derivatives *(continued)*

Derivative assets and liabilities subject to counterparty netting agreements amounted to R20 059 million (2008: R47 646 million). Additionally, the Group held R999 million (2008: R3 848 million) of collateral against the net derivative asset exposure.

Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Group's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates on hand, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Fair value

The amounts disclosed represent the fair value as at the statement of financial position date of all derivative financial instruments held. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

66. Fair value hierarchy disclosures

66.1 Valuation methodology

The table below shows the Group's financial assets and liabilities that are recognised and subsequently measured at fair value analysed by valuation technique. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is set out underneath the table below.

	Group			
	2009			
	Valuations with reference to observable prices Level 1[1] Rm	Valuations based on observable inputs Level 2[1] Rm	Valuations based on unob-servable inputs Level 3[2] Rm	Total Rm
Available-for-sale financial assets				
Cash, cash balances and balances with central banks (refer to note 2)	653	—	—	653
Statutory liquid asset portfolio (refer to note 3)	17 904	—	—	17 904
Investments (refer to note 12)	1 760	59	176	1 995
Financial assets designated at fair value through profit or loss				
Cash, cash balances and balances with central banks (refer to note 2)	2 271	—	—	2 271
Statutory liquid asset portfolio (refer to note 3)	3 636	—	—	3 636
Loans and advances to banks (refer to note 4)	—	2 403	—	2 403
Loans and advances to customers (refer to note 9)	—	3 958	5 416	9 374
Investments (refer to note 12)	16 780	3 843	6 128	26 751
Financial assets held for trading				
Hedging assets (refer to note 5)	—	2 558	—	2 558
Trading assets (refer to note 5)	26 215	3 097	—	29 312
Derivative assets (refer to note 5)	45	30 998	793	31 836
Investments (refer to note 12)	410	—	—	410
Total financial assets	**69 674**	**46 916**	**12 513**	**129 103**
Financial liabilities designated at fair value through profit or loss				
Deposits from banks (refer to note 18)	—	7 319	—	7 319
Other liabilities (refer to note 20)	—	20	274	294
Deposits due to customers (refer to note 22)	—	2 117	10 435	12 552
Debt securities in issue (refer to note 23)	—	1 495	246	1 741
Liabilities under investment contracts (refer to note 24)	1 307	11 139	—	12 446
Borrowed funds (refer to note 26)	718	—	—	718
Financial liabilities held for trading (refer to note 19)				
Hedging liabilities	—	565	—	565
Trading liabilities	16 762	—	—	16 762
Derivative liabilities	19	35 823	1 118	36 960
Total financial liabilities	**18 806**	**58 478**	**12 073**	**89 357**

Note

[1] *The nature of the valuation techniques are summarised in note 66.2.*
[2] *The nature of valuation techniques are summarised in note 66.3*

66. Fair value hierarchy disclosures

(continued)

66.2 Valuations based on observable inputs

Valuations based on observable inputs include:

Level 1

Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

This category includes highly liquid government and other bonds, active listed equities, exchange-traded commodities and exchange-traded derivatives.

Level 2

Financial instruments valued using inputs other than quoted prices as described above for level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/corroborated by observable market data.

This category includes certain African government bills, private equity investments, loans and advances, investments in debt instruments, commodity derivatives, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

66.3 Valuations based on unobservable inputs

Level 3

Financial instruments valued using inputs that are not based on observable market data (unobservable data) such as an entity's own assumptions about assumptions of market participants in pricing the asset or liability.

This category includes certain private equity investments, loans and advances, investments in debt instruments, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

In determining the value of level 3 financial instruments the following are the principal inputs that can require judgement:

(i) Volatility

Volatility is a key input in the valuation of options across all asset classes. For some asset classes volatility is unobservable.

(ii) Basis risk

Basis risk is a key input in the valuation of cross currency swaps. For some currency pairs or maturities, basis risk is unobservable.

(iii) Credit spreads

Credit spreads are key inputs in the valuation of credit default swaps, credit linked notes and debt instruments or liabilities. For some issuers or tenors, credit spreads are unobservable.

(iv) Yield curves

Yield curves are key inputs in the valuation of certain debt instruments. For some debt instruments yield curves are unobservable.

(v) Future earnings and marketability discounts

Future earnings and marketability discounts are key inputs in the valuation of certain private equity investments. Forecast earnings and marketability discounts are unobservable for some investments.

(vi) Comparator multiples

Comparator multiples and point of difference applied to chosen multiples are key inputs in the valuation of certain private equity investments. Price earnings multiples and point of difference applied to chosen multiples are unobservable for some investments.

(vii) Discount rates

Discount rates are key inputs in the valuation of certain private equity investments. Discount rates are unobservable for some investments.

66. Fair value hierarchy disclosures *(continued)*

66.3 Valuations based on unobservable inputs *(continued)*

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

Debt securities and treasury and other eligible bills

These instruments are valued based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or, in the case of certain mortgage-backed securities, valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Equity investments

Equity investments are valued based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or by using valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Also included in investments are non-public investments, which include investments in venture capital organisations. The fair value of these investments is determined using appropriate valuation methodologies which, dependent on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price:earnings comparisons. For each investment the relevant methodology is applied consistently over time.

Derivatives

Derivative contracts can be exchange traded or traded over-the-counter (OTC). OTC derivative contracts include forward, swap and option contracts related to interest rates, bonds, foreign currencies, credit spreads, equity prices and commodity prices or indices on these assets. Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and option pricing models.

Loans and advances

Loans and advances are valued using discounted cash flow models, applying either market rates where applicable or, where the counterparty is a bank, rates currently offered by other financial institutions for placings with similar characteristics.

Deposits, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics. Where these instruments include embedded derivatives, the embedded derivative component is valued using the methodology for derivatives as detailed above.

66. Fair value hierarchy disclosures *(continued)*

66.4 Movements on financial assets and liabilities subsequently measured at fair value using valuations based on unobservable inputs (level 3)

A reconciliation of the opening balances to closing balances is set out below.

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss	
	Investments	Loans and advances to customers	Investments
Opening balance	522	5 807	6 858
Net interest income	—	403	—
Gains and losses from banking and trading activities	28	(338)	(1 048)
Other comprehensive income	(24)	—	—
Purchases		371	873
Sales	—	—	(292)
Issues	—	—	—
Settlements	(350)	(827)	(263)
Movement out of level 3	—	—	—
Closing balance	176	5 416	6 128

Note

[1] *Transfers out of level 3 principally reflects transfers to level 2 within the fair value hierarchy of equity – related derivative instruments, as the remaining maturity of these instruments has entered the range for which the unobservable parameter can be observed.*

66.5 Total unrealised gains and losses for the year on level 3 positions held at the statement of financial position date

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss	
	Investments	Loans and advances to customers	Investments
Net interest income	9	506	80
Gains and losses from banking and trading activities	—	(352)	(885)
	9	154	(805)

Group

	2009					
		Financial liabilities designated at fair value through profit or loss			Financial liabilities held for trading	
	Total financial assets excluding derivatives	Deposits due to customers	Debt securities	Other liabilities	Net derivatives	Total financial liabilities including net derivatives
	13 187	10 786	465	407	161	11 819
	403	565	8	—	—	573
	(1 358)	(156)	14	(133)	285	10
	(24)	—	—	—	—	—
	1 244	—	—	—	(23)	(23)
	(292)	—	—	—	—	—
	—	1 033	—	—	5	1 038
	(1 440)	(1 793)	(241)	—	(43)	(2 077)
	—	—	—	—	(60)[1]	(60)[1]
	11 720	10 435	246	274	325	11 280

Group

	2009					
		Financial liabilities designated at fair value through profit or loss			Financial liabilities held for trading	
	Total financial assets excluding derivatives	Deposits due to customers	Debt securities	Other liabilities	Net derivatives	Total financial liabilities including net derivatives
	595	(560)	(4)	—	—	(564)
	(1 237)	149	(5)	(133)	(286)	(275)
	(642)	(411)	(9)	(133)	(286)	(839)

66. Fair value hierarchy disclosures *(continued)*

66.6 Sensitivity analysis of valuations using unobservable inputs

As part of the Group's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

A significant input parameter has been deemed to be one which may result in a change in the fair value asset or liability of more than 10%. This is demonstrated by the following sensitivity analysis which includes reasonable range of possible outcomes.

		Group			
		2009			
		Potential effect recorded in profit and loss		Potential effect recorded directly in equity	
	Significant unobservable parameters	Favourable Rm	Unfavourable Rm	Favourable Rm	Unfavourable Rm
Net derivatives	**i, ii, iii, iv**	**9**	**11**	**—**	**—**
Loans and advances designated at fair value through profit or loss	**iii**	**130**	**284**	**—**	**—**
Structured notes and deposits designated at fair value through profit or loss	**iv**	**59**	**64**	**—**	**—**
Private equity	**v, vi, vii**	**773**	**722**	**—**	**—**
		971	**1 081**	**—**	**—**

The following table reflects how the unobservable parameters were changed in order to evaluate the sensitivities of level 3 financial instruments:

Instrument	Parameter	Positive variance variance in parameters	Negative in parameters
Equity derivatives	Volatilities	10%	–10%
Credit derivatives	Credit spreads	100 basis points	–100 basis points
Foreign currency options	Volatilities	10%	–10%
Foreign currency swaps and foreign interest rate products	Basis risk and yield curve	100 basis points	–100 basis points
Loans and advances designated at fair value through profit or loss	Credit spreads	100 basis points	–100 basis points
Structured notes and deposits designated at fair value through profit or loss	Yield curve	100 basis points	–100 basis points
Private equity	Valuation	15%	–15%

67. Unrecognised gains as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in income that relates to the difference between the transaction price (the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, was as follows:

	2009 Rm
Opening balance	**—**
New transactions	**28**
Amounts recognised in the profit and loss component of the statement of comprehensive income during the year	**(4)**
Closing balance	**24**

Annexure A: Embedded value report of Absa Life Limited (unaudited)

Scope of the embedded value report

This report deals with the embedded value of Absa Life Limited and the value of new business written during the financial year.

The embedded value at 31 December 2009 has been calculated in accordance with the principles contained in version 5 of Professional Guidance Note (PGN) 107 of the Actuarial Society of South Africa.

Embedded value

The embedded value of the covered business is the discounted value of the projected stream of future, after tax, shareholder profits arising in the company's financial statements from covered business in force at the valuation date. Covered business is taken to be all long-term insurance business written on the company's licence.

The free surplus is the excess of assets over the sum of liabilities and required capital, with assets at market value and liabilities on the statutory valuation method, adjusted to add back inadmissible assets. The required capital is taken to be 2,5 times the statutory capital adequacy requirement, in line with the results of internal capital models.

Value of new business

The value of new business is the discounted value, at the date of sale, of the projected after tax shareholder profits from new covered business (net of the opportunity cost of the required capital for new business). New covered business is defined as long-term insurance contracts written by the company during the financial year and for which at least one premium has been recognised in the financial statements. The value of new business is calculated using closing assumptions for all basis items.

Embedded value and value of new business

	2009 Rm	2008 Rm
Free surplus[1]	**411**	335
Required capital	**910**	671
Covered business adjusted net worth (ANW)	**1 321**	1 006
Present value of in-force business (PVIF)	**1 202**	1 131
Cost of required capital (CoC)	**(184)**	(45)
Total embedded value	**2 339**	2 092
Value of new business (before CoC)	**327**	338
Cost of required capital (CoC)	**(33)**	(7)
Value of new business (VNB)	**294**	331
Present value of future premiums	**4 354**	4 462
Value of new business as a percentage of the present value of future premiums		
– all business (%)	**6,8**	7,4
– excluding investment business (%)	**22,6**	26,6

Note

[1]*A dividend of R294 million (2008: R117 million) was proposed to the board.*

Assumptions

The value of the covered in-force and new business is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the 'best estimate' assumptions used in the statutory valuation. These assumptions were based on recent experience investigations.

All discounted values are at a risk discount rate of 12,5% per annum (2008: 10,5%). The risk discount rate was derived using a top-down approach in accordance with PGN107. The risk discount rate was set equal to the risk-free rate of return plus the Beta of Absa Group Limited multiplied by the assumed equity risk premium plus a further company risk specific margin of 0,75%. The economic assumptions used were as follows (gross of tax where applicable).

	2009 %	2008 %
Risk-free rate of return	**9,5**	7,5
Equity return – hedged	**10,0**	9,0
Equity return – unhedged	**13,0**	11,0
Cash return	**7,5**	5,5
Overall investment return	**9,4**	7,4
Risk discount rate	**12,5**	10,5
Expense inflation	**6,0**	4,0

Sensitivities

The following table summarises the sensitivity of the embedded value and value of new business calculation to changes in the underlying assumptions. In each of the scenarios no offsetting management actions are assumed to occur.

% change	Risk discount rate +1%	Interest rates –1%	Equity capital values x 0,9	Equity returns +1%	Mortality/ morbidity x 0,95	Maintenance expenses x 0,9	Lapse/ surrender x 0,9	Initial expenses x 0,9
ANW	0%	0%	0%	0%	0%	0%	0%	n/a
PVIF	(3)%	2%	1%	1%	8%	3%	3%	n/a
CoC	27%	(2)%	3%	(24)%	11%	4%	7%	n/a
EV	**(4)%**	**1%**	**0%**	**2%**	**3%**	**1%**	**1%**	**n/a**
VNB	**(6)%**	**3%**	**0%**	**3%**	**4%**	**2%**	**7%**	**2%**

The development of the embedded value can be analysed as follows:

	2009 Rm	2008 Rm
Embedded value at the end of the year	**2 340**	2 092
Dividends accrued or paid	**295**	745
Embedded value at the beginning of the year	**(2 092)**	(2 091)
Embedded value earnings	**543**	746
Components of embedded value earnings:		
Value of new business at point of sale	**294**	331
Expected return on covered business (unwinding)	**135**	139
Operating experience variances	**28**	79
Operating assumption and model changes	**(38)**	(6)
Expected return on ANW	**89**	88
Embedded value operating return	**508**	631
Investment return variances on in-force covered business	**(2)**	51
Investment return variances on ANW	**41**	35
Effect of economic assumption changes	**(4)**	19
Effect of tax changes	**—**	10
Embedded value earnings	**543**	746
Return on embedded value	**26,0%**	35,7%

Review by the independent actuaries

The embedded value of Absa Life Limited and the value of new business written during the year have been reviewed and agreed by the independent consulting actuaries, Deloitte & Touche.

Company statement of financial position

As at 31 December

		Company	
	Note	**2009 Rm**	2008 Rm
Assets			
Loans and advances to banks	2	**216**	634
Other assets	3	**304**	4
Current tax assets	4	**12**	36
Investments	5	**109**	128
Investments in associates and joint ventures	6	**—**	45
Subsidiaries	7	**15 460**	13 144
Deferred tax asset	8	**2**	—
Total assets		**16 103**	13 991
Liabilities			
Derivative liability	9	**—**	2
Other liabilities	10	**84**	101
Borrowed funds	11	**—**	156
Total liabilities		**84**	259
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Company:			
Share capital	12	**1 437**	1 361
Share premium	12	**5 308**	2 750
Other reserves	13	**298**	322
Retained earnings		**8 976**	9 299
Total equity		**16 019**	13 732
Total equity and liabilities		**16 103**	13 991

Company statement of comprehensive income

For the year ended 31 December

		Company	
	Note	**2009 Rm**	2008 Rm
Net interest income		**50**	50
Interest and similar income	14	**56**	68
Interest expense and similar charges	15	**(6)**	(18)
Net interest income after impairment losses on loans and advances		**50**	50
Gains and losses from investment activities	16	**4 660**	8 425
Other operating income	17	**113**	35
Operating profit before operating expenses		**4 823**	8 510
Operating expenditure	18	**(6)**	(5)
Other impairments	19	**(43)**	—
Indirect taxation		**(2)**	—
Operating profit before income tax		**4 772**	8 505
Taxation expense	20	**(201)**	(173)
Total comprehensive income for the year		**4 571**	8 332
Total comprehensive income attributable to:			
Ordinary equity holders of the Company		**4 571**	8 332
Earnings per share:			
• basic earnings per share (cents)	21	**657,0**	1 226,6
• diluted earnings per share (cents)	21	**657,0**	1 226,6

Company statement of changes in equity

For the year ended 31 December

	Company					
	2009					
	Number of ordinary shares '000	**Share capital Rm**	**Share premium Rm**	**Share-based payment reserve Rm**	**Retained earnings Rm**	**Total Rm**
Balance at 1 January 2009	**680 278**	**1 361**	**2 750**	**322**	**9 299**	**13 732**
Total comprehensive income	**—**	**—**	**—**	**—**	**4 571**	**4 571**
Dividends paid	**—**	**—**	**—**	**—**	**(3 805)**	**(3 805)**
Shares issued	**37 932**	**76**	**2 495**	**—**	**—**	**2 571**
Repurchase of preference shares held by Batho Bonke Capital (Proprietary) Limited	**—**	**—**	**3**	**—**	**(1 089)**	**(1 086)**
Costs incurred	**—**	**—**	**(7)**	**—**	**—**	**(7)**
Movement in share-based payment reserve	**—**	**—**	**67**	**(24)**	**—**	**43**
Transfer from share-based payment reserve	**—**	**—**	**67**	**(67)**	**—**	**—**
Value of employee services	**—**	**—**	**—**	**43**	**—**	**43**
Balance at 31 December 2009	**718 210**	**1 437**	**5 308**	**298**	**8 976**	**16 019**
	2008					
	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
Balance at 1 January 2008	678 573	1 357	2 636	170	4 941	9 104
Total comprehensive income	—	—	—	—	8 332	8 332
Dividends paid	—	—	—	—	(3 974)	(3 974)
Shares issued	1 705	4	73	—	—	77
Movement in share-based payment reserve	—	—	41	152	—	193
Transfer from share-based payment reserve	—	—	41	(41)	—	—
Value of employee services	—	—	—	193	—	193
Balance at 31 December 2008	680 278	1 361	2 750	322	9 299	13 732
Note	12	12	12	13		

All movements are reflected net of taxation, refer to note 8.

Company statement of cash flows

For the year ended 31 December

		Company	
	Note	**2009 Rm**	2008 Rm
Cash flow from operating activities			
Interest income	14	**56**	68
Interest expense	15	**(6)**	(18)
Net trading and other income		**4 773**	8 460
Cash payments to employees and suppliers		**(6)**	(5)
Income taxes paid		**(180)**	(204)
Cash flow from operating profit before changes in operating assets and liabilities		**4 637**	8 301
Net (decrease)/increase in derivative liability		**(2)**	2
Net (increase)/decrease in other assets		**(300)**	633
Net (decrease)/increase in other liabilities		**(17)**	40
Net cash generated from operating activities		**4 318**	8 976
Cash flow from investing activities			
Investment in shares		**(810)**	(5 594)
(Decrease)/increase in net loans from/to subsidiaries		**(1 462)**	1 055
Net increase/(decrease) in securities		**19**	(4)
Net cash utilised from investing activities		**(2 253)**	(4 543)
Cash flow from financing activities			
Issue of ordinary shares		**1 478**	77
Redemption of borrowed funds		**(156)**	(1)
Dividends paid	23	**(3 805)**	(3 974)
Net cash utilised from financing activities		**(2 483)**	(3 898)
Net (decrease)/increase in cash and cash equivalents		**(418)**	535
Cash and cash equivalents at the beginning of the year		**634**	99
Cash and cash equivalents at the end of the year	2	**216**	634

	Company 2009 Rm	Company 2008 Rm
1. Accounting policies		
The financial statements of Absa Group Limited (Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of Absa Group Limited and its subsidiaries (Group). For detailed accounting policies refer to the Group's financial statements.		
2. Loans and advances to banks		
Other loans and advances to banks	**216**	634
Portfolio analysis		
Loans and receivables	**216**	634
Loans with variable rates are R209 million (2008: R625 million) and fixed rates are R7 million (2008: R9 million).		
Included above are loans and advances to the Company's parent company of R3 million (2008: Rnil). Refer to note 24 for the full disclosure of related party transactions.		
3. Other assets		
Accounts receivable and prepayments	**304**	4
Portfolio analysis		
Loans and receivables	**304**	4
4. Current tax assets		
Amount due from revenue authorities	**12**	36
5. Investments		
Debt instruments	**109**	128
Portfolio analysis		
Available-for-sale financial assets		
Debt instruments	**109**	128

5.1 Fair value hierarchy disclosure

The Company shows an investment in debt instruments and this is measured at fair value and analysed below by valuation technique.

The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is set out in note 66.2 of the Group's financial statements.

	Company 2009 Valuations with reference to observable prices Level 1 Rm	Valuations based on observable inputs Level 2 Rm	Valuations based on un-observable inputs Level 3 Rm	Total Rm
Available-for-sale financial assets				
Investments	—	109	—	109

		Company	
		2009 Rm	2008 Rm
6.	**Investments in associates and joint ventures**		
	Unlisted investments	**—**	45
6.1	**Movement in carrying amount**		
	Balance at the beginning of the year	**45**	58
	Net movement in the carrying value of investments in associates and joint ventures (refer to note 6.2)	**(45)**	(13)
	Balance at the end of the year	**—**	45
	Directors' valuation of unlisted investments	**—**	63
6.2	**Net movement in the carrying value of investments in associates and joint ventures**		
	The following acquisitions were concluded during the previous year, at cost:		
	Maravedi Group (Proprietary) Limited	**n/a**	43
	During 2008, the Company made an additional contribution in Maravedi Group (Proprietary) Limited.		
	The following disposals were concluded during the current year:		
	Banco Commercial Angolano	**(45)**	n/a
	The Company sold its share in Banco Commercial Angolano to a third party on 30 June 2009.		
	The following disposals were concluded during the previous year:		
	Batho Bonke Investments (Proprietary) Limited	**n/a**	(2)
	On 18 September 2008, the Company sold its share in Batho Bonke Investments (Proprietary) Limited.		
	Maravedi Group (Proprietary) Limited	**n/a**	(43)
	On 31 August 2008, the Company sold its share in Maravedi Group (Proprietary) Limited.		
	The following associate became a subsidiary during the previous year:		
	Meeg Bank Limited	**n/a**	(11)
	The Company acquired a further 50,3% interest in Meeg Bank Limited, which increased its total shareholding to 100,0%. Meeg Bank Limited has been consolidated since 2008.		
	Net movement in the carrying value of investments in associates and joint ventures (refer to note 6.1)	**(45)**	(13)
7.	**Subsidiaries**		
	Loans from subsidiary companies	**(500)**	(1 962)
	Shares at cost	**15 960**	15 106
		15 460	13 144

		Company 2009 Rm	2008 Rm
8.	**Deferred tax**		
8.1	**Reconciliation of net deferred tax asset**		
	Balance at the beginning of the year	—	(2)
	Deferred tax asset (raised)/released on STC credits (refer to note 8.3)	(2)	2
	Balance at the end of the year	(2)	—
8.2	**Deferred tax asset**		
	Deferred tax asset – STC credits (refer to note 8.3)	(2)	—
8.3	**Secondary taxation on companies (STC)**		
	Accumulated STC credits	19	—
	Deferred tax asset raised (refer to note 8.2)	(2)	—
	Movement in deferred tax asset for the year (refer to note 8.1)	(2)	2
	If the total reserves of R9 274 million as at the statement of financial position date (2008: R9 621 million) were to be declared as dividends, the secondary tax impact at a rate of 10,0% (2008: 10,0%) would be R927 million (2008: R962 million).		
9.	**Derivative liability**		
	Foreign exchange derivative	—	2
	Portfolio analysis		
	Financial liability held for trading	—	2

9.1 Detailed breakdown of the derivative

The Company uses a foreign exchange derivative for hedging purposes:

	Company 2009 Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	2008 Notional amount Rm	Net fair value Rm
Foreign exchange contract	—	—	—	—	24	2

Notional amount

The gross notional amount is the sum of the absolute value of the contract bought. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The national amount should be viewed only as a means of assessing the Company's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

Fair value

The amount disclosed represents the fair value as at the statement of financial position date of the derivative financial instrument held.

		Company 2009 Rm	2008 Rm
10.	**Other liabilities**		
	Creditors	84	101
	Portfolio analysis		
	Financial liabilities at amortised cost	84	101

		Company 2009 Rm	Company 2008 Rm
11. Borrowed funds			
Redeemable cumulative option-holding preference shares			
Preference dividend rate / *Option exercise dates*	*Number*		
72% of the prime overdraft rate / 1 July 2007 to 1 July 2009 1 March, 1 June, 1 September or 1 December of each year	79 237 500	**158**	158
Redemption of preference shares for the Absa Group Limited Employee Share Ownership Administrative Trust	(4 516 700)	**(9)**	(8)
Cancellation of preference shares for the Absa Group Limited Employee Share Ownership Administrative Trust	(1 568 500)	**(3)**	—
Redemption of preference shares held by Batho Bonke Capital (Proprietary) Limited	(73 152 300)	**(146)**	—
Accrued dividend		**—**	6
		—	156
Portfolio analysis			
Financial liabilities at amortised cost			
Redeemable cumulative option-holding preference shares		**—**	156

The dividends were compounded and payable semi-annually in arrear on 30 September and 31 March of each year. The shares were issued by Absa Group Limited on 1 July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ended on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1 March, 1 June, 1 September or 1 December of each year. The shares were convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.

In accordance with the Company's articles of association, the Company's borrowing powers are unlimited.

12. Share capital and premium

12.1 Ordinary share capital

	Company 2009 Rm	Company 2008 Rm
Authorised		
880 467 500 (2008: 800 000 000) ordinary shares of R2,00 each	**1 761**	1 600
Issued		
718 210 043 (2008: 680 278 301) ordinary shares of R2,00 each	**1 437**	1 361
Total issued capital		
Share capital	**1 437**	1 361
Share premium	**5 308**	2 750
	6 745	4 111

Authorised shares

The authorised share capital was increased during the current year in terms of article 177.4 of the Articles of Association of the Company which states that upon redemption of any issued redeemable preference share, that issued share shall:

– be automatically cancelled as to its issue, but not as to its authorisation; and simultaneously

– be automatically converted from an authorised but unissued redeemable preference share to an authorised but unissued ordinary share of R2,00 each ranking pari passu in all respects with the authorised ordinary shares (refer to note 12.2 for the redemption of preference shares).

Unissued shares

The unissued shares are under the control of the directors subject to a limit of 5% of issued ordinary share capital as at the statement of financial position date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming annual general meeting of the Company.

	Company 2009 Rm	Company 2008 Rm
12. Share capital and premium *(continued)*		
12.1 Ordinary share capital *(continued)*		

Shares issued during the current year

The following ordinary shares were issued during the year to meet the obligation of the Absa Group Limited Share Ownership Administrative Trust:

- On 17 March 2009, 93 900 shares at R64,80 per share, being R2,00 par value and R62,80 share premium.
- On 24 June 2009, 434 900 shares at R68,30 per share, being R2,00 par value and R66,30 share premium.

The following ordinary shares were issued during the year to meet the obligation of the Absa Group Limited Share Incentive Trust:

- On 24 June 2009, 753 642 shares at R41,97 per share, being R2,00 par value and R39,97 share premium.

The following ordinary shares were issued during the year to meet the obligation of Batho Bonke Capital (Proprietary) Limited exercising its options to subscribe for ordinary shares:

- On 15 June 2009, 36 649 300 shares at R68,30 per share, being R2,00 par value and R66,30 share premium.

Shares issued during the previous year

The following ordinary shares were issued during the previous year to meet the obligation of the Absa Group Limited Share Ownership Administrative Trust:

- On 13 March 2008, 118 900 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 11 June 2008, 91 000 shares at R63,40 per share, being R2,00 par value and R61,40 share premium.
- On 12 September 2008, 86 300 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 15 December 2008, 63 300 shares at R64,10 per share, being R2,00 par value and R62,10 share premium.

The following ordinary shares were issued during the year to meet the obligation of the Absa Group Limited Share Incentive Trust:

- On 30 June 2008, 1 345 727 shares at R38,43 per share, being R2,00 par value and R36,43 share premium.

All shares issued by the Company were paid in full.

	2009 Rm	2008 Rm
12.2 Preference share capital – unlisted		
Authorised		
Nil (2008: 80 467 500) redeemable cumulative option-holding preference shares of R2,00 each	—	161
Issued		
Nil (2008: 75 260 000) redeemable cumulative option-holding preference shares of R2,00 each	—	151

12. Share capital and premium *(continued)*

12.2 Preference share capital – unlisted *(continued)*

Authorised and issued preference shares

The authorised and issued preference shares were reduced when the company entered into an agreement with Batho Bonke Capital (Proprietary) Limited (Batho Bonke) to assist in the partial realisation and exercise of the 73 152 300 options. This was achieved on 1 June 2009 through the repurchase and cancellation of 49,9% of the preference shares and the exercise of the remaining 36 649 300 options by Batho Bonke. The exercise by Batho Bonke of the remaining 50,1% options was financed partially through the proceeds from the repurchase of 49,9% preference shares and through a three-month back-up funding facility provided by the Group.

As a result the authorised ordinary share capital was increased in terms of article 177.4 of the Articles of Association of the Company (refer to note 12.1).

The redeemable cumulative option-holding preference shares expired on 1 July 2009.

On 1 September 2009, Batho Bonke successfully concluded and raised third-party funding of R1 686 million from a consortium of financial institutions, thereby replacing the Group's back-up funding facility from 1 September 2009. All conditions precedent have been fulfilled.

Previously these shares met the definition of debt under *IAS 32 – Financial instruments: Presentation*, and were therefore included under 'Borrowed funds' (refer to note 11).

The 73 152 300 preference shares held by Batho Bonke in 2008 were entitled to voting rights equivalent to those of the listed ordinary shares. The shares held by the Absa Group Limited Employee Share Ownership Administrative Trust were not entitled to voting rights.

Shares redeemed during the current year

The following options held by the Absa Group Limited Share Ownership Administrative Trust were exercised by employees:

- On 17 March 2009, 93 900 preference shares were redeemed and converted into ordinary share capital at R64,80 per share, being R2,00 par value and R62,80 share premium.
- On 24 June 2009, 434 900 preference shares were redeemed and converted into ordinary share capital at R68,30 per share, being R2,00 par value and R66,30 share premium.
- On 1 July 2009, 1 578 900 preference shares were forfeited and cancelled.

The following options held by Batho Bonke were exercised and cancelled:

- On 15 June 2009, 36 649 300 preference shares were redeemed and converted into ordinary share capital at R68,30 per share, being R2,00 par value and R66,30 share premium.
- On 15 June 2009, 36 503 000 preference shares were bought back by Absa Group Limited at R29,10 per share and cancelled.

Shares redeemed during the previous year

The following options held by the Absa Group Limited Employee Share Ownership Administrative Trust were exercised by employees:

- On 13 March 2008, 118 900 preference shares were redeemed and converted into ordinary share capital at R69,00 per share being R2,00 par value and R67,00 share premium.
- On 11 June 2008, 91 000 preference shares were redeemed and converted into ordinary share capital at R63,40 per share, being R2,00 par value and R61,40 share premium.
- On 12 September 2008, 86 300 preference shares were redeemed and converted into ordinary share capital at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 15 December 2008, 63 300 preference shares were redeemed and converted into ordinary share capital at R64,10 per share, being R2,00 par value and R62,10 share premium.

13. Other reserves

Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of *IFRS 2 – Share-based Payment.* The standard requires that the expense be charged to the profit and loss component of the statement of comprehensive income, while a credit needs to be raised against equity over the vesting period (ie the period between the allocation date and the date on which employees will become entitled to their options). When options are exercised, the reserve related to the specific options is transferred to share capital and/or share premium. If the options lapse after vesting, the related reserve is transferred to retained earnings. If the options lapse before vesting, the related reserve is reversed through the profit and loss component of the statement of comprehensive income.

Notes to the Company financial statements

For the year ended 31 December

	Company 2009 Rm	2008 Rm
14. Interest and similar income		
Interest and similar income is earned from:		
Loans and advances to banks	56	68
Portfolio analysis		
Interest on financial assets held at amortised cost	56	68
15. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	6	18
Portfolio analysis		
Interest on financial liabilities held at amortised cost	6	18
16. Gains and losses from investment activities		
Associates and joint ventures		
Profit/(loss) realised on disposal	32	(21)
Subsidiaries	4 628	8 446
Dividends received	4 727	8 446
Loss realised on disposal[1]	(99)	—
	4 660	8 425
17. Other operating income		
Exchange differences	6	(2)
Sundry income	107	37
	113	35
18. Operating expenditure		
Administrative expenses	6	5
19. Other impairments		
Investment in subsidiary	43	—
During the current year, the fair value of the investment in Abvest Holdings (Proprietary) Limited was reassessed. It was found to be lower than the carrying amount. The investment was impaired and an impairment loss was recognised.		
20. Taxation expense		
Current		
Secondary taxation on companies (STC)	141	140
South African current taxation	35	31
South African current taxation – prior year	27	—
	203	171
Deferred		
Deferred taxation (refer to note 8.1)	(2)	2
	201	173

Note

[1]*Relates to the divisionalisation of Meeg Bank Limited.*

	Company	
	2009 Rm	2008 Rm

20. Taxation expense *(continued)*

Reconciliation between accounting profit and the tax expense

	2009 Rm	2008 Rm
Operating profit before income tax	**4 772**	8 505
Tax calculated at a tax rate of 28% (2008: 28%)	**1 336**	2 381
Effects of prior year adjustments	**26**	—
Expenses not deductible for tax purposes	**4**	17
Income not subject to tax	**(1 332)**	(2 357)
Other	**26**	(8)
Secondary taxation on companies	**141**	140
	201	173

The effective STC rate is lower than the statutory rate of 10,0% due to STC being provided for dividends declared net of dividends received and unutilised STC credits from prior years.

21. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares outstanding during the year.

	2009 Rm	2008 Rm
Profit attributable to ordinary equity holders of the Company.	**4 571**	8 332
Weighted average number of ordinary shares in issue (millions)	**695,7**	679,3
Issued shares at the beginning of the year (millions)	**680,2**	678,5
Effect of shares issued during the year (weighted millions)	**15,5**	0,8
Basic earnings per share (cents)	**657,0**	1 226,6
Diluted earnings	**4 571**	8 332
Diluted earnings per share (cents)	**657,0**	1 226,6

Notes to the Company financial statements

For the year ended 31 December

	Company			
	2009		2008	
	Gross Rm	**Net[1] Rm**	Gross Rm	Net[1] Rm
22. Headline earnings				
Headline earnings is determined as follows:				
Net profit attributable to ordinary equity holders of the Company		**4 571**		8 332
Adjustments for:				
IAS 27 – Net loss on disposal of subsidiaries (refer to note 16)	**99**	**99**	—	—
IAS 28 and 31 – Net loss on disposal of associates and joint ventures (refer to note 16)	**(32)**	**(32)**	21	21
IAS 36 – Impairment of investment in subsidiary (refer to note 19)	**43**	**43**	—	—
Headline earnings		**4 681**		8 353
Diluted headline earnings		**4 681**		8 353
Headline earnings per share (cents)		**672,8**		1 229,6
Diluted headline earnings per share (cents)		**672,8**		1 229,6

	Company	
	2009 Rm	2008 Rm
23. Dividends per share		
Dividends paid to ordinary equity holders during the year		
9 February 2009 final dividend number 45 of 330,0 cents per ordinary share (19 February 2008: 320,0 cents)	**2 245**	2 171
3 August 2009 interim dividend number 46 of 225,0 cents per ordinary share (7 August 2008: 265,0 cents)	**1 616**	1 803
Dividends paid on shares held by Batho Bonke Capital (Proprietary) Limited	**(56)**	—
	3 805	3 974
Dividends paid to ordinary equity holders relating to income for the year		
3 August 2009 interim dividend number 46 of 225,0 cents per ordinary share (7 August 2008: 265,0 cents)	**1 616**	1 803
16 February 2010 final dividend number 47 of 220,0 cents per ordinary share (9 February 2009: 330,0 cents)	**1 580**	2 245
Dividends paid on shares held by Batho Bonke Capital (Proprietary) Limited in terms of bridging finance arrangement (refer to note 55.2 of the Group's financial statements)	**(56)**	—
	3 140	4 048

The STC payable by the Company in respect of the dividend approved and declared subsequent to the statement of financial position date, amounts to R158 million (2008: R225 million). No provision has been made for this dividend and the related STC in the financial statements at the statement of financial position date.

24. Related parties

Refer to note 49 of the Group's financial statements for the full disclosure of related party transactions.

Note

[1]*The net amount is reflected after taxation.*

Contents

Additional information

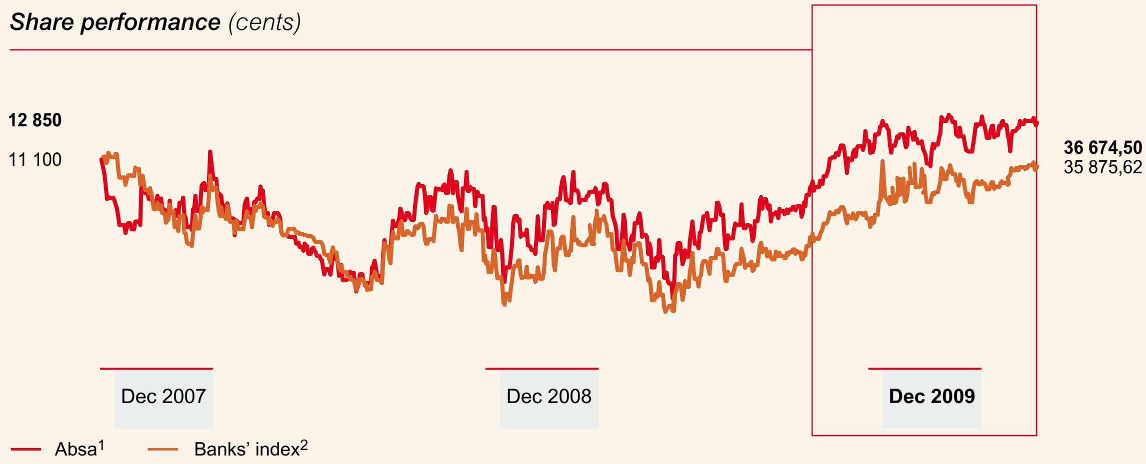
Share performance and shareholders' information

Introduction

Absa Group's share price closed at R128,50, underperforming the Banks' index by 7,48% during the year ended 31 December 2009 (total return was used to calculate the relative performance using the dividend yield for the year). The Absa share price reached a low of R76,90 during the year and was recorded at R130,75 at its highest point.

The number of shares in issue stood at 718 210 043 at the end of 2009 following the successful completion of Absa's empowerment transaction with Batho Bonke Capital (Proprietary) Limited (Batho Bonke).

Share performance *(cents)*



Notes

[1] *Absa Group's annual total return for the year ended 31 December 2009 was 23,9%.*

[2] *The Bank's index outperformed Absa's share price by 7,48% during the year ended 31 December 2009. Total return was used to calculate the relative performance (calculated using the dividend yield for the year)..*

Share performance on the JSE Limited

	2009	2008	Change %
Number of shares in issue[1]	**718 210 043**	680 278 301	5,6
Market prices (cents per share):			
• closing	**12 850**	10 815	18,8
• high	**13 075**	11 999	9,0
• low	**7 690**	7 900	(2,7)
• average	**11 118**	9 954	11,7
Closing price/net asset value per share (excluding preference shares)	**1,83**	1,55	
Price-to-earnings (P/E) ratio (closing price/headline earnings per share)	**11,7**	7,3	
Volume of shares traded (millions)	**545,3**	551,4	(1,1)
Value of shares traded (Rm)	**59 151,4**	54 635,7	8,3
Market capitalisation (Rm)	**92 290,0**	73 572,1	25,4

Note

[1] *Includes **1 841 624** shares held by the Absa Group Limited Share Incentive Trust (December 2008: 2 400 220), **545 111** shares held by Absa Life Limited (December 2008: 905 111) and **no** shares held by the Absa Group Limited Employee Share Ownership Administrative Trust (December 2008: 500).*

Share performance and shareholders' information

Ordinary shareholders

As at 31 December

	2009 Number of shares held	2009 %	2008 Number of shares held	2008 %
Major ordinary shareholders				
Barclays Bank PLC	**398 774 945**	**55,52**	398 774 945	58,62
Public Investment Corporation	**61 549 260**	**8,57**	57 494 104	8,45
Batho Bonke Capital (Proprietary) Limited	**36 649 300**	**5,10**	n/a	n/a
Old Mutual Asset Managers	**22 556 037**	**3,14**	17 622 718	2,59
Investec Asset Management	**19 524 986**	**2,72**	10 826 615	1,59
Stanlib Asset Management	**12 200 691**	**1,70**	13 467 694	1,98
Sanlam Investment Management	**10 340 354**	**1,44**	7 687 288	1,13
Absa Stockbrokers (Proprietary) Limited	**7 263 476**	**1,01**	7 472 071	1,10
Investec Securities (Proprietary) Limited (ZA)	**6 008 830**	**0,84**	n/a	n/a
Foord Asset Management	**5 899 000**	**0,82**	7 345 578	1,08
Other	**137 443 164**	**19,14**	159 587 288	23,46
Total	**718 210 043**	**100,00**	680 278 301	100,00
Shareholder type				
Principal shareholder (Barclays Bank PLC)	**398 774 945**	**55,52**	398 774 945	58,62
Private investors	**28 909 854**	**4,03**	28 909 854	4,25
Other	**290 525 244**	**40,45**	252 593 502	37,13
Total	**718 210 043**	**100,00**	680 278 301	100,00

Public and non-public shareholders

As at 31 December

	2009 Number of share-holders	2009 Number of shares held	2009 %	2008 Number of share-holders	2008 Number of shares held	2008 %
Public shareholders	**43 276**	**277 060 789**	**38,58**	41 639	277 062 697	40,73
Non-public shareholders						
• Barclays Bank PLC	**2**	**398 774 945**	**55,52**	2	398 774 945	58,62
• Trustees of the Absa Share Incentive Trust	**1**	**1 841 624**	**0,26**	1	2 400 220	0,35
• Related holdings	**32**[1]	**39 896 744**	**5,56**	17	1 293 001	0,19
• Directors' and associates' beneficial holdings	**17**	**635 941**	**0,08**	19	747 438	0,11
– Direct		**578 341**			696 538	
– Indirect		**34 000**			26 000	
• Directors' and associates' non-beneficial holdings						
– Direct		**—**			—	
– Indirect		**23 600**			24 900	
Total	**43 328**	**718 210 043**	**100,00**	41 678	680 278 301	100,00

Note

[1]*Includes the empowerment shareholding held by Batho Bonke.*

Preference shareholders

As at 31 December

Batho Bonke Capital (Proprietary) Limited and the Absa Group Limited Employee Share Ownership Administrative Trust hold no (2008: 75 260 000) redeemable cumulative option-holding preference shares.

Total number of Absa Group shares

	Ordinary shares	Preference shares	Total shares
Shares in issue at 31 December 2009	**718 210 043**	**—**	**718 210 043**
Shares in issue at 31 December 2008	680 278 301	75 260 000	755 538 301

Shareholders' diary

Financial year-end	**31 December 2009**
Annual general meeting	**21 April 2010**
Announcements	
Announcement of final results	**16 February 2010**
Announcement of interim results[1]	**5 August 2010**

Dividends

Dividend	Declaration date	Last day to trade	Ex dividend date	Record date	Payment date
Final December 2009	**16 February 2010**	**5 March 2010**	**8 March 2010**	**12 March 2010**	**15 March 2010**
Interim June 2010[1]	5 August 2010	20 August 2010	23 August 2010	27 August 2010	30 August 2010

Note

[1]*Subject to change.*

Notice of annual general meeting (AGM)

Absa Group Limited
(Incorporated in the Republic of South Africa)
Registration number: 1986/003934/06
(the Company)
JSE share code: ASA
Issuer code: AMAGB
ISIN: ZAE000067237

Notice is hereby given that the 24th (twenty-fourth) annual general meeting (AGM) of ordinary shareholders will be held in the P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg, on Wednesday, 21 April 2010 at 11:00.

When reading the resolutions below, please refer to the explanatory notes for the AGM resolutions on page 338 of this notice.

Agenda

1. Ordinary resolution number 1 – Annual financial statements

To consider the Group's and the Company's audited financial statements for the year ended 31 December 2009.

2. Ordinary resolution number 2 – Remuneration of non-executive directors

To sanction the proposed remuneration payable to non-executive directors from 1 May 2010, as set out in the table contained in the explanatory notes for the AGM resolutions.

3. Ordinary resolution number 3 – Reappointment of the auditors

To reappoint PricewaterhouseCoopers Inc. and Ernst & Young Inc. as auditors of the Company until the conclusion of the next AGM.

4. Ordinary resolution number 4 – Re-election of retiring directors

In line with international best practice, to consider the re-election (by separate and stand-alone resolutions) of D C Brink, B P Connellan and G Griffin who have served on the board for more than nine years and who have offered themselves for re-election:

- "Resolved that D C Brink, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."
- "Resolved that B P Connellan, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself for re-election is hereby reappointed as a director of the Company with immediate effect."
- Resolved that G Griffin, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself for re-election is hereby reappointed as a director of the Company with immediate effect."

To re-elect (by separate and stand-alone resolutions) the following directors who retire by rotation, but remain eligible, and who have offered themselves for re-election: D C Arnold, S A Fakie, L L von Zeuner, B J Willemse, R Le Blanc, M J Husain and S G Pretorius.

- "Resolved that D C Arnold, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."
- "Resolved that S A Fakie, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."
- "Resolved that L L von Zeuner, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."
- "Resolved that B J Willemse, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."
- "Resolved that R Le Blanc, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself

for re-election, is hereby reappointed as a director of the Company with immediate effect."

- "Resolved that M J Husain, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."
- "Resolved that S G Pretorius, who is required to retire as a director of the Company at this AGM and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."

5. Ordinary resolution number 5 – Confirmation of appointment of a director

"Resolved that the appointment of D W P Hodnett as a director of the Company on 1 March 2010 is hereby confirmed."

6. Ordinary resolution number 6 – Placing of the unissued but authorised ordinary share capital under the control of the directors

To consider and, if deemed fit, to pass, with or without modification, the following as an ordinary resolution in terms of sections 221 and 222 of the Companies Act No 61 of 1973, as amended (the Companies Act), in order to provide the directors with flexibility to issue the unissued ordinary shares as and when suitable situations arise:

- "Resolved that the authorised but unissued ordinary shares of the Company (other than those specifically identified and authorised for issue in terms of any other authority by shareholders) are hereby placed under the control of the directors. Subject to any applicable legislation and the Listings Requirements of the JSE Limited (JSE) from time to time and any other stock exchange upon which ordinary shares in the capital of the Company may be quoted or listed from time to time the directors are hereby authorised to allot and issue those ordinary shares on any such terms and conditions as they deem fit, subject to the proviso that the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution shall be limited to 5% (five per cent) of the number of ordinary shares in issue as at 31 December 2009."

The maximum number of shares that can be allotted and issued in terms of the above is 35 910 502 (thirty-five million nine hundred and ten thousand five hundred and two) ordinary shares being 5% (five per cent) of the 718 210 043 (seven hundred and eighteen million two hundred and ten thousand and forty-three) ordinary shares in issue as at 31 December 2009.

7. Special resolution – General repurchases

To consider and, if deemed fit, to pass, with or without modification, the following as a **special resolution** in order to provide the directors with flexibility to repurchase ordinary shares in terms of section 85 of the Companies Act as and when suitable situations arise:

- "Resolved that the Company or any subsidiary of the Company may, subject to the Companies Act, the Company's articles of association and the JSE Listings Requirements from time to time and any other stock exchange upon which the securities in the capital of the Company may be quoted or listed from time to time, repurchase ordinary shares issued by the Company, provided that this authority shall be valid only until the date of the next AGM of the Company or for 15 (fifteen) months from the date of the resolution, whichever is the shorter, and may be varied by a **special resolution** by any general meeting of the Company at any time prior to the next AGM."

Pursuant to the above and required in terms of the JSE Listings Requirements, the following additional information is submitted:

It is recorded that the Company or any subsidiary of the Company may only make a general repurchase of ordinary shares if:

- the repurchase of ordinary shares is effected through the order book operated by the JSE trading system and is done without any prior understanding or arrangement between the Company or the relevant subsidiary and the counterparty;
- the Company or the relevant subsidiary is authorised thereto by its articles of association;
- the Company or the relevant subsidiary is authorised thereto by its shareholders in terms of a **special resolution** of the Company or the relevant subsidiary in general meeting, which authorisation shall be valid only until the date of the next AGM or for 15 (fifteen) months from the date of the resolution, whichever is the shorter;
- repurchases are made at a price no greater than 10% (ten per cent) above the volume weighted average of the market value for the ordinary shares for the 5 (five) business days immediately preceding the date on which the repurchase is effected;
- at any point in time, the Company or the relevant subsidiary may only appoint one agent to effect any repurchases on the Company's behalf;
- the Company or the relevant subsidiary only undertake repurchases if, after such repurchase, the Company still complies with shareholder-spread requirements in terms of the JSE Listings Requirements;
- the Company or the relevant subsidiary does not repurchase securities during a prohibited period defined in terms of the JSE Listings Requirements, unless it has a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period;
- a paid press announcement containing full details of such repurchases is published as soon as the Company has repurchased ordinary shares constituting, on a cumulative basis, 3% (three per cent) of the number of securities in issue prior to the repurchases and for each 3% (three per cent), on a cumulative basis, thereafter; and
- the general repurchase of any ordinary shares is (notwithstanding the 20% limit in the JSE Listings Requirements) limited to a maximum of 10% (ten per cent) of the Company's issued ordinary share capital in any one financial year.

In terms of the general authority given under this special resolution any acquisition of ordinary shares shall be subject to:

- the Companies Act;
- the JSE Listings Requirements and any other applicable stock exchange rules, as may be amended from time to time; and
- the sanction of any other relevant authority whose approval is required in law.

After having considered the effect of any repurchases of ordinary shares pursuant to this general authority the directors of the Company in terms of the Companies Act, 1973, and the JSE Listings Requirements confirm that, they will not, undertake such repurchase of ordinary shares unless:

- the Company and the Group would be able to repay their debts in the ordinary course of business for the period of 12 (twelve) months after the date of the notice of the AGM;
- the assets of the Company and the Group, fairly valued in accordance with International Financial Reporting Standards and the Company's accounting policies used in the latest audited Group financial statements, will be in excess of the liabilities of the Company and the Group for the period of 12 (twelve) months after the date of the notice of the AGM;

- the Company and the Group will have adequate capital and reserves for ordinary business purposes for the period of 12 (twelve) months after the date of the notice of the AGM; and
- the working capital of the Company and the Group will be adequate for ordinary business purposes for the period of 12 (twelve) months after the date of the notice of the AGM.

The Company undertakes that it will not enter the market to repurchase the Company's securities, in terms of this general authority, until such time as the Company's sponsor has provided written confirmation to the JSE regarding the adequacy of the Company's working capital in accordance with Schedule 25 of the JSE Listings Requirements.

The maximum number of shares that can be repurchased under this authority amounts to 71 821 004 (seventy-one million eight hundred and twenty-one thousand and four) ordinary shares (10% (ten per cent) of 718 210 043 (seven hundred and eighteen million two hundred and ten thousand and forty-three)) ordinary shares in issue as at 31 December 2009.

The **reason** for the passing of the **special resolution,** is to enable the Company or any of its subsidiaries, by way of a general authority from shareholders, to repurchase ordinary shares issued by the Company.

The **effect** of the **special resolution**, once registered, will be to permit the Company or any of its subsidiaries to repurchase such ordinary shares in terms of the Companies Act. This authority will only be used if circumstances are appropriate.

For the purposes of considering the **special resolution** and in compliance with paragraph 11.26 of the JSE Listings Requirements, certain information is either listed below or has been included in the annual report:

- Directors and management – refer to pages 14 to 26 of this report.
- Major shareholders – refer to page 330 of this report.
- No material changes in the financial or trading position of the Company and its subsidiaries since 31 December 2009.
- Directors' interests in securities – refer to pages 100 to 102 of this report.
- Share capital of the Company – refer to page 321 of this report.
- The directors, whose names are set out on page 343 of this report, collectively and individually accept full responsibility for the accuracy of the information contained in this notice and accompanying documents. The directors certify that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable enquiries in this regard, and further that this notice contains all information required by law and the JSE Listings Requirements.
- There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Company is aware), which may or have had a material effect on the Company's financial position over the past 12 (twelve) months preceding the date of this notice of AGM.

Notice of annual general meeting (AGM)

Proxy and voting procedure

Members who have not dematerialised their shares or who have dematerialised their shares with 'own name' registration are entitled to attend or vote at the AGM and are entitled to appoint a proxy to attend, speak and vote in their stead. The person so appointed need not be a member of the Company.

Certificated members or dematerialised members with "own name" registration who are unable to attend the AGM but wish to be represented thereat must complete the proxy form on page 341 of this report.

In order to be effective, proxy forms should be delivered to the transfer secretaries, Computershare Investor Services (Proprietary) Limited at 70 Marshall Street, Johannesburg, 2001 or be posted to PO Box 61051, Marshalltown, 2107 so as to reach this address no later than 11:00 on Monday, 19 April 2010.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with 'own name' registration, should contact their participant (formerly Central Securities Depository Participant) or their stockbroker:

- to furnish their participant or stockbroker with their voting instructions; or
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

By order to the board

S Martin
Group Secretary

Johannesburg
18 March 2010

Important notes about the AGM

Date: Wednesday, 21 April 2010 at 11:00.

Venue: P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg

Time: The AGM will start promptly at 11:00. Shareholders wishing to attend are advised to be in the auditorium by no later than 10:45. Reception staff at the Absa Towers complex will direct shareholders to the AGM venue. Refreshments will be served after the AGM.

Admission: Shareholder, representatives of shareholders and proxies attending the AGM are requested to register at the registration desk in the auditorium reception area at the venue. Proof of identity may be required for registration purposes.

Security: Secure parking is provided at the venue by prior arrangement. Attendees are requested not to bring cameras, laptop computers or tape recorders. Cellular telephones should be switched off for the duration of the proceedings.

Comments and questions: Comments and questions regarding the AGM may be submitted via the questionnaire on page 351 of this report.

Other important notes

1. General

Shareholders wishing to attend the AGM have to ensure beforehand with the Company's transfer secretaries that their shares are in fact registered in their name. Should this not be the case and the shares are registered in any other name or in the name of a nominee company, it is incumbent on shareholders attending the meeting to make the necessary arrangements with that party in whose name the shares are registered to be able to attend and vote in their personal capacity. The proxy form contains detailed instructions in this regard.

2. Certificated shareholders and dematerialised shareholders with "own name" registration

If you are the registered holder of certificated Absa Group Limited ordinary shares or hold dematerialised Absa Group Limited ordinary shares in your own name and you are unable to attend the AGM but wish to be represented at the AGM, you should complete and return the attached form of proxy in accordance with the instructions contained therein so as to be received by the transfer secretaries, Computershare Investor Services (Proprietary) Limited, at 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) by no later than 11:00 on Monday, 19 April 2010.

3. Dematerialised shareholders

If you are the holder of dematerialised Absa Group ordinary shares, but not the holder of dematerialised Absa ordinary shares in your own name, you must provide your participant or stockbroker with your voting instructions for the AGM in terms of the custody agreement entered into with your participant or stockbroker. If, however, you wish to attend the AGM in person, then you must timeously request your participant or stockbroker to provide you with the necessary authority to attend and vote your shares.

4. Proxies

Shareholders must ensure that their proxy forms reach the transfer secretaries as indicated in note 2 above no later than 11:00 on Monday, 19 April 2010.

5. Enquiries

Any shareholder having difficulties or queries with regard to the AGM or the above may contact the Group Secretary, Sarita Martin, on +27 11 350 4828.

6. Results of the annual general meeting

The results of the meeting will be posted on SENS as soon as practicably possible after the AGM.

Explanatory notes to resolutions of annual general meeting

Consideration of the Group's and the Company's financial statements for the year ended 31 December 2009 (resolution number 1 – ordinary resolution)

The directors must present to members at the AGM the financial statements of the Group and the Company, incorporating the report of the directors, for the year ended 31 December 2009, together with the report of the auditors contained in the annual report.

Sanction of the proposed remuneration payable to non-executive directors from 1 May 2010 (resolution number 2 – ordinary resolution)

Shareholders are requested to consider and, if deemed appropriate, sanction the proposed remuneration payable to non-executive directors with effect from 1 May 2010, as set out below. Full particulars of all fees and remuneration for the past year, as well as the process followed by the Group Remuneration and Human Resource Committee (GRHRC) in recommending board fees and remuneration, are contained on pages 47 to 62 of the annual report.

Absa Group board and Group committees proposed non-executive directors' remuneration (for confirmation/approval by Absa Group shareholders)

Category	Note	**Current annual fee R**	Proposed annual fee payable with effect from 1 May 2010 R
Chairman	1	3 500 000	3 500 000
Absa Group board member		151 686	166 900
Group Audit and Compliance Committee (GACC) member	2	141 192	155 300
Group Risk and Capital Management Committee (GRCMC) member	3	141 192	155 300
Group Remuneration and Human Resource Committee (GRHRC) member	4	75 048	82 600
Directors' Affairs Committee (DAC) member	5	51 622	56 800
Concentration Risk Committee member (CoRC)	6	51 622	56 800
Special board meetings		20 776 per meeting	22 900 per meeting
Special board committee meetings (including Board Finance Committee (BFC))		13 356 per meeting	14 700 per meeting
Brand and Reputation Committee (BRC)		13 356 per meeting	14 700 per meeting
Fees for ad hoc board-appointed committees and other ad hoc consultancy work:			
• Per meeting		13 356 per meeting	14 700 per meeting
• Consulting work		3 000 per hour	3 300 per hour

Notes

1 The Chairman's remuneration is on an all-inclusive basis.
2 The GACC Chairman receives fees equal to three times the fee payable to a GACC member.
3 The GRCMC Chairman receives fees equal to twice the fee payable to a GRCMC member.
4 The GRHRC Chairman receives fees equal to twice the fee payable to a GRHRC member.
5 As the Group Chairman is also the Chairman of the DAC, this fee is covered by the Group Chairman's fee.
6 As the Group Chairman is also the Chairman of the Concentration Risk Committee, this fee is covered by the Group Chairman's fee.

Reappointment of the external auditors (resolution number 3 – ordinary resolution)

Shareholders are requested to consider, and if deemed appropriate, to reappoint PricewaterhouseCoopers Inc. (with T Winterboer as designated auditor) and Ernst & Young Inc. (with E van Rooyen as designated auditor) as auditors of the Company to hold office until the conclusion of the next annual general meeting. The Group Audit and Compliance Committee has recommended and the board has endorsed the above reappointments.

Re-election of retiring directors (resolution number 4 – ordinary resolution)

In line with international best practice, the Company has introduced a requirement where all directors who have been on the board for longer than nine years are subject to annual re-election by shareholders at the AGM. The directors who retire at the 2010 AGM, in terms of the above arrangements are: D C Brink, B P Connellan and G Griffin. All three directors are eligible for re-election and have made themselves available for re-election. The board recommends to shareholders their re-election.

Furthermore, one-third of the directors are required to retire at each AGM in terms of the Company's articles of association. These directors may offer themselves for re-election. The board recommends to shareholders the re-election of the following directors who retire by rotation in terms of Article 85.1.1 of the Company's articles of association and who are eligible for re-election and who have offered themselves for re-election: D C Arnold, S A Fakie, L L von Zeuner, B J Willemse, R le Blanc, M J Husain and S G Pretorius.

Biographical details of these directors are set out on page 15 to 21 of this report.

Confirmation of appointment of new director (resolution number 5 – ordinary resolution)

The appointment by the board of directors of any persons as directors of the Company during the year after the last AGM requires confirmation by shareholders at the first Company AGM following the appointment of such persons. Mr D W P Hodnett was appointed as a director of the Company subsequent to the last AGM and the board recommends to shareholders that his appointment be confirmed. Biographical details of Mr Hodnett are set out on page 21 of this report.

Placing of unissued shares under the control of the directors (resolution number 6 – ordinary resolution)

In terms of sections 221 and 222 of the Companies Act, the members of the Company have to approve the placement of the unissued ordinary shares under the control of the directors.

Unless renewed, the existing authority granted by the members at the previous AGM on 21 April 2009 expires at the forthcoming AGM. The authority will be subject to the Companies Act, the Banks Act and the JSE Listings Requirements. The aggregate number of ordinary shares able to be allotted and issued in terms of this resolution shall be limited to 5% (five per cent) of the number of ordinary shares in issue as at 31 December 2009.

The directors have decided to seek annual renewal of this authority in accordance with best practice. The directors have no current plans to make use of this authority, but are seeking its renewal to ensure that the Company has maximum flexibility in managing the Group's capital resources.

Explanatory notes to resolutions of annual general meeting

Repurchase by the Company or any subsidiary of the Company of securities issued by the Company (resolution number 7 – special resolution)

The Company's articles of association contain a provision allowing the Company or any subsidiary of the Company to repurchase securities issued by the Company. This is subject to the approval of the members in terms of the Company's articles of association, the Companies Act, the Banks Act and the JSE Listings Requirements. The existing general authority, granted by members at the previous AGM on 21 April 2009, is due to expire, unless renewed.

The directors are of the opinion that it would be in the best interests of the Company to extend such general authority and thereby allow the Company or any subsidiary of the Company to be in a position to repurchase the securities issued by the Company through the order book of the JSE, should the market conditions and price justify such action.

The proposed authority would enable the Company or any subsidiary of the Company to repurchase up to a maximum of 71 812 004 (seventy-one million eight hundred and twelve thousand and four) ordinary securities in the ordinary issued share capital of the Company, representing 10% (ten percent) of the issued ordinary share capital as at 31 December 2009 with a stated upper limit on the price payable, which reflects the JSE Listings Requirements. Repurchases will be made only after the most careful consideration, where the directors believe that an increase in earnings per share will result and where repurchases are, in the opinion of the directors, in the best interests of the Company and its members.

Form of proxy

Annual general meeting

Absa Group Limited
Registration number: 1986/003934/06
JSE code: ASA
Issuer code: AMAGB
ISIN code: ZAE000067237
(Absa or the Group)

NUMBER OF SHARES

TO BE COMPLETED ONLY BY CERTIFICATED SHAREHOLDERS AND DEMATERIALISED SHAREHOLDERS WITH 'OWN NAME' REGISTRATION.

I/We

(name(s) in block letters)

of

(address in block letters)

being a member of the Company, entitled to vote and holding ______________ shares do hereby appoint

or failing him/her

or failing him/her,

the chairperson of the annual general meeting (AGM) as my/our proxy to attend and speak and vote for me/us and on my/our behalf at the AGM of members of the Company to be held in the PW Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg on Wednesday, 21 April 2010 at 11:00 and at any adjournment thereof, as follows:

	In favour of	Against	Abstain
1. Resolution to consider the Group and Company financial statements			
2. Resolution to sanction the proposed remuneration of the non-executive directors, payable from 1 May 2010.			
3. Resolution to reappoint the Company's auditors			
4. Resolutions to re-elect retiring directors:			
D C Brink			
B P Connellan			
G Griffin			
D C Arnold			
S A Fakie			
L L von Zeuner			
B J Willemse			
R le Blanc			
M J Husain			
S G Pretorius			
5. Resolution to confirm the appointment of a new director appointed after the last AGM: D W P Hodnett			
6. Resolution regarding the placing of unissued shares under the control of the directors			
7. Special resolution regarding the authority for a general repurchase of ordinary shares			

Please indicate with an 'X' in the appropriate spaces provided above how you wish your vote to be cast. If no indication is given, the proxy will be entitled to vote or abstain as he/she deems fit.

A member of the Company entitled to attend and vote at the above-mentioned meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

Signed at on 2010

Full name(s)
(in block letters)

Signature(s)

Assisted by (guardian) Date

If signing in a representative capacity, see note 4 on page 342.

Notes to the form of proxy

1. If two or more proxies attend the AGM, then that person attending the AGM whose name appears first on the proxy form and whose name is not deleted shall be regarded as the validly appointed proxy.
2. The Chairman of the AGM may reject or accept a form of proxy which is completed and/or received other than in accordance with these notes.
3. Any alteration to this proxy form, other than a deletion of alternatives, must be initialled by the signatories.
4. Documentary evidence establishing the authority of a person signing the proxy form in a representative or other legal capacity must be attached to this form, unless previously recorded by the Company or the transfer secretaries or waived by the Chairman of the meeting.
5. A minor must be assisted by his/her parent or legal guardian, unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
6. In order to be effective, proxy forms must be delivered to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, at 70 Marshall Street, Johannesburg, 2001 or be posted to PO Box 61051, Marshalltown, 2107, so as to reach this address by not later than 11:00 on Monday, 19 April 2010.
7. The delivery of a duly completed proxy form shall not preclude any member or his/her duly authorised representative from attending the AGM and speaking and voting thereat instead of his/her proxy.
8. Where there are joint holders of shares:
   - 8.1. any one holder may sign the form of proxy; and
   - 8.2. the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders appear in the Company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
9. Shareholders holding dematerialised shares (without "own name" registration) who wish to attend the AGM must contact their participant or stockbroker, who will furnish them with the necessary authority to attend the AGM. Alternatively, such shareholders must instruct their participant or stockbroker as to how they wish to vote in this regard. This has to be done in terms of the agreement entered into between such shareholders and their participant or stockbroker.

Administration

As at 15 March 2010

Controlling company

Absa Group Limited

Reg No 1986/003934/06

Registered office

3rd Floor, Absa Towers East
170 Main Street
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 4009
Email: groupsec@absa.co.za

Board of directors

D C Brink (Group Chairman)
D C Arnold
B P Connellan
Y Z Cuba
B C M M de Vitry d'Avaucourt (French)
S A Fakie
G Griffin
M W Hlahla
D W P Hodnett[1]
M J Husain
A Jenkins (British)
R Le Blanc (British)
T M Mokgosi-Mwantembe
E C Mondlane, Jr. (Mozambican)
T S Munday
S G Pretorius
M Ramos[1] (Group Chief Executive)
L L von Zeuner[1] (Deputy Group Chief Executive)
B J Willemse

Transfer secretaries

Computershare Investor Services (Proprietary) Limited
70 Marshall Street
Johannesburg, 2001
Postal address: PO Box 61051
Marshalltown, 2107
Telephone: 011 370 5000
Telefax: 011 370 5271/2

ADR depositary

The Bank of New York Mellon
101 Barclay Street, 22W
New York, NY, 10286
Telephone: 001 212 815 2248

Auditors

PricewaterhouseCoopers Inc.
Ernst & Young Inc.

Group Secretary

S Martin
Email: sarita.martin@absa.co.za

Sponsor

J P Morgan Equities Limited
No 1 Fricker Road, Cnr. Hurlingham Road, Illovo, Johannesburg, 2196
Postal address: Private Bag X9936, Sandton 2146
Telephone: 011 507 0300
Telefax: 011 507 0503

Banking

Absa Bank Limited and its operating divisions

Absa Bank Limited

Reg No 1986/004794/06

Registered office

3rd Floor, Absa Towers East
170 Main Street
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 4009
Email: groupsec@absa.co.za

Board of directors

D C Brink (Chairman)
D C Arnold
B P Connellan
Y Z Cuba
B C M M de Vitry d'Avaucourt (French)
S A Fakie
G Griffin
M W Hlahla
D W P Hodnett[1]
M J Husain
A Jenkins (British)
R Le Blanc (British)
T M Mokgosi-Mwantembe
E C Mondlane, Jr. (Mozambican)
T S Munday
S G Pretorius
M Ramos[1] (Chief Executive)
L L von Zeuner[1] (Deputy Chief Executive)
B J Willemse

Absa Capital

Absa Building,15 Alice Lane
Sandown, Sandton, 2196
Postal address: Private Bag X10056
Sandton, 2146
Telephone: 011 895 6000
Telefax: 011 895 7802
Website: www.absacapital.com

Absa Card

Volkskas Centre, 230 Van der Walt Street, Pretoria, 0002
Postal address: PO Box 3915
Pretoria, 0001
Telephone: 012 317 0000
Telefax: 012 317 0127
Email: contactcard@absa.co.za

Absa Corporate and Business Bank

Absa Towers, 160 Main Street
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 5247
Email: jamessl@absa.co.za

Note

[1]*Executive in the Absa Group.*

Administration

Absa Home Loans
45 Mooi Street (corner of Mooi and Anderson Streets)
Johannesburg, 2001
Telephone: 011 330 2111
Telefax: 011 350 1753
Email: home@absa.co.za

Absa Islamic Banking
61 Empire Road, Absa Investment Campus, Block E, Parktown
Johannesburg, 2193
Telephone: 011 551 4530
Telefax: 011 551 4521
Email: islamicbanking@absa.co.za

Absa Micro Lending
2nd Floor, Absa Building
278 Thirteenth Road
Erand Gardens, Midrand, 1685
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 697 8000
Telefax: 011 697 8023
Email: lawrence.twigg@absa.co.za

Absa Private Bank
Investment Campus, Park Ridge Office Park, 61-65 Empire Road
Parktown, 2193
Telephone: 011 551 4300
Email: privatebank@absa.co.za

Absa Vehicle and Asset Finance
3rd Floor, 45 Mooi Street
Johannesburg, 2001
Postal address: PO Box 8842
Johannesburg, 2000
Telephone: 011 350 8452
Telefax: 011 350 5373
Email: vehiclefinance@absa.co.za

Retail Bank
Absa Towers, 160 Main Street
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 4411
Email: gavin.opperman@absa.co.za

Financial services and insurance
Absa Financial Services Limited and its major subsidiaries

Absa Financial Services Limited
Reg No 1969/009007/06

Registered office
Absa Towers North,
180 Commissioner Street
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4770
Telefax: 011 350 3946
Email: williel@absa.co.za

Board of directors
G Griffin
D W P Hodnett[1]
W T Lategan[1]
M Ramos[1]
L L von Zeuner[1]

Absa Insurance and Financial Advisers (Proprietary) Limited
(formerly Absa Brokers (Proprietary) Limited)
Reg No 1970/002732/07
Absa Towers North
180 Commissioner Street,
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 1257
Telefax: 011 299 0119
Email: peter.todd@absa-ib.co.za

Absa Consultants and Actuaries (Proprietary) Limited
Reg No 1961/001434/07
Fourways Golf Park, Mowbray Building, Roos Street, Fourways
Postal address: PO Box 4167
Fourways, 2055
Telephone: 011 244 9031
Telefax: 011 467 8442
Email: jacqueseras@absa.co.za

Absa Fund Managers Limited
Reg No 1991/000881/06
3rd Floor, Absa Towers East
170 Main Street
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4000
Email: alan.miller@absa.co.za

Absa Health Care Consultants (Proprietary) Limited
Reg No 1983/008344/07
Fourways Golf Park, Killarney Building, Roos Street, Fourways
Postal address: PO Box 4167
Fourways, 2055
Telephone: 011 244 9000
Telefax: 011 467 8442
E-mail: Thabiso.Buku@absa.co.za

Absa Insurance Company Limited
Reg No 1992/001737/06
21 Kruis Street
Johannesburg, 2001
Postal address: PO Box 421
Johannesburg, 2000
Telephone: 011 330 2264
Telefax: 011 224 6600
Email: Edwyn.O'Neill@absa.co.za

Absa Investment Management Services (Proprietary) Limited
Reg No 1980/002425/07
1 Woodmead Drive, Block 6
Woodmead Estate, 2128
Postal address: PO Box 974
Johannesburg, 2000
Telephone: 011 259 0111
Telefax: 011 259 0051/2
Email: Alan.Miller@absa.co.za

Absa Life Limited
Reg No 1992/001738/06
21 Kruis Street
Johannesburg, 2001
Postal address: PO Box 421
Johannesburg, 2000
Telephone: 011 330 2265
Telefax: 011 331 1312
Email: izaks@absa.co.za

Note
[1]*Executive in the Absa Group.*

Absa Mortgage Fund Managers (Proprietary) Limited

Reg No 1988/003537/07
65 Empire Road, Parktown, 2193
Postal address: PO Box 6115
Johannesburg, 2000
Telephone: 011 480 5001
Telefax: 011 480 5440
Email: alan.miller@absa.co.za

Absa Trust Limited

Reg No 1915/004665/06
Fourways Golf Park, Turnberry Building, Roos Street, Fourways
Postal address: PO Box 4167
Fourways, 2055
Telephone: 011 244 9000
Telefax: 011 361 3974
Email: hughg@absa.co.za

Other Group subsidiaries, associated undertakings and other interests

Absa Asset Management (Proprietary) Limited

Reg No 1997/017903/07
Park Ridge Office Park, Block A
65 Empire Road, Parktown, 2193
Postal address: PO Box 61320
Marshalltown, 2107
Telephone: 011 480 5001
Telefax: 011 480 5351
Email: alan.miller@absa.co.za

Absa Development Company Holdings (Proprietary) Limited

Reg No 1968/001326/07
11 Diagonal Street
Newtown
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4611
Telefax: 011 350 4009
Email: jamessl@absa.co.za

Absa Manx Insurance Company Limited (Isle of Man)

Reg No 077950C
3rd Floor, St George's Court
Upper Church Street, Douglas
Isle of Man, IMI 1EE
Telephone: 0044 1624 692 411/425

Absa Portfolio Managers (Proprietary) Limited

(trading as Absa Asset Management Private Clients)
Reg No 1954/001116/07
Park Ridge Office Park, Block C,
65 Empire Road, Parktown, 2193
Postal address: PO Box 61320
Marshalltown, 2107
Telephone: 011 480 5000
Telefax: 011 480 5351
Email: craig.pheiffer@absa.co.za

Absa Stockbrokers (Proprietary) Limited (member of the JSE Limited)

Reg No 1973/010798/07
Park Ridge Office Park, Block A
65 Empire Road, Parktown, 2193
Postal address: PO Box 61320
Marshalltown, 2107

Absa Stockbrokers (Proprietary) Limited

Dealing department
Telephone: 011 647 0892
Telefax: 011 647 0877

Settlement department
Telephone: 011 647 0819
Telefax: 011 647 0828
Email: equitiesadmin@absa.co.za

Absa Trading and Investment Solutions Holdings Limited

Reg No 1989/017358/06
Absa Building, 15 Alice Lane
Sandown, Sandton, 2196
Postal address: Private Bag X10056
Sandton, 2146
Telephone: 011 895 6000
Telefax: 011 895 7802
Email: dirk.swanevelder@absa.co.za

AllPay Consolidated Investment Holdings (Proprietary) Limited

Reg No 1993/003751/07
Isle of Houghton
Cnr Boundary and Carse o'Gowrie
Houghton, 2198
Postal address: PO Box 5438
Johannesburg, 2000
Telephone: 011 532 2185
Telefax: 011 532 2180
Email: thandekam@absa.co.za

Barclays Bank Mozambique S.A. (Mozambique)

15th Floor, Barclays Building
Avenida 25 de Setembro No 1184
Maputo, Mozambique
Telephone: 00 258 21351700
Telefax: 00 258 21 323470
Email: pauln@barclays.co.mz

National Bank of Commerce Limited (Tanzania)

NBC Limited Head Office, corner of Sokoine Drive and Azikiwe Street
Postal address: PO Box 1863
Dar es Salaam, Tanzania
Telephone: 00 255 222 111970/126066
Telefax: 00 255 222 112887/113749
Email: contact@nbctz.com
Website: www.nbctz.com

Absa Namibia Representative Office

Unit 6, Ausspann Plaza
Dr Agustinho Neto Road
Ausspannplatz, Windhoek, Namibia
Telephone: +264 61 2893002
Telefax: +264 61 2893008
Email: marius.alberts@absa.co.za

Other contact information

Shareholder contact information

Shareholder and investment queries about the Absa Group should be directed to either of the following departments:

Absa Group Investor Relations

Ms Nwabisa Piki

Telephone: +27 11 350 5926

Telefax: +27 11 350 5924

Email: investorrelations@absa.co.za

Absa Group Secretariat

Ms Sarita Martin

Telephone: +27 11 350 4828

Telefax: +27 11 350 4009

Email: groupsec@absa.co.za

Other contacts

Group Media Relations

Mr Patrick Wadula

Telephone: +27 11 350 5768

Group Legal

Mr Marthinus van Rensburg

Telephone: +27 11 350 4313

Head office switchboard

Telephone: +27 11 350 4000

Customer support

The Absa Group aims to maintain a high standard of customer service, but disputes may arise. Matters can be raised by contacting any one of the following:

Actionline: 0800 414 141

Absa call centre: 0860 008 600 or (+27) 011 276 4000

Customer relationship Email: actionline@absa.co.za

General Email enquiries: absa@absa.co.za

Customers are encouraged to first approach the specific branch, area or line manager if a dispute arises.

Reporting fraud or corruption

Absa has a dedicated telephone line to facilitate reporting possible fraud and corruption in the Absa Group. This line is available 24 hours a day, seven days a week and is open to the general public and Absa employees.

Calls may be made anonymously. They will not be recorded and no attempt will be made to determine the telephone number of the caller. The fraud and corruption hotline is 0800 205 055

Glossary

Abbreviations and acronyms used in the Absa Group annual report for the year ended 31 December 2009

A	
AACOSIDA	Associação dos Amigos de Crianças Órfãs de Sida
Absa Devco	Absa Development Company Holdings (Proprietary) Limited
ACA	Absa Consultants and Actuaries
ACBB	Absa Corporate and Business Bank
ACCA	Association of Chartered Certified Accountants
AEaR	Annual Earnings at Risk
AFS	Absa Financial Services
AG	Attorney General
AGCC	Absa Group Credit Committee
AGM	Annual General Meeting
AHCC	Absa Health Care Consultants
AIA	Absa Internal Audit
Aids	Acquired Immune Deficiency Syndrome
AIMS	Absa Investment Services (Proprietary) Limited
AIRB	Advanced Internal Rating Based
ALBA	Absa Life Brokers Association
AMA	Advanced Management Approach
AMEF	Absa Micro Enterprise Finance
AML	Anti-Money Laundering
AMP	Advanced Management Programme
ANW	Adjusted Net Worth
ART	Anti retroviral treatment
ASSA	Actuarial Society Of South Africa
ATM	Automated Teller Machine
AVAF	Absa Vehicle And Asset Finance

B	
Basel II	Basel II Capital Accord
BBBEE	Broad-Based Black Economic Empowerment
BBM	Barclays Bank Mozambique
BCA	Banco Comercial Angolano
BEE	Black Economic Empowerment
BEEL	Best Estimate of Expected Loss
BFC	Board Finance Committee
BIA	Basic Indicator Approach
BOT	Bank of Tanzania
bps	basis points
BRC	Brand and Reputation Committee

C	
CAF	Commercial Asset Finance
CAGR	Compounded Annual Growth Rate
CAPM	Capital Asset Pricing Model
CAR	Capital Adequacy Requirement
CARS	Collateralised Auto Receivables Securitisation (Proprietary) Limited
CCO	Chief Credit Officer
CEM	Current Exposure Method
CFLP	Contingency Funding and Liquidity Plan
CGU	Cash Generating Unit
CI	Control Issues
CIBULS	Control Issue of Business Unit Level Significance
CICLS	Control Issue of Cluster Level Significance
CIELS	Control Issue of Entity Level Significance
CIGLS	Control Issue of Group Level Significance
CIPS	Chartered Institute of Purchasing and Supply
CIT	Cash In Transit
CLA	Corporate Laws Amendment Act, No 24 of 2006
CLGD	Country Loss-Given Default
CMC	Capital Management Committee
CMMC	Credit Model Monitoring Committee
COC	Cost Of Required Capital
CODM	Chief Operating Decision Maker
CoGP	Codes of Good Practice
CoRC	Concentration Risk Committee
COO	Chief Operating Officer
CPA	Consumer Protection Act
CPF	Commercial Property Finance
CPI	Consumer Price Index
CPIX	Consumer Price Index excluding interest rates on mortgage bonds
CRC	Credit Risk Committee
CRES	Corporate Real Estate Services
CRTC	Credit Risk Technical Committee
CSA	Collateral Support Annex
CSI	Corporate Social Investment
CSR	Corporate social responsibility

Glossary

D	
DAC	Directors' Affairs Committee or deferred acquisition costs
DG	Default Grade
DMA	Direct Market Access
DRACA	Detailed Risk And Control Assessments
DRG&CC	Divisional Risk Governance and Control Committee
DRL	Deferred Revenue Liability
DTI	Department of Trade and Industry
DVaR	Daily Value At Risk

E	
EAD	Exposure At Default
EC	Economic Capital
ECD	Early Child Development
ECAI	External Credit Assessment Institutions
ECCG	Employee Compliance Conduct Guide
ECI	Employee Community Involvement
ECSAFA	Eastern, Central and Southern African Federation of Accountants
EL	Expected Loss
EOS	Employee Opinion Survey
EP	Economic Profit
EPFI	Equator Principles Financial Institution
EPS	Earnings Per Share
ERMD	Environmental Risk Management Department
ERMU	Environmental Risk Management Unit
ESAS	Executive Share Award Scheme
ESC	Environmental Steering Committee
ESIA	Environmental and Social Assessment
ESOP	Employee Share Ownership Programme
EVE	Economic Value of Equity
EWWL	Early-Warning Watch List
Exco	Executive Committee

F	
FAIS	Financial Advisory and Intermediary Services Act, No 37 of 2002
FASSA	Fellow of the Actuarial Society of South Africa
FCMA	Fellow of Chartered Institute of Management Accountants
FFA	Fellow of the Faculty of Actuaries
FIA	Financial Intermediaries Association
FIAC	Fellow of the Institute of Administration and Commerce
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act, No 38 of 2001
FIRB	Foundation Internal Ratings Based
FRA	Forward Rate Agreement
FRM	Fraud Risk Management
FSB	Financial Services Board
FSC	Financial Sector Charter
FSCC	Financial Sector Charter Council
FSV	Financial Soundness Valuation

G	
GACC	Group Audit and Compliance Committee
GBP	Sterling/Great British pounds
GCC	Group Credit Committee
GCE	Group Chief Executive
GCOO	Group Chief Operating Officer
GDP	Gross Domestic Product
GFCM	Group Financial Crime Management
GGCC	Group Governance and Control Committee
GI	Gross Income
GIC	Group Investment Committee
GRCMC	Group Risk and Capital Management Committee
GRHRC	Group Remuneration and Human Resource Committee
GRI	Global Reporting Initiative
GRPR	Group Risk Profile Report
GRZ	Government of Zambia

Glossary

H	
HDSA	Historically Disadvantaged South African
HEPS	Headline Earnings Per Share
HESA	Higher Education South Africa
HIV	Human Immunodeficiency Virus
Homes	Homes Obligors Mortgage Enhance Securities (Proprietary) Limited
HR	Human Resources

I	
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred But Not (yet) Reported
ICAAP	Internal Capital Adequacy Assessment Process
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMA	Internal Models Approach
IMD	International Institute for Management Development
IPO	Initial Public Offering
IRB	Internal Ratings-Based
ISDA	International Swaps and Derivatives Association
IT	Information Technology

J	
JIBAR	Johannesburg Interbank Agreed Rate
JSAP	Joiners Share Award Plan
JSE	JSE Limited

K	
KI	Key Indicators
KRS	Key Risk Scenarios
King II	King Report on Corporate Governance for South Africa, 2002
King III	King Report on Corporate Governance for South Africa, 2009

L	
LGD	Loss-Given Default
LTV	Loan To Value

M	
MADD	Make a Difference Day
MAG	Maximum Allocation Guidelines
MRC	Market Risk Committee
MT	Metical/Meticals
MTM	Mark to market

N	
NBC	National Bank of Commerce Limited
NBFI	Non-Bank Financial Institution
NCA	National Credit Act, No 34 of 2005
NCR	National Credit Regulator
NEMA	National Environmental Management Act
NPA	New Product Approval
NRRF	New Regulatory Requirement Forum
NWP	Net Written Premium

O	
OCAR	Ordinary Capital Adequacy Requirement
OECD	Organisation for Economic Cooperation and Development
ORC	Operational Risk Committee
OTC	Over-The-Counter
OVC	Orphaned and Vulnerable Children

Glossary

P	
p.a.	per annum
PAT	Profit After Tax
PBT	Profit Before Tax
PD	Probability of Default
PFE	Potential Future Exposure
PGN	Professional Guidance Note
PIT	Point In Time
PLC	Public listed Company
PPG	Pinnacle Point Group
PRO	Principal Risk Owner
PRP	Principal Risks Policy
PSP	Performance Share Plan
PVIF	Present Value of In-force Business

R	
R	rand
RC	Regulatory Capital
RCA	Risk and Control Assessment
RoA	Return on Average Assets
RoE	Return on Equity
RoEC	Return on Economic Capital
RSA	Republic of South Africa
RT	Risk Tendency
RWA	Risk-Weighted Asset
RG&CC	Risk Governance and Control Committee

S	
SA	South Africa
SABRIC	South African Bank Risk Intelligence Centre
SAFPS	South African Fraud Protection Services
SAICA	South African Institute of Chartered Accountants
SAM	Solvency Assessment and Management
SAPS	South African Police Services
SARB	South African Reserve Bank
SARS	South African Revenue Service
SCCR	Supply Chain Corporate Responsibility

S *(continued)*	
SENS	Securities Exchange News Service
SIC	Standard Industry Classification or Standing Interpretations Committee
SME	Small and Medium Enterprises
SMS	Security Management System
SOX	Sarbanes-Oxley
SPE	Special Purpose Entity
SPV	Special Purpose Vehicle
SRI	Socially Responsible Investment
STC	Secondary Taxation on Companies

T	
TD	Transformation and Diversity
THRASS	Teaching Handwriting Reading and Spelling Skills
TRC	Trading Risk Committee
TSA	The Standardised Approach
TST	Trans Sahara Trading (IOM) Limited
TTC	Through-The-Cycle
TZS	Tanzanian Shilling

U	
USD/US$	United States dollar
UL	Unexpected Loss

V	
VAS	Value At Stake
VAT	Value Added Tax
VCT	Voluntary Counselling and Testing
VESAS	Voluntary Executive Share Award Scheme

W	
WFS	Woolworths Financial Services (Proprietary) Limited

Z	
ZAR	South African rand