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www.absa.co.za

SHAREHOLDER REPORT

for the nine months ended 31 December 2005

ABSA GROUP LIMITED

Member of the BARCLAYS Group

ABSA

contents

This shareholder report for the nine months ended 31 December 2005 conforms to legal and regulatory requirements. Absa's detailed stakeholder report for the nine months ended 31 December 2005 will be accessible on Absa's website www.absa.co.za in due course and can also be ordered, either as a hard copy or on a compact disk. Please write to Investor Relations, Absa Group Limited, P O Box 7735, Johannesburg 2000, or send an e-mail to ir@absa.co.za to order.

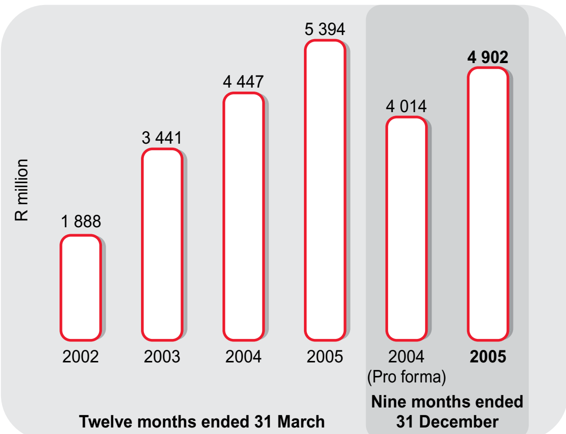
- **Barclays PLC acquired a majority stake in the Group.**
- **Headline earnings up 22,1% for the nine months.**
- **Strong advances growth.**
- **Impairment ratio at a historical low.**
- **Significant growth in the customer base.**
- **Absa changed its financial year-end to 31 December.**
- **Absa acquired the Barclays South Africa operations (effective 1 January 2006).**

Note

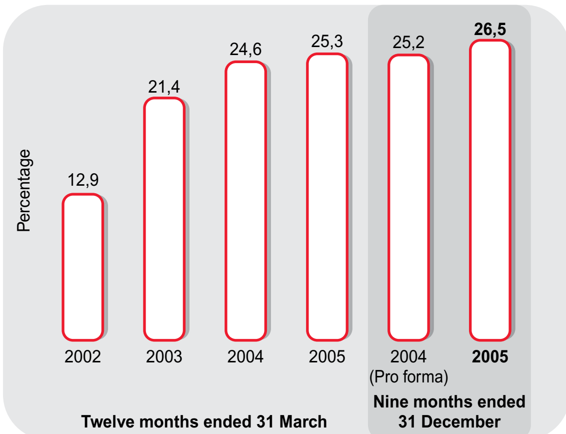
- The Group's financial year-end changed from 31 March to 31 December. Consequently, this report covers a nine-month period. The results for the nine months ended 31 December 2005 are not comparable with those of the previous year and therefore this report (with the exclusion of the audited financial statements) makes reference to the *pro forma* unaudited figures for the nine months ended 31 December 2004 for comparison purposes.
- The December 2004 *(pro forma)* and March 2005 figures have been restated for International Financial Reporting Standards (IFRS) throughout the document.

	Nine months ended 31 December 2005	Nine months ended 31 December 2004 (Pro forma)	Change %	Twelve months ended 31 March 2005 (Restated)
Income statement (Rm)				
Headline earnings	**4 902**	4 014	22,1	5 394
Profit attributable to equity holders	**4 776**	3 942	21,2	5 419
Balance sheet (Rm)				
Total assets	**407 422**	**		347 161
Loans and advances to customers	**322 097**	**		268 240
Deposits due to customers	**300 298**	**		251 984
Financial performance (%)				
Return on average equity*	**26,5**	25,2		25,3
Return on average assets, excluding acceptances*	**1,73**	1,63		1,65
Operating performance (%)				
Net interest margin on average assets*	**3,36**	3,28		3,25
Net interest margin on average interest-bearing assets*	**3,77**	3,69		3,70
Impairment losses on loans and advances as a percentage of average loans and advances to customers*	**0,26**	0,54		0,52
Non-performing advances as a percentage of loans and advances to customers	**1,7**	2,4		2,2
Non-interest income as a percentage of total operating income	**51,1**	52,6		53,8
Cost-to-income ratio	**58,0**	57,5		56,6

Headline earnings



Return on average equity

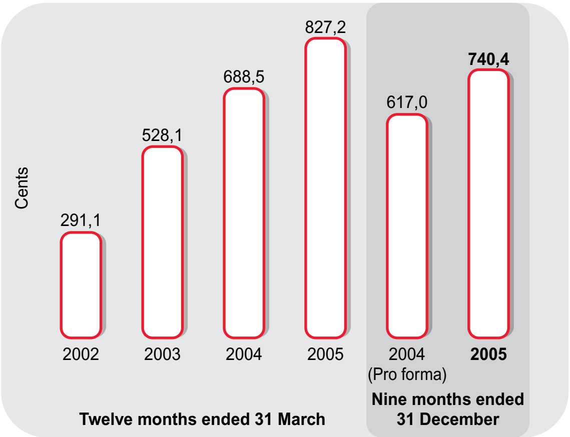


These ratios have been annualised owing to the nine-month reporting period.

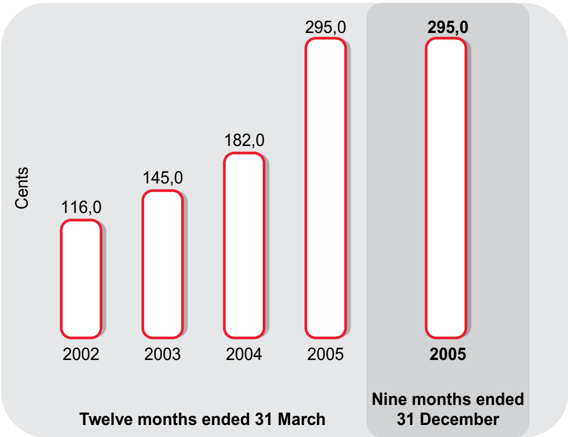
***Owing to the change in the Group's year-end to 31 December, certain figures for the nine months ended 31 December 2004 are not available on a comparable basis to that of the nine months ended 31 December 2005.*

	Nine months ended 31 December			Twelve months ended 31 March
	2005	2004 (Pro forma)	Change %	2005 (Restated)
Share statistics (million)				
Number of shares in issue	**666,9**	665,1		655,1
Weighted average number of shares	**662,1**	650,5		652,1
Weighted average diluted number of shares	**690,8**	669,3		677,3
Share statistics (cents)				
Headline earnings per share	**740,4**	617,0	20,0	827,2
Diluted headline earnings per share	**710,9**	600,7	18,3	797,9
Earnings per share	**721,4**	605,9	19,1	831,0
Diluted earnings per share	**692,7**	589,9	17,4	801,6
Dividends per share relating to income for the period	**295,0**	n/a		295,0
Dividend cover (times)	**2,5**	n/a		2,8
Net asset value per share	**3 890**	3 577	8,8	3 569
Capital adequacy (%)				
Absa Bank	**10,7**	11,5		11,4
Absa Group	**11,3**	12,1		12,0
Employees				
Permanent employee complement	**33 543**	32 222	4,1	32 515

Headline earnings per share



Dividends per share



below:

D C Cronjé › Chairman

S F Booysen › Group chief executive

27 July 2005 –
The Barclays Group acquired a majority stake in the Absa Group.

…ABSA PRODUCED ANOTHER GOOD PERFORMANCE FOR THE NINE MONTHS ENDED 31 DECEMBER 2005…

Dear Shareholder

Absa experienced a rewarding nine months ended 31 December 2005. The Group continued to excel in a consumer-friendly domestic economic environment and further consolidated its position as a leader in retail banking.

Barclays PLC (Barclays) acquired a controlling shareholding in the Absa Group on 27 July 2005. The results, as reported in this report, for the nine months ended 31 December 2005 are the first the Group has reported under its new financial year-end of 31 December, which aligns Absa's financial reporting with that of Barclays.

The nine months under review

Absa achieved headline earnings of R4 902 million for the nine months under review, representing a growth of 22,1% from the nine months ended 31 December 2004. Headline earnings per share increased by 20,0% from 617,0 cents per share (nine months ended December 2004) to 740,4 cents per share for the period under review.

A final dividend of 135 cents per share was declared, bringing the total dividend for the nine months to 295 cents per share. This compares favourably with the 295 cents per share declared in respect of the full twelve months ended 31 March 2005 and represents a dividend cover of 2,5 times.

The main drivers of the Group's performance included strong advances growth of 20,1% for the nine months, or 26,7% on an annualised basis, robust interest rate margins and the further improvement in the quality of the advances book. The Group's impairment ratio for the period was 0,26% on an annualised basis, compared with the 0,52% reported in March 2005.

Strong transaction volumes remained a key driver of fee and commission income growth, which, at R7 750 million for the nine months under review, increased by 16,8%, excluding IFRS reclassifications, and 10,8% including IFRS reclassifications.

Operating expenditure increased by 18,9% compared with the corresponding nine months of 2004. Areas contributing to the relatively high cost growth included the expansion of the Group's branch and automated teller machine (ATM) network, increased business volumes, expenditure relating to the Barclays transaction (professional fees, integration activities and synergy realisation activities), regulatory and compliance related activities, the winding-up of the Group's international operations as well as staff costs.

Please refer to the financial analysis on page 41 of this report for additional information pertaining to the Group's financial performance for the nine months ended 31 December 2005.

The nine months under review were characterised by an increasingly positive economic environment, partly owing to increased international interest in the domestic market, sound economic fundamentals and the still healthy financial position of South African consumers. Black economic empowerment continued to receive attention, with the release of the codes of good practice on broad-based black economic empowerment by the Department of Trade and Industry.

The Barclays transaction

With regard to the Barclays change of ownership transaction, good progress was made in determining how the two groups will work together to realise the envisaged synergy benefits. The implementation programme, aimed at delivering sustainable pre-tax synergy benefits amounting to R1,4 billion per annum four years after the completion of the transaction, is progressing well.

Absa's strategy

Absa aims to become the pre-eminent bank in South Africa and the rest of Africa. To reach this goal, the Group is employing a three-pronged approach with seven underlying strategic themes, namely:

Building the best bank in South Africa	1. Extending our strong South African retail banking franchise 2. Strengthening our South African commercial banking franchise 3. Building a winning investment bank 4. Extending our South African bancassurance franchise
Building the leading bank in sub-Saharan Africa	5. Extending existing sub-Saharan African markets 6. Entering profitable new sub-Saharan African markets
Contributing to the development of the Barclays Group	7. Through the above, creating distinct capabilities for the Barclays Group

Strategies are in place to extend the Absa franchise in South Africa and to position it as the leading banking group. In building Absa's position in sub-Saharan Africa, Absa acquired the Barclays South Africa branch, which is being integrated into Absa with effect from 1 January 2006. This transaction is the precursor to the agreement in principle between the two groups for Absa to acquire the nine Barclays sub-Saharan African businesses. These transactions will be addressed in due course and will, subject to regulatory, shareholder and other applicable approvals, proceed over the next 18 months.

Absa has redefined its purpose and mission to align with its vision of becoming the pre-eminent bank in South Africa and the rest of Africa. Its new purpose and mission statements are as follows:

Purpose: To enable our customers to achieve their ambitions and by doing so, deliver superior benefits to all our stakeholders.

Mission: By ensuring we:

- put the customer at the centre of everything we do;
- differentiate through superior service and competitive products;
- continuously innovate;
- are brilliant at execution;
- have the best people and engage them in our businesses; and
- lead by example.

Annual general meeting

The Absa Group Limited annual general meeting for the nine months ended 31 December 2005 will be held on Wednesday, 10 May 2006, at 10:00 in the PW Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg.

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

If you are unable to attend, please arrange to vote by proxy in accordance with the instructions on the proxy form, which can be found on page 209 of this report.

The notice of annual general meeting, which is set out on pages 202 to 204 of the shareholder report, is accompanied by explanatory notes setting out the effects of all proposed resolutions included in the notice.

Appreciation

On behalf of the Absa Group board and the Group Executive Committee, we would like to thank you for partnering with the Absa Group to make Absa a leading South African banking group.

.

D C Cronjé ❯ Chairman

S F Booysen ❯ Group chief executive

21 February 2006

Absa Group Limited*

Barclays Bank PLC (56,6%)

Old Mutual Asset Managers (5,4%)

Allan Gray Limited (4,5%)

Investec Asset Management (4,2%)

Public Investment Corporation (4,0%)

Coronation Fund Managers (2,3%)

Sanlam Investment Management (2,1%)

Bernstein Investment Research Management (1,7%)

Other (19,2%)

Absa Bank Limited (Wholly owned)

Retail banking

Segment-focused business units

- Absa Private Bank**
- Retail Banking Services
- Flexi Banking Services
  - UB Micro Loans Limited
- Small Business

Product-focused business units

- Absa Home Loans
- Absa Card

Absa Financial Services Limited (Wholly owned)

Life assurance

- Absa Life Limited

Other subsidiaries

Banking

Africa

- Banco Austral, Sarl (Mozambique) (80%)
- National Bank of Commerce Limited (Tanzania) (55%)

Associated companies and other interests

Banking

Domestic

- Meeg Bank Limited (49,8%)
- FFS Finance South Africa (Proprietary) Limited (50%)
- Unitrans Finance (Proprietary) Limited (35%)
- MAN Financial Services (S.A.) (Proprietary) Limited (50%)

Africa

- Banco Comercial Angolano (Angola) (50%)****
- Capricorn Investment Holdings Limited (Namibia) (34,7%)
- CBZ Holdings Limited (Zimbabwe) (24,1%)

*As shown on the share register on 31 December 2005.

**Personal Financial Services was merged with Absa Private Bank from 1 November 2005.

***An agreement has been reached to sell Bankhaus Wölbern & Co, subject to German and South African regulatory approval.

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

Commercial banking

Segment-focused business unit

- Business Banking Services

Product-focused business units

- Absa Vehicle and Asset Finance
- Absa Technology Finance Solutions (Proprietary) Limited

Wholesale banking

Domestic operations

- Absa Corporate and Merchant Bank

International operations

- Absa Bank London
- Bankhaus Wölbern & Co. (Hamburg)***

Other

- Delivery Channel Services
- Real Estate Asset Management

Short-term insurance

- Absa Insurance Company Limited

Advisory services

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

Wealth management

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

Financial services

- Absa Manx Holdings Limited
  - Absa Syndicate Investments Holdings Limited (United Kingdom)
  - Absa Manx Insurance Company Limited
- Absa Stockbrokers (Proprietary) Limited
- Absa Portfolio Managers (Proprietary) Limited

Other

- Absa Development Company Holdings (Proprietary) Limited
- AllPay Consolidated Investment Holdings (Proprietary) Limited
- Abvest Holdings (Proprietary) Limited (90%)
- Absa Trading and Investment Solutions Holdings Limited

Other

- Jigsaw Holdings Limited (25,1%)
- Property24 (Proprietary) Limited (50%)
- Sanlam Home Loans (Proprietary) Limited (50%)

Introduction

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

Key governance developments

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

- Ongoing compliance with King II.
- The successful implementation of several corporate governance matters flowing from the acquisition by Barclays of a controlling stake in Absa, including: a reconstitution of the Absa board and board committees following the resignation of the Sanlam and Remgro nominees (Mr P T Motsepe, Dr J van Zyl and Mr T van Wyk) and the appointment of Barclays nominees (Mr D Bruynseels, Mr N Kheraj and Mr D L Roberts), a change of the joint auditors, the alignment of key Absa policies with those of Barclays (as deemed appropriate by the Absa board) and the consideration of the governance approach of Barclays and alignment by Absa (as deemed appropriate by the Absa board).
- A focus on the impact of the Sarbanes-Oxley Act. In this regard, a senior executive has been appointed to oversee the implementation of the Act in Absa, with the aim of being compliant in respect of the financial year ending 31 December 2006.
- Ongoing implementation of the board's transformation programme, aimed at making the board more representative of South Africa's demographics.
- The introduction of a minimum shareholding for non-executive directors of 1 000 Absa ordinary shares.
- A review of the reporting processes of the main board aimed at the timely delivery of concise reports.
- The dissolution of the divisional boards in Absa, principally owing to the duplication taking place between these boards and other boards and committees in Absa. The reporting to the divisional executive committees, the Group Executive Committee and the main board has been reviewed to ensure that the work done by the divisional boards has been appropriately dealt with in the Group's governance structures.
- The formation of the Brand and Reputation Committee, aimed at protecting and enhancing the brand and reputation of Absa.
- The formation of the Recruitment and Promotions Committee, to provide improved oversight in regard to senior management appointments and promotions.
- The approval of a set of governance guiding principles. In this regard, Absa and Barclays have agreed on a governance framework for how the two entities will work together. The framework takes account of matters such as the regulatory, legislative and industry constraints applicable to Absa and Barclays respectively, the interests of Absa's minority shareholders, the legal implications resulting from the parent/subsidiary relationship between Barclays and Absa, taking cognisance of the fact that Barclays has made a financial strategic investment in Absa, the fiduciary duties of the Absa and Barclays boards of directors and Absa's normal corporate governance procedures. The framework has been based on nine guiding principles. The framework is intended to ensure that Barclays and Absa can work together to maximise value for all shareholders while complying with all regulatory and legislative requirements.

Compliance with King II

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

Application of the code and approach to corporate governance

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

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

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

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

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

Following the acquisition by Barclays of a controlling stake in Absa, the Group has gained significant exposure to the international governance best practices followed by its parent company. These best practices are considered and adopted by the Absa board where deemed appropriate.

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

As regards Absa's black economic empowerment (BEE) transaction (in terms of which approximately 10% of Absa's total issued share capital is held by Batho Bonke Capital (Proprietary) Limited), governance oversight is provided via an *ad hoc* board committee, comprising independent directors, viz. D C Cronjé (committee chairman), D C Brink, A S du Plessis and P du P Kruger. The main objective of the committee is to ensure that the BEE transaction is implemented in accordance with the transaction approved by Absa shareholders in June 2004. This committee met six times during 2005 and considered a wide range of matters relating to the overall governance arrangements of the BEE transaction. The committee chairman reports to the board following each committee meeting, and minutes of the committee are provided to the board. In considering share allocations to potential recipients, the committee applied specific principles and criteria.

Boards of directors and board committees

Board composition

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

The Absa board has an appropriate balance, with a majority of independent directors*. The chairman of the Absa board is an independent director.

Details on the categorisation of the directors appear on page 20 of this report. There are 21 directors, of whom four are executive, five are non-executive and 12 are considered to be independent directors.

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

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

Board appointments and succession planning

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

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

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

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

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

Independence

The DAC assesses the independence of each Absa director against the criteria set out in King II. Based on this assessment, the DAC is of the view that the following directors meet these criteria: D C Cronjé, D C Brink, D C Arnold, D E Baloyi, B P Connellan, A S du Plessis, G Griffin, M W Hlahla, L N Jonker, P du P Kruger, F A Sonn and P E I Swartz.

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

Board performance assessment

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

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

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

The directors standing for re-election at the forthcoming annual general meeting are contained in the explanatory notes to resolutions for the annual general meeting (refer to page 206).

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

Board remuneration and share ownership

Details of Absa's remuneration policies and practices and the remuneration paid to Absa Group directors, are set out in the remuneration report on pages 28 to 40. Shareholders will be invited to consider and approve the proposed remuneration payable to directors at the 2006 annual general meeting (refer to page 206 for details).

Non-executive directors have agreed to hold a minimum of 1 000 Absa ordinary shares throughout their tenure. Details of the shares held by directors are set out on pages 60 and 62.

Attendance at board meetings

Board meeting attendance (2005)

Director	Appointment	Resignation	Apr*	Apr	Apr*	May*	May	Jun	Aug	Sep*	Nov
L N Angel			✔	✔	✔	A	✔	A	✔	A	✔
D C Arnold			✔	✔	✔	✔	✔	✔	✔	✔	A
D E Baloyi			✔	✔	✔	A	✔	✔	✔	A	✔
S F Booysen			✔	✔	✔	✔	✔	✔	✔	✔	✔
L Boyd		30 Dec 2005	✔	✔	✔	✔	✔	✔	✔	✔	✔
D C Brink (deputy chairman)			✔	✔	✔	✔	✔	✔	✔	✔	✔
D Bruynseels	27 Jul 2005								A	A	✔
B P Connellan			✔	✔	✔	A	✔	A	✔	A	✔
D C Cronjé (chairman)			✔	✔	✔	✔	✔	✔	✔	✔	✔
A S du Plessis			✔	✔	✔	✔	✔	✔	✔	✔	✔
G Griffin			✔	✔	✔	A	✔	✔	A	✔	✔
M W Hlahla	23 Dec 2005										
L N Jonker			✔	✔	✔	✔	✔	A	✔	✔	✔
N Kheraj	27 Jul 2005								✔	✔	✔
P du P Kruger			✔	✔	✔	A	✔	✔	✔	✔	✔
L W Maasdorp			✔	✔	✔	A	✔	✔	✔	A	✔
P T Motsepe		27 Jul 2005	A	✔	✔	✔	A	A			
D L Roberts	27 Jul 2005								✔	✔	✔
J H Schindehütte			✔	✔	✔	✔	✔	✔	✔	✔	✔
T M G Sexwale			✔	✔	✔	✔	A	✔	✔	A	✔
F A Sonn			✔	✔	✔	A	✔	✔	✔	A	✔
P E I Swartz			✔	✔	✔	A	✔	✔	✔	A	✔
T van Wyk		27 Jul 2005	A	✔	✔	✔	✔	✔			
J van Zyl		27 Jul 2005	A	✔	✔	✔	A	A			
L L von Zeuner			✔	✔	✔	✔	✔	✔	✔	✔	✔

Legend

*Special meeting ✔ Attendance A Apologies

Board committees

A number of board-appointed committees have been established to assist the board in discharging its responsibilities. The membership and principal functions of the standing committees appear in the pages that follow. The Absa board also makes use of *ad hoc* board committees to deal with specific matters from time to time. Examples of matters dealt with by such committees in the recent past include the Group's broad-based BEE transaction, the acquisition by Barclays of a controlling stake in Absa and the acquisition of the Barclays African operations (in progress), where the board has considered and made decisions based on the recommendations of the committees. These *ad hoc* committees operate under written terms of reference and, in the above cases, its members are all independent directors and have provided independent oversight.

Group Remuneration Committee

Members: D C Brink (chairman), D E Baloyi**, B P Connellan, D C Cronjé and D L Roberts.

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

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

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

Non-executive directors receive fees for their contribution to the boards and committees on which they serve. The Group chairman and management recommend proposed fees for consideration by the committee and recommendation to the Absa board, after considering comparable fee structures and market practices. The remuneration of non-executive directors is submitted to shareholders for sanction at the annual general meeting prior to its implementation and payment. Full details of remuneration matters (including a statement of the Group's remuneration philosophy) are contained in the directors' remuneration report set out on pages 28 to 40 of this report.

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

Group Remuneration Committee – meeting attendance

Director	Appointment	Resignation	May 2005*	May 2005	Jun 2005*	Aug 2005	Nov 2005
L Boyd		30 Dec 2005	A	✔	A	✔	✔
D C Brink (chairman)			✔	✔	✔	A	✔
B P Connellan			✔	✔	A	✔	✔
D C Cronjé			✔	✔	✔	✔	A
D L Roberts	27 Jul 2005					A	A
T van Wyk		27 Jul 2005	✔	✔	✔		

Legend

*Special meeting ✔ Attendance A Apologies

***Appointed on 17 February 2006.*

Group Audit and Compliance Committee (GACC)

Members: A S du Plessis (chairman), D C Arnold, N Kheraj, P du P Kruger and L W Maasdorp.

Composition and meeting procedures: Other than Mr Kheraj and Mr Maasdorp, who are non-executive directors, the chairman and remaining members of the GACC are independent directors on the board of Absa.

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

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

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

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

- reviewing and/or approving internal audit, compliance and forensic services policies, plans, reports and findings;
- ensuring compliance with applicable legislation and regulations;
- making the necessary enquiries to ensure that all risks to which the Group is exposed are identified and managed in a well-defined control environment;
- dealing with matters relating to financial and internal control, accounting policies, reporting and disclosure;
- reviewing and recommending to the board interim and annual financial statements and profit and dividend announcements;
- evaluating the performance of the external auditors;
- recommending to the board the appointment and dismissal of the external auditors;
- approving fees payable to the external auditors;
- approving the Group's policy on non-audit services and ensuring compliance therewith;
- reviewing and/or approving external audit plans, findings, reports and fees; and
- collaborating with the Group Risk Committee and considering issues identified by that committee.

The Group's policy on non-audit services, which is annually reviewed by the GACC, sets out in detail which services may or may not be provided by Absa's external auditors. The policy is largely based on the requirements of the Sarbanes-Oxley Act. The external auditors are prohibited from providing bookkeeping or other services related to the Group's accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, fairness opinions or contributions-in-kind reports, actuarial services, internal audit outsourcing, management functions or other secondments, human resource functions (including recruitment/selection), broker or dealer, investment adviser or investment banking services, legal and expert services and services where Absa is represented by the external auditors in legal proceedings involving tax matters.

Services that may be provided by the external auditors are statutory audit services, regulatory audit services, other attest and assurance services, regulatory non-audit services and taxation services (except for services where Absa is represented in legal proceedings). They may also provide accountancy advice, risk management and controls advice and carry out transaction support and recoveries. Assignments for allowable services above a certain value must be pre-approved by the GACC. Assignments within management's mandate must be pre-approved by the Group executive director: Finance on recommendation of the Group executive: Finance. All non-audit service fees are reported to the GACC quarterly.

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

Absa has an audit partner rotation process in accordance with the requirements of the South African Reserve Bank (Bank Supervision Department).

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

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

Group Audit and Compliance Committee – meeting attendance

Director	Appointment	Resignation	May 2005	Jun 2005	Jul 2005*	Sep 2005*	Oct 2005	Oct 2005*	Nov 2005	Nov 2005*
D C Arnold			✔	✔	✔	✔	✔	✔	✔	✔
A S du Plessis (chairman)			✔	✔	✔	✔	✔	✔	✔	✔
N Kheraj	27 July 2005				✔	✔	✔	✔	✔	✔
P du P Kruger			✔	✔	A	✔	A	A	✔	A
L W Maasdorp			✔	A	✔	A	✔	A	✔	✔
T van Wyk		27 July 2005	✔	✔						

Legend

*Special meeting ✔ Attendance A Apologies

Group Risk Committee (GRC)

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

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

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

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

Group Risk Committee – meeting attendance

Director	Appointment	Resignation	Apr 2005	Jun 2005	Aug 2005	Nov 2005
D C Arnold			✔	✔	✔	✔
D C Cronjé			✔	✔	✔	✔
A S du Plessis			✔	✔	A	✔
G Griffin			A	✔	✔	A
N Kheraj	27 July 2005				✔	✔
P du P Kruger (chairman)			✔	✔	✔	✔
P E I Swartz			A	✔	✔	✔

Legend

✔ Attendance   A Apologies

Directors' Affairs Committee (DAC)

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

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

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

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

Directors' Affairs Committee – meeting attendance

Director	Appointment	Resignation	May 2005	Jul 2005*	Oct 2005	Nov 2005
D C Brink			✔	✔	✔	✔
D C Cronjé (chairman)			✔	✔	✔	✔
L N Jonker			✔	✔	✔	✔
D L Roberts	27 July 2005				✔	✔
T M G Sexwale			A	A	✔	✔
T van Wyk		27 July 2005	✔	✔		

Legend

*Special meeting   ✔ Attendance   A Apologies

Board Lending Committee

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

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

***Appointed on 17 February 2006.*

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

Credit Committee: Large Exposures

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

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

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

Credit Committee: Large Exposures – meeting attendance

Director	Resignation	May 2005	Aug 2005	Nov 2005
S F Booysen		✔	✔	✔
L Boyd	30 December 2005	✔	✔	✔
D C Brink		✔	A	✔
B P Connellan		A	✔	✔
D C Cronjé (chairman)		✔	✔	A
A S du Plessis		✔	A	✔
J H Schindehütte		✔	✔	A

Legend

✔ Attendance   A Apologies

Implementation Committee

Members: G Griffin (chairman), B P Connellan**, D C Cronjé, L W Maasdorp and D L Roberts.

Composition and meeting procedures: The Implementation Committee is chaired by an independent director and the majority of its members are independent directors. Three meetings were held in 2005. Six meetings are scheduled for 2006.

Role, purpose and principal functions: This committee was established in 2005 to provide governance oversight and assist the board with regard to integration and implementation risks and opportunities flowing from the acquisition by Barclays of a controlling stake in Absa (the transaction). More specifically this encompasses:

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

***Appointed on 17 February 2006.*

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

Implementation Committee – meeting attendance

Director	Sep 2005	Oct 2005	Oct 2005*
D C Cronjé	✔	✔	✔
G Griffin (chairman)	✔	✔	✔
L W Maasdorp	✔	✔	✔
D L Roberts	✔	✔	✔

Legend

*Special meeting ✔ Attendance A Apologies

Corporate governance objectives for the year ahead

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

- Ongoing compliance with King II.
- A focus on the impact of the Sarbanes-Oxley Act, with the aim of being compliant in respect of the financial year ending 31 December 2006.
- Further improvement in reporting processes to the main board, board committees and Group Exco.
- Greater focus on director training and development, especially elsewhere in Africa and also for emerging directors.
- Implementation of the new share scheme and related share scheme matters. (Refer to the directors' remuneration report for additional information.)

Detailed corporate governance statement

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

The detailed version is available to shareholders on request.

Introduction

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

Significant developments during the nine months under review

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

- The appointment of Messrs Bruynseels, Kheraj and Roberts to the Absa Group board on 27 July 2005 subsequent to the acquisition by Barclays PLC of a majority stake in the Absa Group.
- The resignation of Mr Motsepe, Mr van Wyk and Dr van Zyl from the Absa Group board on 27 July 2005.
- The resignation from the Absa Group board of Mr Boyd on 30 December 2005.
- The appointment of Ms Hlahla to the Absa Group board on 23 December 2005.

Board membership

The Absa Group board comprises the following directors as at 31 December 2005:

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

Board committee membership

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

The board committees are set out below.

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

*Non-executive director who is independent, as defined by King II.
**Appointed on 17 February 2006.
***British

Biographical details and appointment dates of board members

The biographical details of the Group's board members as at 31 December 2005 were as follows:

D C Cronjé (Danie)

Age	59
Qualifications	DCom
Title	Chairman
Independence	Independent director
Year appointed	1987
Absa board committee memberships	Directors' Affairs Committee (chairman) Group Remuneration Committee Group Risk Committee Board Lending Committee Credit Committee: Large Exposures (chairman) Implementation Committee
Other directorships/ trusteeships	Dr Cronjé is a director of Idion Technology Holdings Limited, Barclays PLC and Barclays Bank PLC. He is chairman of the Absa Foundation and a trustee of the Absa Group Retirement Fund. He is a member of certain subsidiary boards in Absa.
Skills, expertise and experience	Joined Volkskas in 1975 and held various positions in Volkskas Merchant Bank and Volkskas Group. He was formerly deputy chief executive and subsequently Group chief executive of Absa until 1997.

D C Brink (Dave)

Age	66
Qualifications	MSc Eng (Mining), Diploma in Business Administration, Graduate Diploma in Company Direction
Title	Deputy chairman
Independence	Independent director
Year appointed	1992
Absa board committee memberships	Directors' Affairs Committee Group Remuneration Committee (chairman) Board Lending Committee Credit Committee: Large Exposures
Other directorships/ trusteeships	Chairman of Unitrans Limited, and a director of Sanlam Limited, Sappi Limited, BHP Billiton Limited and BHP Billiton PLC. He is a trustee of the Absa Foundation and chairman of the Absa Group Retirement Fund.
Skills, expertise and experience	Joined Murray & Roberts Limited in 1970 after eight years in the gold industry with Anglo American Corporation of South Africa Limited. Appointed chief executive officer of Murray & Roberts Holdings Limited in 1986 and chairman in 1994. Mr Brink was the chief executive officer of Sankorp Limited from 1994 through to 1997.

S F Booysen (Steve)

Age	42
Qualifications	DCom (Acc), CA(SA)
Title	Group chief executive
Independence	Executive director
Year appointed	2004
Absa board committee memberships	Credit Committee: Large Exposures Attends various other board committee meetings *ex officio.*
Other directorships/ trusteeships	A director of various companies in the Absa Group.
Skills, expertise and experience	After completing his articles with Ernst & Young (1980-1983), he became a senior lecturer in accounting at the University of South Africa (1983-1988). His first appointment with the Group was as senior manager: Finance at TrustBank (1988-1992). From 1992 to 1994, he was assistant general manager: Group Finance at Absa. He then joined Absa Corporate Bank (later Absa Corporate and Merchant Bank). He held the positions of general manager and deputy operating executive until he was appointed as a Group executive director in 2001. He was appointed as Group chief executive of Absa in August 2004.

L N Angel (Nthobi)

Age	51	Qualifications	BA (Hons), MSc (Sociology)
Year appointed	2004	Independence	Non-executive director

Absa board committee memberships › None, but is a trustee of the Absa Foundation.

Other directorships/ trusteeships › A director of the Open Africa Initiative and the Peace Parks Foundation, a trustee of the Kagiso Trust and a board member of Deloitte Chartered Accountants (SA).

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

D C Arnold (Des)

Age	65	Qualifications	CA(SA), FCMA, AMP
Year appointed	2003	Independence	Independent director

Absa board committee memberships
- Group Audit and Compliance Committee
- Group Risk Committee

Other directorships/ trusteeships › Director of the Wits Health Consortium (Proprietary) Limited and chairman of its audit committee. He is also chairman of the Barlow's Pension Fund.

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

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

D E Baloyi (Danisa)

Age	49	Qualifications	Ed.D (International Education and Development)
Year appointed	2004	Independence	Independent director

Absa board committee memberships › Group Remuneration Committee*

Other directorships/ trusteeships › An executive director of the national Black Business Caucus with expertise in the fields of business development and strategy. She is the chairperson of the Advertising Standards Authority, the Diabo Share Trust for Telkom employees, Medikredit and the National Skills Authority. Dr Baloyi serves on a number of other boards, including the Business Unity South Africa Council, SA Tourism (where she is deputy chairperson), the Southern African Enterprise Development Fund, Metrofile Holdings Limited (formerly MGX Holdings Limited) and Enterprise Risk Management Limited. Dr Baloyi is the chairperson of South African Women Investment Holdings, an organisation she founded. Dr Baloyi is also on the S.A. Council on HIV/Aids' board of governors.

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

Appointed on 17 February 2006

D Bruynseels (Dominic)

Age › 46

Qualifications › BA (Hons), Diploma in Financial Studies, Associate of Institute of Bankers, MBA

Year appointed › 2005

Independence › Executive director

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

Other directorships/ trusteeships › He is a director of Afcarme Zimbabwe Holdings (Private) Limited; Barclays Bank (Seychelles) Limited; Barclays Bank of Botswana Limited; Barclays Bank of Ghana Limited; Barclays Bank of Kenya Limited; Barclays Bank of Zimbabwe Limited; Barclays Bank of Zambia PLC; Barclays Merchant Bank of Zimbabwe Limited; Barclays Overseas Pensions Funds Trustees Limited; the Overseas Development Institute and Barclays Bank Egypt SAE.

Skills, expertise and experience › Joined Barclays in 1980. He has fulfilled a variety of UK-based branch, regional and head office roles, including a position as deputy head of the Barclays business sector marketing department. He was the head of Network and Operations (1995-1996). He was appointed as finance director for the Barclays Africa, Caribbean, Middle East and Latin American business (1997). Appointed as managing director for Barclays Africa (1999). Now holds the role of chief executive officer for Barclays Africa and Middle East. He has led the transformation of the Barclays business in Africa. Following the acquisition of the Barclays majority holding in Absa, Dominic was appointed Group executive director and member of the Absa Executive Committee and board (2005).

B P Connellan (Brian)

Age › 65

Qualifications › CA(SA)

Year appointed › 1994

Independence › Independent director

Absa board committee memberships
- › Group Remuneration Committee
- › Board Lending Committee
- › Credit Committee: Large Exposures
- › Implementation Committee*

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

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

A S du Plessis (Attie)

Age › 61

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

Year appointed › 1992

Independence › Independent director

Absa board committee memberships
- › Group Audit and Compliance Committee (chairman)
- › Group Risk Committee
- › Board Lending Committee
- › Credit Committee: Large Exposures

Other directorships/ trusteeships › He is chairman of Gencor Limited and a director of Sanlam Limited, KWV Group Limited and various companies in the Sanlam Group.

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

Appointed on 17 February 2006.

G Griffin (Garth)

Age › 55

Qualifications › BSc, FIA, FASSA

Year appointed › 2001

Independence › Independent director

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

Other directorships/ trusteeships › He is a trustee of the UCT Foundation.

Skills, expertise and experience › An actuary, he has wide experience in the financial services industry, both locally and internationally. He worked for Old Mutual from 1970 to 1999, at which time he was managing director responsible for the worldwide asset management and unit trust businesses, as well as all activities outside South Africa for Old Mutual.

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

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

M W Hlahla (Monhla)

Age › 42

Qualifications › BA (Hons), MA (Urban and Regional Planning)

Year appointed › 2005

Independence › Independent director

Absa board committee memberships › None

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

Skills, expertise and experience › As a former political activist, Ms Hlahla completed her studies in the United States of America. During her studies, Ms Hlahla also worked at the Coalition for Women's Economic Development in Los Angeles.

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

L N Jonker (Lourens)

Age › 66

Qualifications › BSc (Agric)

Year appointed › 1996

Independence › Independent director

Absa board committee memberships › Directors' Affairs Committee

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

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

N Kheraj (Naguib)

Age	41
Year appointed	2005
Qualifications	BA, MA (Economics)
Independence	Non-executive director
Absa board committee memberships	Group Audit and Compliance Committee Group Risk Committee
Other directorships/ trusteeships	Barclays PLC. Barclays Bank PLC.
Skills, expertise and experience	He was appointed as Group finance director of Barclays and joined the board of that company on 1 January 2004. He has previously held the positions of chief executive of Barclays Private Clients, deputy chairman of Barclays Global Investors, global head of Investment Banking and global chief operating officer at Barclays Capital. Prior to joining Barclays, he was a managing director and held the position of chief financial officer for Europe at Salomon Brothers.

P du P Kruger (Paul)

Age	68
Year appointed	1996
Qualifications	BSc Eng (Mining), MBL
Independence	Independent director
Absa board committee memberships	Group Audit and Compliance Committee Group Risk Committee (chairman)
Other directorships/ trusteeships	None
Skills, expertise and experience	Joined Sasol in 1964 at the Sigma Colliery in Sasolburg. Appointed chief executive officer and managing director of the Sasol Group in 1987. He was appointed as chairman of Sasol in 1996 and was a director of numerous Sasol subsidiaries. He retired from the Sasol boards on 31 December 2005.

L W Maasdorp (Leslie)

Age	39
Year appointed	2004
Qualifications	BA, MSc (Economics)
Independence	Non-executive director
Absa board committee memberships	Group Audit and Compliance Committee Implementation Committee
Other directorships/ trusteeships	He is chairman of the Trans Caledon Tunnel Authority. He also serves on the boards of the Coega Development Corporation and the Johannesburg Property Company. He is the chairman of Yard Capital, a black empowerment investment company, and a governor of Hilton College. He also serves on the board of trustees of the International Marketing Council of South Africa.
Skills, expertise and experience	In 1992, he was appointed as economic policy adviser to the Department of Economic Planning of the African National Congress. From 1994 to 1995, he was special adviser to the South African Minister of Labour. Thereafter (from 1995 to 1999), he became senior manager: Strategy at Deloitte Consulting. From 1999 to 2002 he served as deputy director-general with responsibility for the restructuring and privatisation of state-owned enterprises. Since 2002, he has served as international adviser with Goldman Sachs International.

D L Roberts (David)

Age	43
Year appointed	2005
Qualifications	BSc, MBA, FCIB
Independence	Non-executive director
Absa board committee memberships	Group Remuneration Committee Directors' Affairs Committee Implementation Committee
Other directorships/ trusteeships	Barclays PLC. Barclays Bank PLC. Barclays Bank SA. British Airports Authority PLC.
Skills, expertise and experience	Appointed as chief executive: Barclays International Retail and Commercial Banking on 1 January 2005. He was formerly chief executive of Barclays Private Clients and International from 1 January 2004 and joined the Barclays board on the same date. He joined the Barclays Group in 1983 and has held various positions, including chief executive of Barclays Personal Financial Services and chief executive of Barclays Business Banking. He has been a member of the Barclays Group Executive Committee since June 2002.

J H Schindehütte (Jacques)

Age	46
Year appointed	2005
Qualifications	BCom (Hons), CA(SA), H DipTax
Independence	Executive director
Absa board committee memberships	Credit Committee: Large Exposures Attends various other board committee meetings *ex officio*.
Other directorships/ trusteeships	A director of various companies in the Absa Group.
Skills, expertise and experience	Served articles with Ernst & Young from 1981 to 1983. Served in various senior managerial positions at Transnet until 1999. Joined Absa as Group executive: Group Finance during 1999. Appointed as a Group executive director in January 2005.

T M G Sexwale (Tokyo)

Age	52
Year appointed	2001
Qualifications	Certificate in Business Studies
Independence	Non-executive director
Absa board committee memberships	Directors' Affairs Committee
Other directorships/ trusteeships	Executive chairman of Mvelaphanda Holdings (Proprietary) Limited and Mvelaphanda Group (Proprietary) Limited. Chairman of Northam Platinum Limited, Trans Hex Group Limited, Mvelaphanda Resources Limited and a director of Gold Fields Limited. Mr Sexwale is a trustee of the Nelson Mandela Foundation and chancellor of the Vaal University of Technology.
Skills, expertise and experience	Formerly a member of the National Executive Committee of the African National Congress and former premier of Gauteng.

F A Sonn (Franklin)

Age › 65

Year appointed › 1999

Qualifications › BA (Hons), PTD, FIAC

Independence › Independent director

Absa board committee memberships › Directors' Affairs Committee*

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

Skills, expertise and experience › Rector of the Peninsula Technikon from 1978 to 1994. Served as South African ambassador to the United States of America from 1995 to 1998. Former president of the Afrikaanse Handelsinstituut. President of the Union of Teachers Associations of South Africa for 16 years.

P E I Swartz (Peter)

Age › 64

Year appointed › 1994

Qualifications › Advanced Primary Teacher's Diploma

Independence › Independent director

Absa board committee memberships › Group Risk Committee

Other directorships/ trusteeships › Deputy chairman of New Clicks Holdings Limited, Distell Limited and Sun International Limited.

He is a trustee of the Cape Peninsula University of Technology Foundation, Western Cape Cerebral Palsy Association, Eoan Group Trust and the New Clicks Foundation.

Skills, expertise and experience › Was a school music teacher for ten years. He became the first chancellor of the Cape Technikon (Cape Peninsula University of Technology). He has over the past 35 years held personal interests in various industries, including cinemas, hotels, supermarkets, fast foods outlets, centrifugal pump manufacturing and property development.

A former chairman of the South African Tourism Board. He also served as a director of Sanlam Limited and Ellerines Limited.

L L von Zeuner (Louis)

Age › 43

Year appointed › 2004

Qualifications › BEcon

Independence › Executive director

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

Other directorships/ trusteeships › The Banking Association South Africa, Section 21 Housing Company, Mastercard, SA Payments Strategy Association.

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

His appointment as regional manager for the Northern Cape in Kimberley (1995-1996) elevated him to Absa's general management. He then became the provincial general manager of the Northern Province (1996-1998) and the Free State (1998-1999). In 2000 he moved to Absa's head office, where he became operating executive of Absa Commercial Bank. He was appointed as an executive director on the Absa Group board in September 2004.

**Appointed on 17 February 2006.*

Introduction

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

Remuneration developments for the nine months under review

- The share incentive scheme was reviewed to bring it in line with best practice.
- Two new executive compensation plans were introduced during the reporting period.
- Mr D L Roberts was appointed to the Group Remuneration Committee subsequent to the acquisition by Barclays PLC of a majority stake in the Absa Group.
- Messrs L Boyd and T van Wyk resigned as members of the Group Remuneration Committee following their resignation from the Absa Group board.

Governance

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

Its members (D C Brink (chairman), D E Baloyi*, B P Connellan, D C Cronjé and D L Roberts) are all non-executive directors, with the majority being independent directors.

The Group chief executive, the executive director responsible for human resources and the Group executive director responsible for finance attend the meetings by invitation. Meetings are held five times a year. No executive director is present when his or her own remuneration is discussed.

The Group Remuneration Committee's responsibilities include:

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

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

The Group Remuneration Committee's effectiveness is evaluated annually by the Absa Group board.

**Appointed on 17 February 2006.*

Group executive directors' remuneration

Absa's remuneration philosophy and policy

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

Absa's employees (including Group executive directors) are rewarded as individuals for the value they add. The key principles of Absa's overall remuneration policy are as follows:

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

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

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

Fixed remuneration is reviewed annually to ensure that those who contribute to the success of the Group and who have the potential to sustain performance are remunerated competitively. The Group uses variable remuneration schemes to focus behaviour on important business objectives and to sustain performance. To achieve this goal, the existing variable remuneration schemes are reviewed annually and adjustments are made to improve their efficiency. The Group has progressed well towards its aim of growing the variable component of remuneration and slowing down the growth of fixed remuneration.

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

Group Human Resources also provides advice to the Group Remuneration Committee. The Group Human Resources division is a Group specialist function and assists the committee by providing supporting information and documentation relating to matters that are presented to the Group Remuneration Committee. This includes comparative data and motivations for proposed salaries, bonuses and option allocations. In addition, the human resources executive director is responsible for providing professional support to line management relating to human resources policies and administration and for monitoring compliance with prescribed policies and programmes across Absa.

The Group Remuneration Committee determines the overall remuneration packages of executive directors.

Group executive directors' remuneration

Group executive directors' guaranteed fixed remuneration

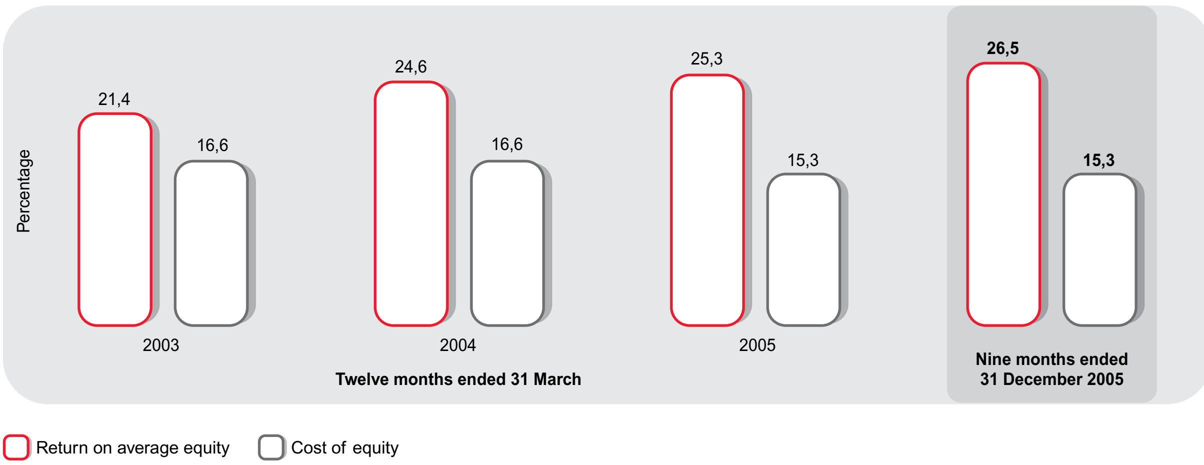
Absa applies discretion in all remuneration reviews. The sustainable contribution of each executive director is used as the basis for remuneration reviews. A total cost-to-company approach is followed for all executive levels of management. Benefits include retirement schemes; death and disability cover; medical cover; and other benefits, as dictated by competitive local market practices.

Group executive directors' performance bonuses (variable remuneration)

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

Over the past few years, significant value has been created for shareholders, with the Group's return on average equity increasing from 21,4% in the 2003 financial year to 26,5%, on an annualised basis, for the nine months ended 31 December 2005.

Value creation of shareholders



Notes
(1) The statistics for 2003 and 2004 have not been restated for IFRS.
(2) The RoE for the nine months ended 31 December 2005 is an annualised figure.

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

Performance bonuses are paid only when the Group's financial performance exceeds the cost of equity. The Group's cost of equity for the nine months ended 31 December 2005 was 15,3%.

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

The final bonus pool is calculated by multiplying the bonus multiple (which is a function of the achievement of the headline earnings target), by the sum of executive directors' annual direct* remuneration. The bonus multiple is capped at a two multiple, however, an individual may be awarded a performance bonus up to 2,5 times his/her direct* remuneration.

**Direct remuneration equals the cost to company less pension contributions.*

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

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

Group executive directors' remuneration and performance bonus statistics

The following table indicates the total guaranteed fixed remuneration paid to Group executive directors as well as their performance bonuses. It must be noted that the results for the nine months ended 31 December 2005 are not comparable with those of the previous year owing to the change in the Group's year-end. The remuneration tabled below only relates to the period the individual served as a Group executive director.

Group executive directors' guaranteed fixed remuneration* and performance bonuses

		Directors' fees							
Group executive director	Note	Absa Group Limited R	Absa Bank Limited and other divisional boards R	Salaries R	Travel allowances R	Retirement fund contributions R	Total guaranteed remuneration R	Performance bonuses R	Total R
				For the nine months ended 31 December 2005					
S F Booysen	1	80 000	—	3 184 195	24 641	251 501	3 540 337	7 486 000	11 026 337
D Bruynseels	2 & 10	45 333	4 834	—	—	—	50 167	—	50 167
F J du Toit	3	—	—	—	—	—	—	144 208	144 208
J H Schindehütte	4	80 000	—	1 671 472	53 375	132 222	1 937 069	2 975 000	4 912 069
L L von Zeuner	5	92 250	—	1 975 845	33 285	155 778	2 257 158	5 208 000	7 465 158
Total		297 583	4 834	6 831 512	111 301	539 501	7 784 731	15 813 208	23 597 939
				For the twelve months ended 31 March 2005					
S F Booysen	1	67 000	—	2 106 375	14 521	167 902	2 355 798	6 296 296	8 652 094
E R Bosman	6 & 9	30 000	—	2 929 702	16 438	224 387	3 200 527	3 775 463	6 975 990
F J du Toit	3	71 000	—	1 320 673	2 746	103 829	1 498 248	3 460 984	4 959 232
G R Pardoe	7, 8 & 9	37 500	—	4 480 750	3 443	73 704	4 595 397	1 151 631	5 747 028
J H Schindehütte	4	26 000	—	492 351	1 678	41 667	561 696	4 166 666	4 728 362
L L von Zeuner	5	59 500	—	1 305 009	11 662	101 874	1 478 045	4 859 260	6 337 305
Total		291 000	—	12 634 860	50 488	713 363	13 689 711	23 710 300	37 400 011

Notes

(1) Appointed to the Absa Group board on 1 August 2004.
(2) Appointed to the Absa Group board on 27 July 2005.
(3) Retired from the Absa Group board on 1 January 2005.
(4) Appointed to the Absa Group board on 1 January 2005.
(5) Appointed to the Absa board on 1 September 2004.
(6) Retired from the Absa Group board on 1 August 2004.
(7) Resigned from the Absa Group board on 9 July 2004.
(8) Includes a negotiated severance payment amounting to R3,5 million.
(9) Included in this amount is offshore remuneration, converted at the appropriate exchange rate.
(10) Currently remunerated by Barclays PLC, and any Absa directors' fees earned are paid to Barclays PLC.

Additional note

Group executive directors' guaranteed remuneration is paid by Absa Bank Limited.

Group executive directors' share grants

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

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

Share scheme allocations were aimed at retaining the services of the Group's executive directors and aligning the achievement of the Group's objectives with long-term value creation for shareholders. Share option allocations were discretionary and the quantum of share options granted were guided by benchmark multiples of the annual remuneration cost to the Company. The benchmark multiple for the Group chief executive was eight times his annual remuneration cost to the Company. For other executive directors, the benchmark was six.

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

The share incentive scheme has been replaced with a revised scheme so as to bring the Absa share incentive scheme in line with best practice. The review which was performed with the assistance of independent advisers, took into account the practices employed by Barclays PLC. The proposed new share incentive scheme (which still has to be approved by shareholders) comprises two components: a performance share plan (with performance conditions that must be met for shares to vest), and a bonus deferral scheme (the schemes).

In formulating the above schemes, the Group Remuneration Committee took the following into account:

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

Full details of the proposed schemes will be contained in a circular to shareholders (posted to shareholders in April 2006).

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

Group executive directors' share options – composition of opening balances at 1 April 2005

Group executive director	Note	Date of grant	Expiry date of options	Share options granted Number granted	Price R
S F Booysen	1	28 Aug '97	28 Aug '07	10 000	30,47
		28 Aug '98	28 Aug '08	20 750	17,85
		26 Feb '99	26 Feb '09	50 000	27,95
		12 Oct '99	12 Oct '09	20 000	27,68
		12 Jun '00	12 Jun '10	10 000	26,53
		19 Jun '01	19 Jun '11	70 000	37,43
		7 Jun '02	7 Jun '12	120 000	33,67
		5 Jun '03	5 Jun '13	135 000	35,01
		7 Jun '04	7 Jun '14	300 000	48,73
				735 750	
D Bruynseels	2	—	—	—	—
				—	
J H Schindehütte	3	1 Oct '99	1 Oct '09	100 000	23,73
		12 Jun '00	12 Jun '10	15 000	26,53
		19 Jun '01	19 Jun '11	70 000	37,43
		7 Jun '02	7 Jun '12	70 000	33,67
		5 Jun '03	5 Jun '13	30 000	35,01
		31 May '04	31 May '14	186 856	46,56
				471 856	
L L von Zeuner	4	28 Aug '97	28 Aug '07	10 400	30,47
		28 Aug '98	28 Aug '08	10 000	17,85
		12 Oct '99	12 Oct '09	20 000	27,68
		1 Jan '00	1 Jan '10	20 000	27,49
		12 Jun '00	12 Jun '10	20 000	26,53
		1 Apr '01	1 Apr '11	50 000	32,61
		19 Jun '01	19 Jun '11	65 000	37,43
		7 Jun '02	7 Jun '12	60 000	33,67
		5 Jun '03	5 Jun '13	95 000	35,01
		7 Jun '04	7 Jun '14	26 000	48,73
		19 Aug '04	19 Aug '14	102 000	51,61
				478 400	

Notes

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

Group executive directors' share option movements

Group executive director	Note	Opening balance	Share options granted: Number	Date of grant	Price R	Expiry date	Share options exercised: Number	Exercise date	Exercise price R	Gains on share options exercised R	Balance of share options
For the nine months ended 31 December 2005											
S F Booysen	1	735 750	180 000	18 Aug '05	91,70	18 Aug '15	104 450	27 Jul '05	82,50	3 803 653	
							69 633	2 Aug '05	93,77	6 491 563	
							23 333	14 Dec '05	Shares purchased at share option price of R37,43		718 334
D Bruynseels	2	—	—	—	—	—	—	—	—	—	—
J H Schindehütte	3	471 856	30 000	18 Aug '05	91,70	18 Aug '15	97 000	27 Jul '05	82,50	3 877 928	
							40 000	27 Jul '05	Shares purchased at share option price of R23,73		
							6 000	27 Jul '05	Shares purchased at share option price of R26,53		
							32 666	27 Jul '05	Shares purchased at share option price of R37,43		
							9 333	27 Jul '05	Shares purchased at share option price of R33,67		316 857
L L von Zeuner	4	478 400	60 000	18 Aug '05	91,70	18 Aug '15	106 239	27 Jul '05	82,50	3 502 587	
							8 000	27 Jul '05	Shares purchased at share option price of R27,49		
							4 160	27 Jul '05	Shares purchased at share option price of R30,47		
							4 000	27 Jul '05	Shares purchased at share option price of R17,85		
							8 000	27 Jul '05	Shares purchased at share option price of R27,68		
							8 000	27 Jul '05	Shares purchased at share option price of R26,53		
							13 333	27 Jul '05	Shares purchased at share option price of R32,61		
							17 332	27 Jul '05	Shares purchased at share option price of R37,43		
							8 000	27 Jul '05	Shares purchased at share option price of R33,67		361 336

Group executive director	Note	Opening balance	Share options granted: Number	Date of grant	Price R	Expiry date	Share options exercised: Number	Exercise date	Exercise price R	Gains on share options exercised R	Balance of share options
						For the twelve months ended 31 March 2005					
S F Booysen	1	435 750	300 000	7 Jun '04	48,73	7 Jun '14	—	—	—	—	735 750
E R Bosman	5	1 085 000	—	—	—	—	*	*	*	*	*
F J du Toit	6	378 187	—	—	—	—	*	*	*	*	*
G R Pardoe	7	730 000	—	—	—	—	*	*	*	*	*
J H Schindehütte	3	285 000	186 856	31 May '04	46,56	31 May '14	—	—	—	—	471 856
L L von Zeuner	4	350 400	26 000	16 Aug '04	48,73	16 Aug '14	—	—	—	—	478 400
			102 000	19 Aug '04	51,61	19 Aug '14					

Notes

(1) Appointed to the Absa Group board on 1 August 2004.
(2) Appointed to the Absa Group board on 27 July 2005.
(3) Appointed to the Absa Group board on 1 January 2005.
(4) Appointed to the Absa Group board on 1 September 2004.
(5) Retired from the Absa Group board on 1 August 2004.
(6) Retired from the Absa Group board on 1 January 2005.
(7) Resigned from the Absa Group board on 9 July 2004.

Additional note

**Share option movements subsequent to retirement or resignation from the Absa Group board are not disclosed.*

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

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

		Fringe benefits		Capital value of the loan	
Executive director	Note	For the nine months ended 31 December 2005 R	For the twelve months ended ended 31 March 2005 R	31 December 2005 R	31 March 2005 R
E R Bosman	1	*	158 890	*	0
F J du Toit	2	*	100 428	*	1 908 132
L L von Zeuner	3	7 351	28 615	—	547 642
Total		*	287 933	*	2 455 774

Notes

(1) Retired from the Absa Group board on 1 August 2004.
(2) Retired from the Absa Group board on 1 January 2005.
(3) Appointed to the Absa Group board on 1 September 2004.

Additional note

**Fringe benefits and the capital value of the loan subsequent to retirement from the Absa Group board are not disclosed.*

Absa's executive compensation plans

Two new executive compensation plans were introduced (subject to shareholder approval) during the reporting period. These plans are intended to:

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

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

The second plan consists of a special discretionary performance bonus for the top 40 roles below board level, but participation is not automatic. Key criteria include the delivery of the business case* in terms of the acquisition by Barclays of a controlling stake in Absa and on an individual's performance. The participants also include a number of individuals assigned to Absa from Barclays. Members of the Barclays Special Incentive Plan detailed above will not participate in this plan. The bonus, which may be up to 200% of guaranteed pay, will be delivered in cash by Absa after two years subject to individual performance assessments, taking into account delivery of the business case*, including growth in profit before tax, the realisation of synergies, the management of restructuring costs and personal contribution. The Absa Remuneration Committee will approve any awards under this plan, and will scrutinise the performance outcomes.

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 executive directors) at the age of 60.

Group executive directors' severance arrangements

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

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

Absa aims to apply the above policy to all employees, including Group executive directors. However, depending on circumstances, it is sometimes necessary to negotiate with the Group executive director whose contract is being terminated.

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

Group non-executive directors' remuneration

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

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

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

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

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

Category	Note	Remuneration with effect from 1 October 2005 R	Remuneration 1 October 2004 – 30 September 2005 R
Group chairman	1 & 12	2 500 000	2 300 000
Board member	2, 3 , 4 & 12	112 000	104 000
Group Audit and Compliance Committee (GACC) member	5 & 11	87 000	81 000
Group Risk Committee (GRC) member	6 & 11	63 000	58 000
Group Remuneration Committee (Rem Com) member	7 & 11	52 000	48 000
Directors' Affairs Committee (DAC) member	8 & 11	39 000	36 000
Credit Committee: Large Exposures member	9 & 11	39 000	Not applicable
Implementation Committee member	10 & 11	39 000	Not applicable
Board Lending Committee member		Pool of R300 000 per annum payable to Board Lending Committee members *pro rata* to the number of facilities reviewed.	Pool of R207 000 per annum payable to Board Lending Committee members *pro rata* to the number of facilities reviewed.
Ad hoc board fees:			
– per *ad hoc* board committee meeting attended		9 700	9 000
– consultancy work		R2 500 per hour	R2 300 per hour

Notes

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

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

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

(4) A fee of R15 000 per board member is paid for attendance at special board meetings, over and above the annual fee.

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

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

(7) The Rem Com chairman receives fees equal to twice the fee payable to a Rem Com member.

(8) As the Group chairman is also the chairman of the DAC, his fee is covered by the Group chairman fee.

(9) The Group chairman is also the chairman of the Credit Committee: Large Exposures. His fee is covered by his Group chairman's fee.

(10) The Implementation Committee chairman receives fees equal to twice the fee payable to an Implementation Committee member.

(11) A fee of R9 700 per board committee meeting is paid for attendance at special meetings of board committees over and above the annual fee.

(12) The fees payable to non-executive directors of Absa Group Limited in respect of subsidiary companies are not included above as the shareholders of the respective subsidiaries approve these fees. Amounts received by Absa Group Limited directors from subsidiaries are disclosed in the table on the following page.

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

		Fees for the nine months ended 31 December 2005*				Fees for the twelve months ended 31 March 2005*
Name	**Note**	**Absa Group Limited R**	**Absa Bank and its subsidiaries R**	**Committees and divisional boards R**	**Total R**	Total R
D C Cronjé (chairman)	1	3 506 160	128 000	—	3 634 160	2 504 000
D C Brink (deputy chairman)		120 000	96 000	445 186	661 186	596 165
L N Angel	2	80 000	64 000	65 500	209 500	139 833
D C Arnold		80 000	64 000	125 700	269 700	304 000
D E Baloyi	3	80 000	64 000	—	144 000	46 750
L Boyd	4	80 000	64 000	93 938	237 938	276 536
B P Connellan		80 000	64 000	172 692	316 692	319 166
A S du Plessis		80 000	64 000	367 767	511 767	515 383
G Griffin		80 000	64 000	119 235	263 235	228 500
M W Hlahla	5	—	—	—	—	—
L N Jonker		80 000	64 000	72 500	216 500	244 500
N Kheraj	6	45 333	36 333	79 367	161 033	—
P du P Kruger		80 000	64 000	270 150	414 150	471 000
L W Maasdorp	2	80 000	64 000	138 650	282 650	166 833
P T Motsepe	7	34 667	27 666	—	62 333	134 000
D L Roberts	6	45 333	36 333	58 700	140 366	—
T M G Sexwale		80 000	64 000	27 750	171 750	190 500
F A Sonn		80 000	64 000	44 750	188 750	228 500
P E I Swartz		80 000	64 000	89 500	233 500	282 500
T van Wyk	8	34 667	27 666	99 667	162 000	386 000
J van Zyl	9	34 666	27 666	—	62 332	174 500
Total		4 860 826	1 211 664	2 271 052	8 343 542	7 208 666

Notes

(1) As a result of the additional time spent by the Group chairman, Dr D C Cronjé, on Absa matters during the period from August 2004 to May 2005, over and above his current contractual arrangement with Absa, shareholders ratified the payment of a one-off additional remuneration of R1,5 million at the annual general meeting held on 19 August 2005.

(2) Appointed to the Absa Group board on 16 August 2004.

(3) Appointed to the Absa Group board on 31 December 2004.

(4) Resigned from the Absa Group board on 30 December 2005.

(5) Appointed to the Absa Group board on 23 December 2005.

(6) Appointed to the Absa Group board on 27 July 2005.

(7) Appointed on the Absa Group board on 9 July 2004. He subsequently resigned from the Absa Group board on 27 July 2005.

(8) Resigned from the Absa Group board on 27 July 2005.

(9) Appointed to the Absa Group board on 19 April 2004. He subsequently resigned from the Absa Group board on 27 July 2005.

Additional note

**All emoluments to Group non-executive directors are made by Absa Bank Limited, except as disclosed in note 44.4 to the financial statements.*

Absa shares held by non-executive directors

Ordinary shares

Certain non-executive directors (including independent directors) have an interest in the Group through beneficial and non-beneficial interests in Absa shares. This is disclosed in the directors' report on page 60 of the Group's shareholder report for the nine months ended 31 December 2005.

Preference shareholding in Absa

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

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

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

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

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

Group non-executive director	Absa preference shares 31 December 2005
L N Angel	1 180 165
D E Baloyi	100 000
L W Maasdorp	2 560 328
T M G Sexwale	4 183 090
F A Sonn	500 000
P E I Swartz	500 000
Total	**9 023 583**

Non-executive directors' terms of employment

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

In conclusion

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

Introduction

Absa Group Limited produced another good performance for the nine months under review, with solid contributions from all the Group's major business units. Significant features of this performance included the Group's ability to grow its lending and its customer base in a consumer-friendly domestic economic environment with low levels of impairments and buoyant equity markets.

The Group has made good progress with the initiatives to deliver sustainable future benefits envisaged as part of the transaction whereby Barclays PLC acquired a controlling shareholding in Absa.

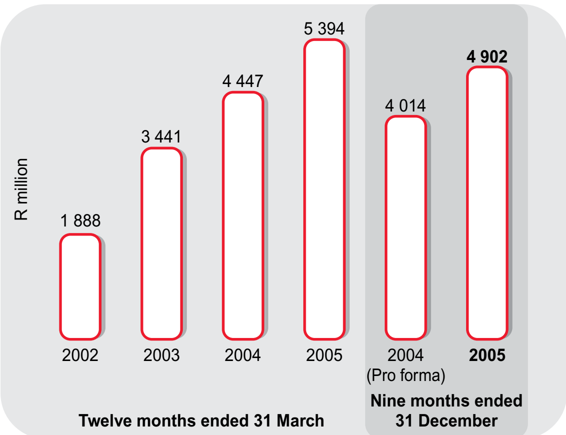
Group performance

Headline earnings

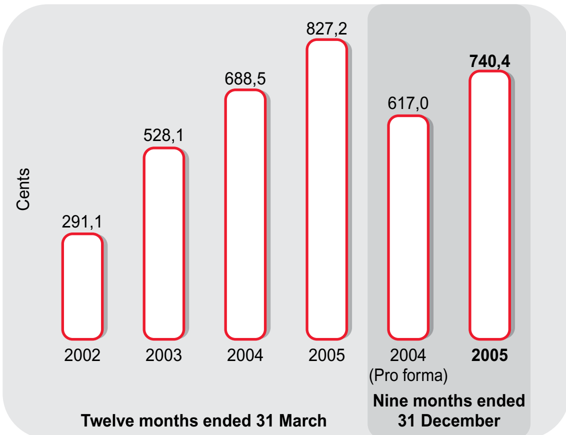
Objective: The Group aims to achieve real headline earnings growth of 10%.

Performance: Headline earnings increased by 22,1% (real headline earnings growth of 18,0%) to R4 902 million in comparison with headline earnings of R4 014 million for the corresponding period of the previous financial year. Headline earnings per share increased for the nine months by 20,0%, from 617,0 cents to 740,4 cents per share.

Headline earnings



Headline earnings per share



Diluted headline earnings per share

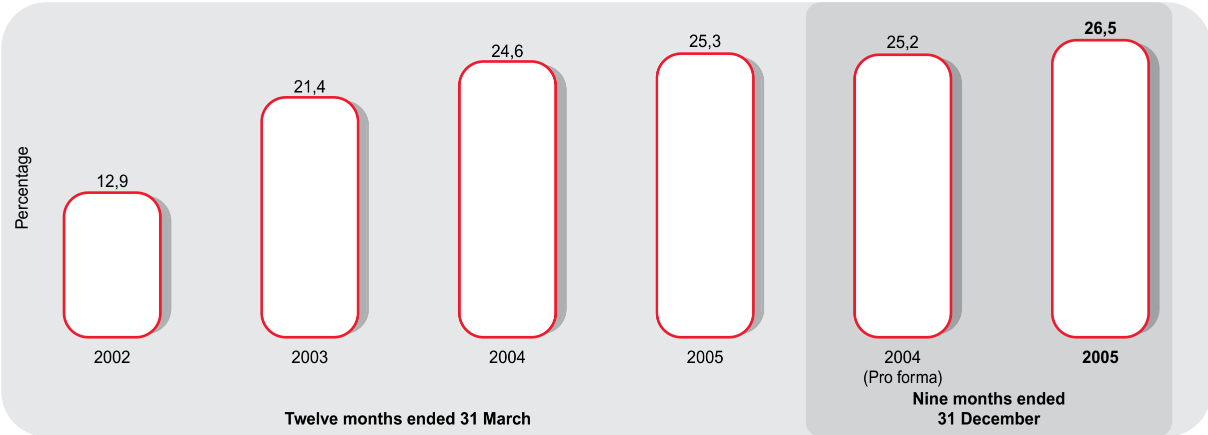
The options issued to the Absa Group Limited Share Incentive Trust, the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust (the trust established to facilitate Absa's employee share ownership programme), and Batho Bonke Capital (Proprietary) Limited (Absa's black economic empowerment partner) diluted headline earnings per share by 29,5 cents to 710,9 cents per share. Accordingly, the growth in fully diluted headline earnings per share was 18,3% compared with the same period in the previous financial year.

Return on average equity (RoE)

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

Performance: The Group delivered a return, on an annualised basis, of 26,5% on average shareholders' equity (December 2004: 25,2%). This pleasing result has enabled a sustained outperformance of the Group's objective of achieving an RoE of at least 5% above the Group's cost of equity. The satisfactory RoE achieved can be attributed to a combination of solid earnings growth and sound capital management.

Return on average equity



Return on average assets (RoA)

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

Performance: The Group's RoA improved from 1,65% to 1,73% compared with March 2005. A lower impairment charge and strong top-line income growth were the core drivers of the increase in the Group's RoA.

Return on average assets, excluding acceptances

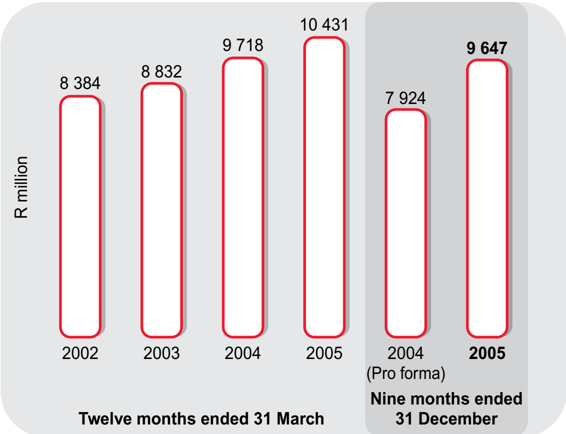
Net interest income

Performance: Net interest income increased by 21,7%, from R7 924 million for the nine months to 31 December 2004 to R9 647 million for the nine months ended 31 December 2005.

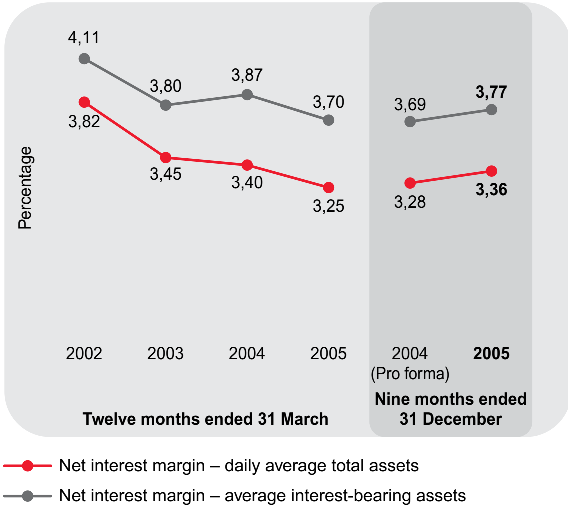
Credit demand remained strong, particularly in the retail environment. Mortgage loan and credit card growth were the main contributors to the overall retail net loan growth of 24,8% for the nine months. Commercial and wholesale loans grew by 15,9% and 13,8% respectively. Total advances growth for the nine months was 20,1%, or 26,7% on an annualised basis.

In spite of the continued pressure on lending margins in selected markets and an increased reliance on wholesale funding, the Group's margin in respect of average assets improved from 3,25% in March 2005 to 3,36% for the nine months to December 2005. The improved margin can be attributed primarily to the implementation of IFRS, which requires certain fee income directly related to the acquisition of loans to be treated as part of the net interest margin.

Net interest income



Net interest margin



Gross loans and advances to customers

Performance: Gross advances increased by 19,4% to R328 billion from 31 March 2005, with personal, commercial and wholesale advances showing sound growth of 25,8%, 13,9% and 13,9% respectively.

The growth in personal advances continues to be driven by increased household credit extension. Residential mortgage advances grew by 27,7% and credit cards by 28,3%. Strong advances growth continues to be experienced in the affluent and high net worth market, with Absa Private Bank increasing its advances base by 12,1%.

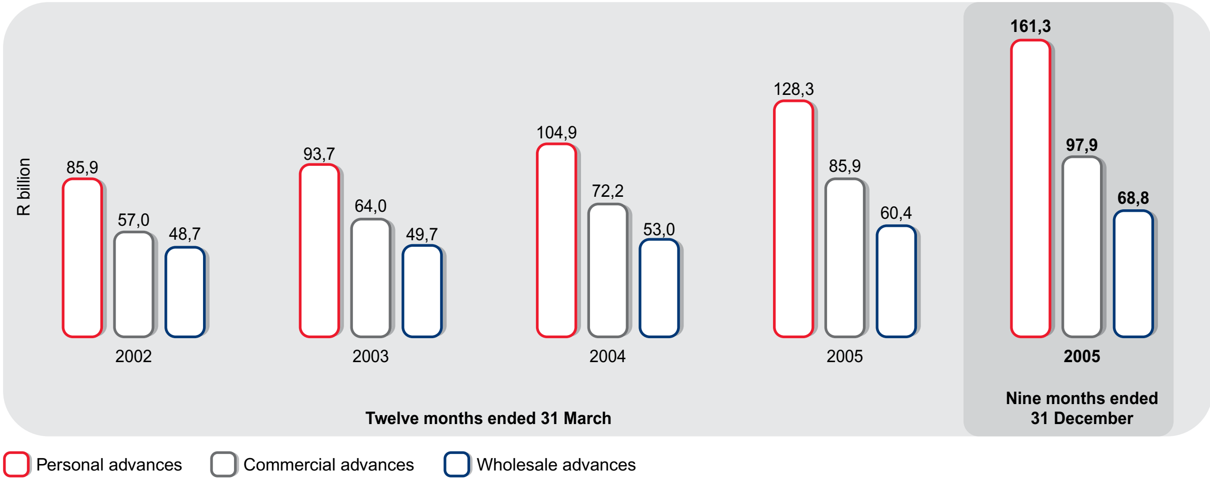
Absa's repossessed properties portfolio continues to decline, with the total number of properties in possession declining by 19,6% from 31 March 2005. The remaining properties in this portfolio (5 286 properties) have been adequately provided for.

The solid growth in commercial advances was partly as a result of record new business volumes being achieved by Absa Vehicle and Asset Finance (AVAF). This growth was assisted by the lower interest rate environment, coupled with low vehicle price inflation. Strategic alliances with key suppliers and manufacturers continue to contribute to the solid asset growth, which is in line with AVAF's strategy to diversify its asset mix and target the corporate and business markets.

Both the large and medium business segments drove Business Banking Services' advances growth. The strong property market remained a solid contributor to the 13,9% growth in commercial lending.

The Group's wholesale advances experienced 13,9% growth, however, the demand for traditional interest-bearing products remained under pressure. Investments undertaken by Absa's securitisation vehicle (Abacas) and the appetite for preference share funding and specialised and project finance contributed significantly to the growth. These assets attract fees and offer narrower margins than traditional lending products.

Gross loans and advances to customers

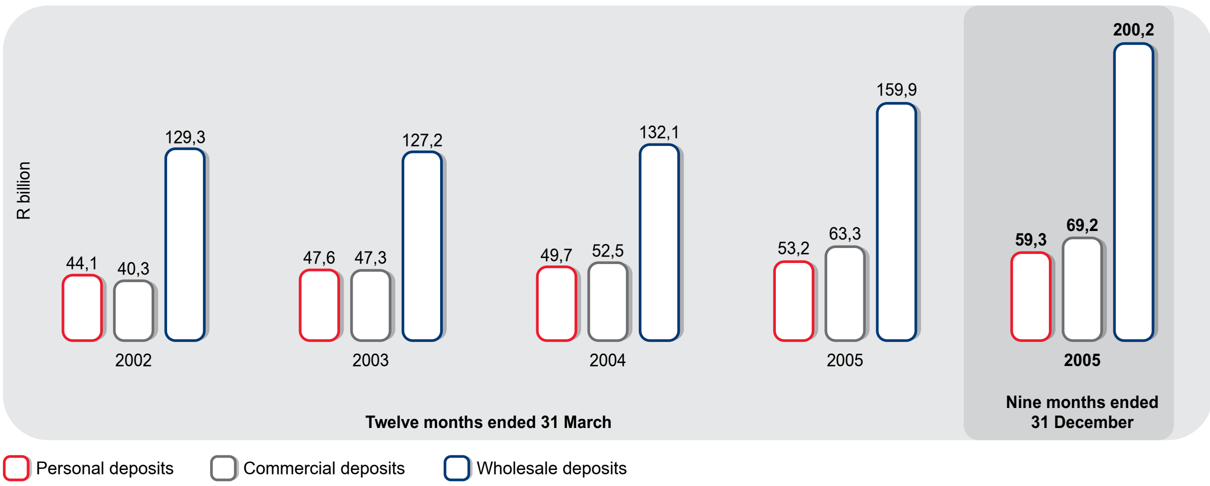


Deposits due to customers and banks

Performance: Personal and commercial deposits comprise 39,1% of the Group's funding base, which is lower than the 42,1% recorded at 31 March 2005. This can be attributed to a slight change in the funding mix towards wholesale deposits.

The lower interest rate environment and strong performances by equity markets continue to make alternative investments more attractive. Despite this, personal and commercial deposits have grown by 11,5% and 9,3% respectively from 31 March 2005.

Deposits due to customers and banks

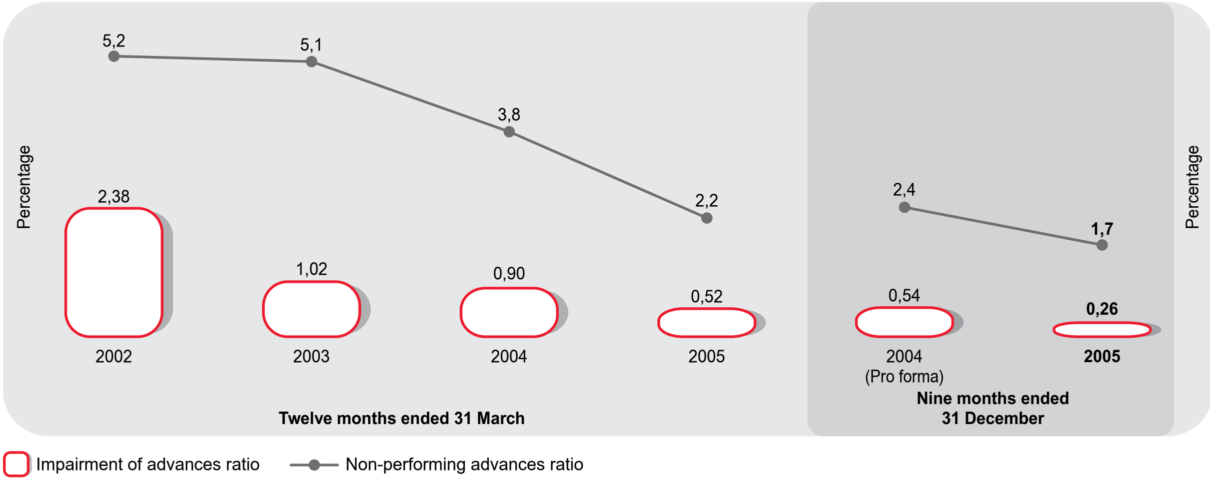


Impairment losses on loans and advances

Performance: The bad debt charge of R569 million for the period was significantly lower than the R978 million charge for the same period of 2004. The ratio of non-performing advances to total advances declined to 1,7%, the lowest in the history of the Group. On an annualised basis, the Group's impairment ratio (income statement charge as a percentage of average advances) for the period was only 0,26% compared with the 0,35% and 0,52% reported in September 2005 and March 2005 respectively. This low charge is underpinned by the further improvement in the number and value of non-performing loans and increased success in the recovery of previously written-off amounts.

The Group's credit management policies, procedures and techniques are sound and will be further enhanced by continuing to apply best practice. The levels of provisions held in the Group are prudent and adequately cover the risk of uncollectable amounts.

Impairment losses on loans and advances



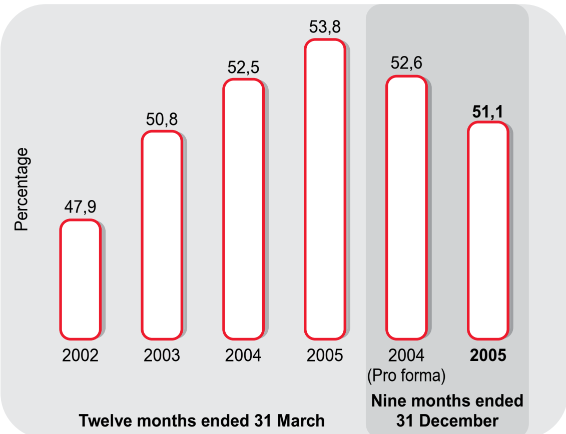
Non-interest income

Objective: The Group aims to maintain non-interest income at greater than 50% of total operating income.

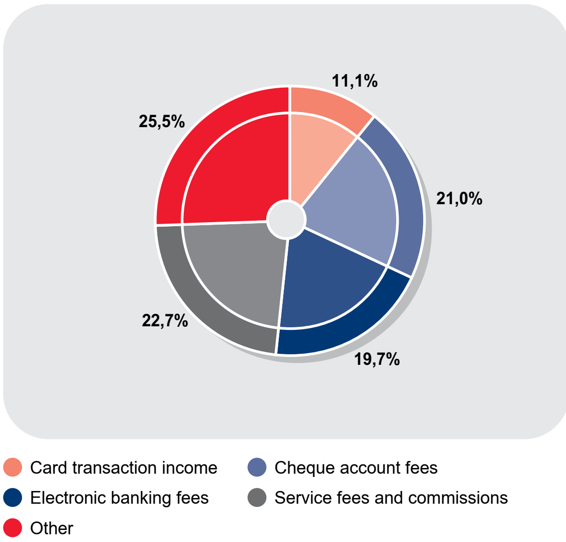
Performance: Approximately 77% of non-interest income was derived from transaction-based fees and commissions. Other major sources included life and short-term insurance activities (7,7%) and treasury trading (7,4%). Fee and commission income, before and after IFRS reclassifications, grew by 16,8% and 10,8% respectively. Transaction volume growth and the continued increase in retail customer numbers were the main growth drivers. Revenue from treasury trading activities was 25,3% higher than in the same period of 2004. The Group's insurance activities continued to perform well, assisted by the growth in new business, favourable underwriting conditions, operational efficiencies and strong growth in the equity portfolio.

Non-interest income as a percentage of operating income declined marginally from the 53,8% recorded in March 2005 to 51,1% owing to the IFRS reclassification of fees.

Non-interest income as a percentage of total operating income



Composition of fee and commission income – nine months ended 31 December 2005



Operating expenditure

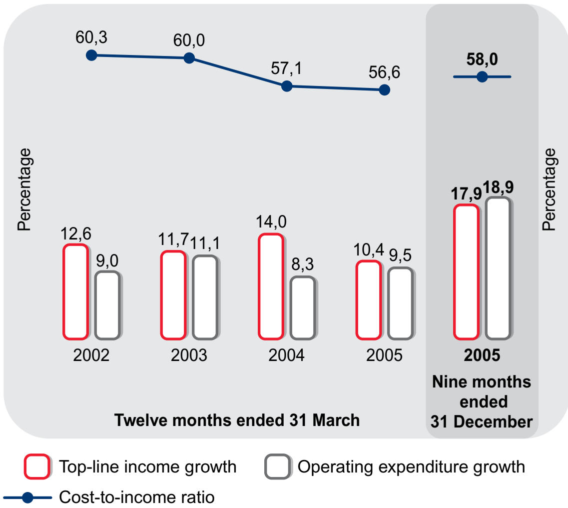
Objective: The Group aims to achieve a cost-to-income ratio of below 57% in the short to medium term and 55% in the longer term.

Performance: Operating expenditure increased by 18,9% compared with the corresponding nine months of 2004. Areas contributing to the relatively high cost growth included the expansion of the Group's branch and automated teller machine (ATM) network, increased business volumes, expenditure relating to the Barclays transaction, regulatory and compliance related activities, as well as staff costs. The increased staff costs emanate from the Group's emphasis on customer service in an environment where banking transactions and activities increased dramatically. Barclays alignment and synergies costs, the winding-up of the Group's international operations as well as performance related incentives also resulted in increased costs.

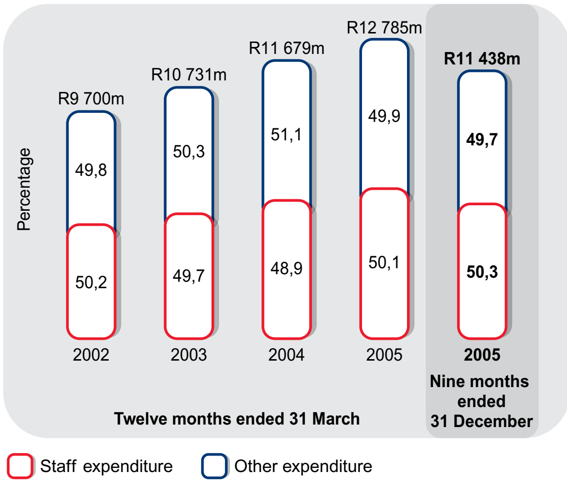
The Group's cost-to-income ratio is in line with the ratio reported for March 2005 if the costs relating to the Barclays transaction and synergy intiatives are excluded. However, if the Barclays related costs are included, the Group's cost-to-income ratio deteriorated from 56,6% in March 2005 to 58,0% in December 2005 owing to top-line income growth of 17,9% lagging expenditure growth over the period.

Staff costs grew by 20,3% (annualised, compared with March 2005) and represent 50,3% of the cost base. The key drivers of this increase included headcount growth to support expansion, service initiatives and compliance requirements. In addition, above-inflation wage settlements and higher incentive provisions owing to the Group's strong performance contributed to the increase.

Operating expenditure vs top-line income growth



Operating expenditure composition

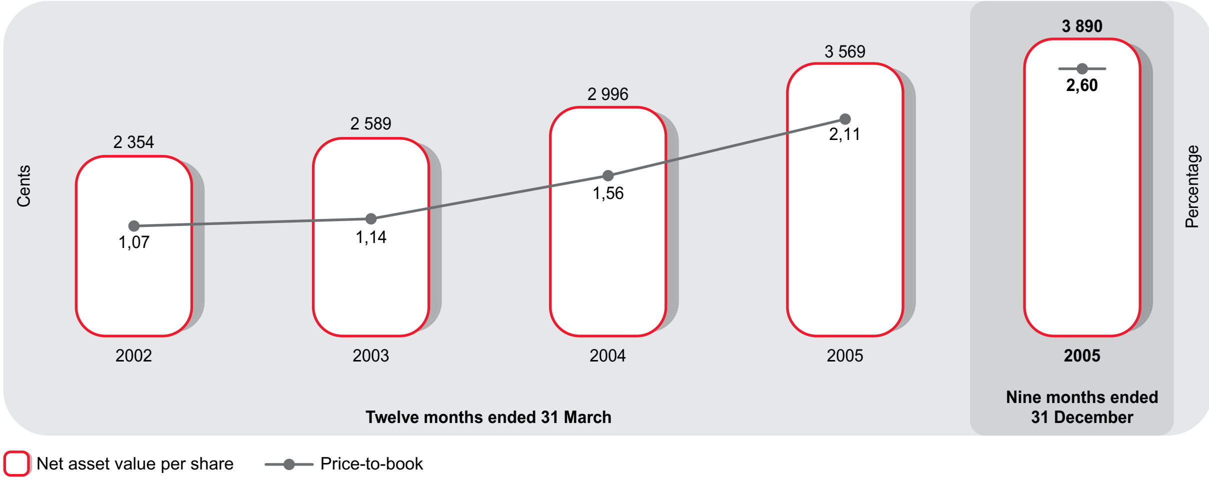


Net asset value and capital adequacy

Performance: The net asset value of the Absa Group increased by 8,8% from 3 577 cents per share at 31 December 2004 to 3 890 cents per share during the period under review. This modest increase follows higher dividend payouts during the period to reduce the surplus capital in the Group to a more acceptable level.

On the basis of the prescribed consolidated capital requirements of the South African Reserve Bank (SARB), the Group's capital stood at 11,3% of risk-weighted assets at 31 December 2005 (March 2005: 12,0%). The Group's primary capital ratio was 8,6% (March 2005: 9,1%) and its secondary capital ratio was 2,7% (March 2005: 2,9%).

Net asset value



The targeted capital levels of the Group are strongly influenced and guided by the regulatory requirements of the banking operations, which form a substantial component of the Group. The SARB regulates the capital requirements of the banking operations in accordance with the principles of the Basel Capital Accord. In 2008, the Basel Capital Accord will be replaced by the Basel II Capital Accord (Basel II).

Advanced internal risk assessment methodologies are allowed by Basel II and this will ultimately determine the levels of capital that must be held by the Group subject to the SARB's oversight over the internal ratings. Absa is on track to meet the 2008 Basel II implementation deadline with continued good progress being achieved in 2005. At this point, Absa is confident that any additional capital requirements for areas such as operational risk will be offset by the anticipation of lower capital requirements for areas such as credit risk.

It must be noted that going forward, additional capital will be required for the proposed acquisition of the nine Barclays sub-Saharan African operations, but this is expected to be funded by available internal resources and the issue of preference shares.

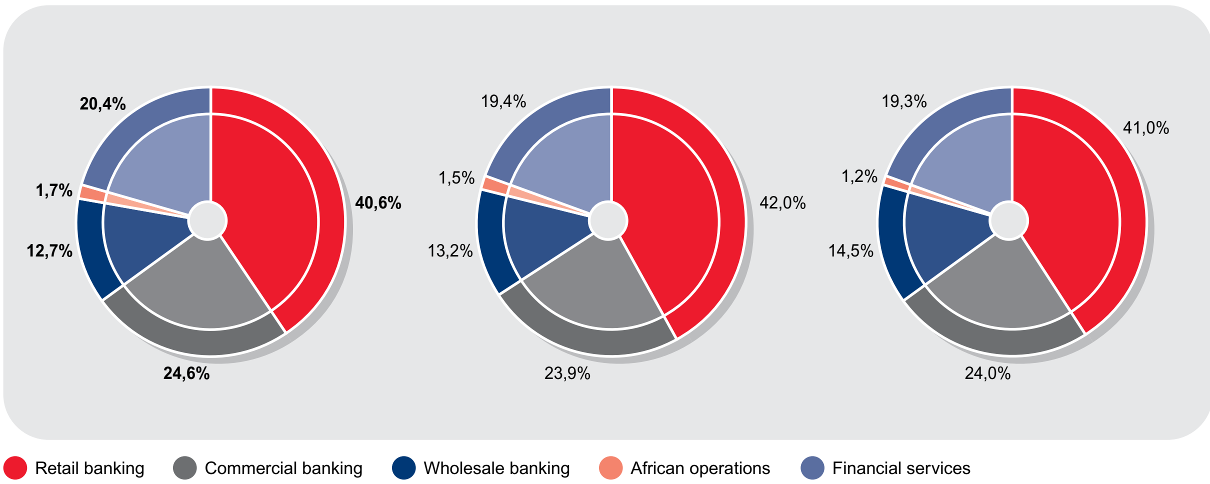
Segmental performance

Retail banking, commercial banking and the bancassurance operations performed particularly well in an environment characterised by continued buoyant retail market conditions and a strong domestic equity market. Retail banking lifted headline earnings by 21,4% to R2 136 million from the comparable period of the previous year. Commercial banking and bancassurance operations grew earnings by 29,5% and 32,4% respectively. Wholesale banking's headline earnings increased by 20,8% from the R554 million recorded in 31 December 2004 to R669 million for the nine months under review.

Segmental headline earnings

	Nine months ended 31 December **2005** **Rm**	Nine months ended 31 December 2004 (Pro forma) Rm	Change %	Twelve months ended 31 March 2005 (Restated) Rm
› Retail banking	**2 136**	1 759	21,4	2 397
› Commercial banking	**1 294**	999	29,5	1 403
› Wholesale banking	**669**	554	20,8	843
› African operations	**90**	62	45,2	71
› Financial services	**1 075**	812	32,4	1 127
› Capital, funding and corporate centre costs and costs relating to the Barclays transaction	**(362)**	(172)	>100,0	(447)
Total headline earnings	**4 902**	4 014	22,1	5 394

Nine months ended 31 December 2005* **Nine months ended 31 December 2004 (Pro forma)*** **Twelve months ended 31 March 2005***



**Calculated after the allocation of capital, funding and corporate centre costs and costs relating to the Barclays transaction.*

Segmental performance

	Nine months ended 31 December 2005				
	Capital allocation %	Headline earnings contribution %	RoE %	Impairment ratio %	Cost-to-income ratio %
› Retail banking	21,3	43,6	41,0	0,11	63,5
› Commercial banking	20,2	26,4	26,2	0,53	50,5
› Wholesale banking	19,4	13,6	14,0	0,42	58,8
› African operations	2,2	1,8	16,9	0,79	70,6
› Financial services	10,4	21,9	42,0	n/a	28,8
› Corporate and capital centre costs and costs relating to the Barclays transaction	26,5	(7,3)	n/a	n/a	n/a
Absa Group	100,0	100,0	26,5	0,26	58,0

Retail banking

Retail banking increased its headline earnings contribution to R2 136 million (December 2004: R1 759 million), with strong performances from all customer segment and product business units. Retail Banking Services and Absa Home Loans (net of repossessed properties) performed strongly, growing headline earnings for the nine months by 29,1% and 26,5% respectively. Although the earnings of the private bank did not increase from those of the comparable period, this entity met expectations after taking account of the restructuring exercise. The restructuring enables the delivery of an enhanced service offering to a larger number of customers.

The strong performance of retail banking as a whole resulted from a buoyant consumer and property market and a low interest rate environment. Net advances were 24,8% higher than those recorded for the year ended 31 March 2005. The main driver was mortgage loan growth, up 28,4% from March 2005, which was well supported by credit card and personal net loan growth of 28,5% and 26,0% respectively.

Increased transaction volumes continued to drive non-interest income growth. Price increases contributed moderately as they were kept well below the inflation rate. The growth in transaction volumes emanated from the increased activities of existing customers and growth in the retail customer base from 6,9 million in March 2005 to 7,6 million in December 2005.

The credit impairment charge in the retail market declined to a historical low of 0,11%. This charge reflects the quality of the advances portfolio and the improved net worth of customers, partly owing to the strong growth in residential property values.

During the nine months under review, 43 new staffed outlets were opened, mainly in previously disadvantaged areas, and a further 48 extensively upgraded. An additional 757 ATMs were added to the delivery footprint. This expansion of the Group's delivery reach enhances the sustainability of future revenue growth and provides access to financial services to a far greater proportion of the South African population.

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

	Nine months ended 31 December **2005** **Rm**	2004 (Pro forma) Rm	Change %	Twelve months ended 31 March 2005 (Restated) Rm
Segment-focused business units				
› **Affluent market** ➜ Absa Private Bank*	**153**	152	0,7	221
› **Middle market** ➜ Retail Banking Services	**355**	275	29,1	404
› **Mass market** ➜ Flexi Banking Services	**200**	165	21,2	203
› **Small business market** ➜ Small Business	**250**	220	13,6	290
Product-focused business units				
› **Credit cards** ➜ Absa Card	**385**	320	20,3	441
› **Home loans** ➜ Absa Home Loans**	**793**	627	26,5	838
Retail banking	**2 136**	1 759	21,4	2 397

Commercial banking

Commercial banking increased its headline earnings contribution to R1 294 million. Profit drivers included net advances growth of 15,9% (mainly in the large and medium business segments and asset and vehicle financing). Despite the solid advances growth, the 0,53% credit impairment charge was lower than the March 2005 ratio of 0,92%. Investments in a number of listed property vehicles contributed handsomely to non-interest income.

Business Banking Services experienced some margin pressure on selected advance and deposit products, but was able to grow its customer base and market share.

During recent years, Absa Vehicle and Asset Finance (AVAF) has extended its reach beyond its traditional vehicle finance markets into financing other classes of commercial moveable assets. Resulting from this strategy, office automation finance, in particular, experienced solid growth in the period under review.

AVAF benefited from strong growth in new vehicle sales owing to low interest rates and a lack of vehicle price increases. This assisted in increasing its market share in the new vehicle segment. In addition to this, AVAF retained its leadership position in the pre-owned vehicle market.

**Personal Financial Services was integrated into Absa Private Bank during the nine months under review.*

***Includes repossessed properties.*

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

	Nine months ended 31 December 2005 Rm	2004 (Pro forma) Rm	Change %	Twelve months ended 31 March 2005 (Restated) Rm
Segment-focused business unit				
› **Medium and large business market**				
➜ Business Banking Services	**764**	621	23,0	844
Product-focused business unit				
› **Vehicle and asset finance**				
➜ Absa Vehicle and Asset Finance	**530**	378	40,2	559
Commercial banking	**1 294**	999	29,5	1 403

Wholesale banking

The demand for credit in the large corporate market continues to be sluggish, although there are indications that capacity utilisation is reaching high levels. The Group's domestic operations nevertheless achieved net advances growth of 13,8% by focusing on specialised and project finance. Transaction income benefited from increased deal flows in merchant banking, particularly in the areas of empowerment and project finance. Revenue from treasury trading activities was strong, particularly during the last quarter, as a result of increased customer flows. Investment banking posted R101 million in respect of gains on private equity investments.

The Group's international operations in Singapore and Asia will be closed by the end of the first quarter of 2006 and the London office significantly scaled down. This contributed to a loss of R39 million being posted by these entities for the period under review. Bankhaus Wölbern performed well and posted earnings of R99 million for the period. Subsequent to 31 December 2005, the Group has agreed to sell Bankhaus Wölbern conditional on, *inter alia,* German and South African regulatory approval.

Headline earnings for wholesale banking was as follows:

	Nine months ended 31 December 2005 Rm	2004 (Pro forma) Rm	Change %	Twelve months ended 31 March 2005 (Restated) Rm
Wholesale banking*	**669**	554	20,8	843

**Wholesale banking includes the Group's domestic wholesale banking operations (corporate and merchant banking – Absa Corporate and Merchant Bank – and institutional asset management – Abvest Holdings (Proprietary) Limited) and its international operations, which are currently being scaled down, sold or closed. (Absa Bank London, Absa Bank Singapore, Absa Bank (Asia) Limited and Bankhaus Wölbern & Co.)*

African operations

The Group's African operations outside of South Africa performed satisfactorily, with the Tanzanian and Namibian operations leading the way. Although the contribution from the Group's African operations remains modest, the returns in this environment are potentially attractive and support the Group's rationale for further expansion in Africa.

Headline earnings for the Group's African operations was as follows:

	Nine months ended 31 December			Twelve months ended 31 March
	2005	2004 (Pro forma)	Change	2005 (Restated)
	Rm	Rm	%	Rm
African operations	**90**	62	45,2	71

- **Tanzania** ➜ National Bank of Commerce Limited (NBC) (55,0% holding)
- **Mozambique** ➜ Banco Austral, Sarl (80,0% holding)
- **Namibia** ➜ Capricorn Investment Holdings Limited (of which Bank Windhoek is a subsidiary (34,7% holding))
- **Zimbabwe** ➜ CBZ Holdings Limited (24,1% holding)
- **Angola** ➜ Banco Comercial Angolano (50,0% holding)

Financial services

The Group's bancassurance activities performed exceptionally well, with very strong operational and underwriting performances by both the life assurance and short-term insurance operations. Strong equity markets also contributed handsomely.

Absa Life's earnings were mainly driven by significant sales success, particularly in respect of retail credit risk business. Favourable weather conditions and claims management efficiencies contributed to good profitability on short-term property insurance.

Absa Brokers made strong inroads into the short-term market, especially personal lines business and e-delivery. Absa Trust achieved record levels of trust asset values under management and also experienced significant growth in terms of the inflow of wills.

Current focus areas include further product delivery integration with Absa branches, expansion of the product range to satisfy customer needs, customer retention and increased cross-selling.

Headline earnings for financial services was as follows:

	Nine months ended 31 December			Twelve months ended 31 March
	2005	2004 (Pro forma)	Change	2005 (Restated)
	Rm	Rm	%	Rm
Financial services	**1 075**	812	32,4	1 127

- **Life assurance** ➜ Absa Life Limited
- **Short-term insurance** ➜ Absa Insurance Company Limited, Absa Syndicate Investments Holdings Limited and Absa Manx Insurance Company Limited
- **Advisory services** ➜ Absa Brokers (Proprietary) Limited, Absa Consultants and Actuaries (Proprietary) Limited and Absa Health Care Consultants (Proprietary) Limited
- **Wealth management** ➜ Absa Trust Limited, Absa Fund Managers Limited, Absa Mortgage Fund Managers (Proprietary) Limited, Absa Stockbrokers (Proprietary) Limited, Absa Portfolio Managers (Proprietary) Limited and Absa Investment Management Services (Proprietary) Limited.

Accounting policies

Absa implemented the International Financial Reporting Standards (IFRS) with effect from 1 April 2005. The opening balance sheets at 1 April 2004 and 1 April 2005 have been restated accordingly. The income statement for the twelve months to March 2005 has been restated, as has the pro forma unaudited results for the nine months to December 2004.

However, it is important to note that selected areas of IFRS are only applied prospectively in terms of the standards, resulting in figures not being 100% comparable on a line-by-line basis. The standards that were prospectively applied are detailed in Annexure C.

Nine months pro forma figures

In order to provide additional disclosures pertaining to the comparatives for the Group's performance for the nine months ended 31 December 2004, the Group's income statement for the nine months ended 31 December 2005/2004 is tabled on the following page. However, as certain figures for the nine months ended 31 December 2004 are not available on a comparable basis to that of the nine months ended 31 December 2005, the Group's balance sheet for 31 December 2005 cannot be provided.

Income statement

	Nine months ended 31 December 2005 Rm	2004 (Pro forma) Rm	Change %	Twelve months ended 31 March 2005 (Restated) Rm
Net interest income	**9 647**	7 924	21,7	10 431
Interest and similar income	**23 212**	21 445	8,2	26 937
Interest expense and similar charges	**(13 565)**	(13 521)	(0,3)	(16 506)
Impairment losses on loans and advances	**(569)**	(978)	41,8	(1 284)
	9 078	6 946	30,7	9 147
Net fee and commission income	**7 067**	6 395	10,5	8 920
Fee and commission income	**7 750**	6 995	10,8	9 703
Fee and commission expense	**(683)**	(600)	(13,8)	(783)
Net insurance premium income	**1 948**	1 562	24,7	2 051
Insurance premium revenue	**2 146**	1 815	18,2	2 341
Premiums ceded to reinsurers	**(198)**	(253)	21,7	(290)
Net claims and benefits paid	**(797)**	(673)	(18,4)	(929)
Gross claims and benefits paid on insurance contracts	**(913)**	(713)	(28,1)	(1 023)
Reinsurance recoveries	**116**	40	>100,0	94
Changes in insurance and investment liabilities	**(1 026)**	(677)	(51,6)	(668)
Gains and losses from banking and trading activities	**781**	596	31,0	870
Gains and losses from investment activities	**1 336**	973	37,3	1 228
Other operating income	**759**	619	22,6	696
Net operating income	**19 146**	15 741	21,6	21 315
Operating expenses	**(12 216)**	(10 302)	(18,6)	(13 708)
Operating expenses	**(11 438)**	(9 619)	(18,9)	(12 785)
Impairments	**(54)**	(104)	48,1	(118)
Indirect taxation	**(724)**	(579)	(25,0)	(805)
Share of profit of associated and joint venture companies	**101**	48	>100,0	59
Operating profit before income tax	**7 031**	5 487	28,1	7 666
Taxation expense	**(2 187)**	(1 486)	(47,2)	(2 172)
Profit for the period	**4 844**	4 001	21,1	5 494
Attributable to:				
Equity holders of the Group	**4 776**	3 942	21,2	5 419
Minority interest	**68**	59	15,3	75
	4 844	4 001	21,1	5 494
› basic earnings per share (cents)	**721,4**	605,9	19,1	831,0
› diluted earnings per share (cents)	**692,7**	589,9	17,4	801,6
Headline earnings	**4 902**	4 014	22,1	5 394
› headline earnings per share (cents)	**740,4**	617,0	20,0	827,2
› diluted headline earnings per share (cents)	**710,9**	600,7	18,3	797,9

Responsibility for financial statements

The directors are responsible for the preparation, integrity and objectivity of financial statements that fairly present the state of the affairs of the Company and of the Group at the end of the financial period and the net income and cash flow for the nine-month period, 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, appraises, evaluates and, when necessary, recommends improvements in the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business; and
- the Group Audit and Compliance Committee, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the period under review. The external auditors concur with this statement.

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

The financial statements have been prepared in accordance with the provisions of the South African Companies Act and the Banks Act and comply with International Financial Reporting Standards (IFRS).

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

It is the responsibility of the independent auditors to report on the financial statements. Their report to the members of the Company and Group is set out on page 57 of this report.

Approval of financial statements

The directors' report and the financial statements, which appear on pages 58 to 193 were approved by the board of directors on 21 February 2006 and are signed by:

D C Cronjé › Chairman

Johannesburg

S F Booysen › Group chief executive

Johannesburg

To the members of Absa Group Limited

In accordance with the provisions of the Companies Act of 1973 (the Act), I certify that, in respect of the nine months ended 31 December 2005, the Company has lodged with the Registrar of Companies all returns prescribed by the Act and that all such returns are true, correct and up to date.

W R Somerville › Company secretary

Johannesburg
21 February 2006

report of the independent auditors

Report of the independent auditors to the members of Absa Group Limited

We have audited the financial statements and group financial statements of Absa Group Limited set out on pages 58 to 179 and pages 182 to 193 for the period ended 31 December 2005. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and of the Group at 31 December 2005, and the results of their operations and cash flows for the period then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc. › Chartered accountants (SA)
› Registered accountants and auditors

Ernst & Young › Chartered accountants (SA)
› Registered accountants and auditors

Johannesburg
21 February 2006

General information

Absa Group Limited (the Company), which has a primary listing on the JSE Limited, is incorporated and domiciled in South Africa and provides retail, corporate and investment banking services in various parts of the world. Absa Group Limited and its subsidiaries (the Group) operate primarily in South Africa and employ over 33 000 people. The address of the Group's registered office is 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 as follows: 1 Churchill Place, Canary Wharf, United Kingdom.

Absa Bank Limited (the Bank), is a wholly owned subsidiary of the Absa Group Limited.

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

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

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

The consolidated financial statements were approved for issue by the board of directors on 21 February 2006.

Nature of activities

Absa Group Limited is the registered controlling company of a number of banks, insurance, fiduciary and investment companies, and is an investment holding company.

The Company directs the planning, control and co-ordination of the activities of the Group, which provides an extensive range of banking and financial services.

For the period ended 31 December 2005, the Group prepared its financial statements under International Financial Reporting Standards (IFRS). In accordance with the Listings Requirements of the JSE Limited, Absa was required to prepare its consolidated financial statements in accordance with IFRS from the transition date. The transition date was 1 April 2005. The comparatives for the period ended 31 March 2005 were restated in terms of IFRS 1 – First-time adoption of IFRS. Refer to the explanation of the transition to IFRS in Annexure C contained on pages 139 to 145.

Barclays PLC acquired a controlling stake in Absa with effect from 27 July 2005. At the Absa annual general meeting, held on 19 August 2005, the year-end was changed from 31 March to 31 December with effect from 31 December 2005. This is to facilitate the alignment of the year-end with that of Barclays PLC.

The Group therefore acknowledges that comparative amounts for the income statement, changes in equity, cash flows and related notes are not comparable.

Group results

Headline earnings for the nine months to 31 December 2005 amounted to R4 902 million (twelve months to 31 March 2005: R5 394 million) and headline earnings per share of 740,4 cents (twelve months to 31 March 2005: 827,2 cents). Earnings (net income attributable to shareholders) for the nine months to 31 December 2005 amounted to R4 776 million (twelve months to 31 March 2005: R5 419 million). Headline earnings were derived from the following activities:

	Nine months ended 31 December 2005		Twelve months ended 31 March 2005*	
	Rm	**%**	Rm	%
Banking operations				
Retail banking	**2 136**	**43,6**	2 397	44,4
Commercial banking	**1 294**	**26,4**	1 403	26,0
Wholesale banking	**669**	**13,6**	843	15,6
African operations	**90**	**1,8**	71	1,3
Corporate centre	**(213)**	**(4,3)**	(288)	(5,3)
Capital and funding centre	**(29)**	**(0,6)**	(159)	(2,9)
Total banking	**3 947**	**80,5**	4 267	79,1
Insurance, fiduciary and investment operations	**1 075**	**21,9**	1 127	20,9
Costs relating to the Barclays transaction	**(120)**	**(2,4)**	—	—
Headline earnings	**4 902**	**100,0**	5 394	100,0

A general review of the business and operations of major subsidiaries is given in the financial analysis on pages 41 to 54 of this report. It must be noted that a number of sections in the introductory section of this report (the nine months ended 31 December 2005 under the spotlight, Group salient features, letter from the chairman and the Group chief executive and the financial analysis) refer to the unaudited *pro forma* figures for the nine months ended 31 December 2004 for commentary and analysis purposes. No audit opinion has been provided on these figures.

Subsidiary companies

The interests in subsidiary, associated undertakings and joint venture companies are set out in Annexure F on pages 151 to 157 of this report.

**These figures have been restated in terms of IFRS.*

Directors' interest

As at 31 December 2005, the directors' interests in the issued shares of the Company were as follows:

	Direct			
	Beneficial		Non-beneficial	
	31 December 2005	31 March 2005	**31 December 2005**	31 March 2005
Present directors				
L N Angel	—	—	—	—
D C Arnold	400	1 000	—	—
D E Baloyi	—	—	—	—
D Bruynseels*	—	—	—	—
S F Booysen*	23 333	—	—	—
D C Brink	—	—	12 360	—
B P Connellan	1 000	—	—	—
D C Cronjé	101 577	253 942	—	—
A S du Plessis	—	—	—	—
G Griffin	2 000	2 000	—	—
M W Hlahla	—	—	—	—
L N Jonker	1 000	—	—	—
N Kheraj	1 200	—	—	—
P du P Kruger	—	—	—	—
L W Maasdorp	—	—	—	—
D L Roberts	1 200	—	—	—
J H Schindehütte*	87 999	—	—	20 000
T M G Sexwale	—	—	—	—
F A Sonn	1 200	—	—	—
P E I Swartz	—	2 049	—	—
L L von Zeuner*	70 825	20 000	—	—
Past directors				
L Boyd	—	11 086	—	—
P T Motsepe	—	—	—	—
T van Wyk	—	—	—	—
J van Zyl	—	—	—	—
Total direct	291 734	290 077	12 360	20 000

**Executive director.*

	Indirect			
	Beneficial		Non-beneficial	
	31 December 2005	31 March 2005	**31 December 2005**	31 March 2005
Present directors				
L N Angel	—	—	—	—
D C Arnold	—	—	—	—
D E Baloyi	—	—	—	—
D Bruynseels*	—	—	—	—
S F Booysen*	718 334	735 750	—	—
D C Brink	—	30 900	—	—
B P Connellan	—	600	—	—
D C Cronjé	—	—	—	—
A S du Plessis	—	—	5 000	4 000
G Griffin	—	—	—	—
M W Hlahla	—	—	—	—
L N Jonker	—	—	3 500	3 479
N Kheraj	—	—	—	—
P du P Kruger	—	—	—	—
L W Maasdorp	—	—	—	—
D L Roberts	—	—	—	—
J H Schindehütte*	316 857	471 856	13 600	—
T M G Sexwale	—	—	—	—
F A Sonn	—	3 000	—	—
P E I Swartz	—	—	2 520	765
L L von Zeuner*	361 336	458 400	—	—
Past directors				
L Boyd	—	—	—	—
P T Motsepe	—	—	—	—
T van Wyk	—	—	—	—
J van Zyl	—	—	—	—
Total indirect	1 396 527	1 700 506	24 620	8 244

**Executive director.*

	Total direct and indirect			
	Beneficial		Non-beneficial	
	31 December 2005	31 March 2005	**31 December 2005**	31 March 2005
Present directors				
L N Angel	**—**	—	**—**	—
D C Arnold	**400**	1 000	**—**	—
D E Baloyi	**—**	—	**—**	—
D Bruynseels*	**—**	—	**—**	—
S F Booysen*	**741 667**	735 750	**—**	—
D C Brink	**—**	30 900	**12 360**	—
B P Connellan	**1 000**	600	**—**	—
D C Cronjé	**101 577**	253 942	**—**	—
A S du Plessis	**—**	—	**5 000**	4 000
G Griffin	**2 000**	2 000	**—**	—
M W Hlahla	**—**	—	**—**	—
L N Jonker	**1 000**	—	**3 500**	3 479
N Kheraj	**1 200**	—	**—**	—
P du P Kruger	**—**	—	**—**	—
L W Maasdorp	**—**	—	**—**	—
D L Roberts	**1 200**	—	**—**	—
J H Schindehütte*	**404 856**	471 856	**13 600**	20 000
T M G Sexwale	**—**	—	**—**	—
F A Sonn	**1 200**	3 000	**—**	—
P E I Swartz	**—**	2 049	**2 520**	765
L L von Zeuner*	**432 161**	478 400	**—**	—
Past directors				
L Boyd	**—**	11 086	**—**	—
P T Motsepe	**—**	—	**—**	—
T van Wyk	**—**	—	**—**	—
J van Zyl	**—**	—	**—**	—
Total direct and indirect	**1 688 261**	1 990 583	**36 980**	28 244

There has been no change in the interests of directors between 31 December 2005 and 21 February 2006.

Executive director.

Preference shareholding in Absa

The following Absa directors hold Absa redeemable cumulative option-holding preference shares indirectly through their direct or indirect holdings of ordinary shares in Batho Bonke Capital (Proprietary) Limited:

Absa directors	Number of shares 31 December 2005	Number of shares 31 March 2005
L N Angel	1 180 165	2 560 328
D E Baloyi	100 000	100 000
L W Maasdorp	2 560 328	2 560 328
T M G Sexwale	4 183 090	2 703 705
F A Sonn	500 000	500 000
P E I Swartz	500 000	500 000
Total	**9 023 583**	8 924 361

Acquisitions

The following interests were acquired since the date of the previous directors' report:

- Absa Group Limited acquired a 50% shareholding in Banco Comercial Angolano at a cost of R50 million on 1 April 2005.
- Absa Group Limited acquired a 45% shareholding in Maravedi Group (Proprietary) Limited, a joint venture with the J D Group Limited, at a cost of R7 million on 1 May 2005.

Disposals

The following interests have been sold since the date of the previous directors' report:

- Bremliv Buildings (Proprietary) Limited was sold to a third party.
- Bramco House (Proprietary) Limited was sold to a third party.
- The Group sold its shares in Sage Group Limited to a third party.

Special resolutions

The following special resolution was passed by Absa Group Limited:

- Authority for a share buy-back.

The following special resolutions were passed by subsidiaries:

LeasePlan Fleet Management South Africa (Proprietary) Limited

- Changed its name to Absa Vehicle Management Solutions (Proprietary) Limited.

Absa Finance Company (Proprietary) Limited (trading as Cutfin)

- Changed its name to Absa Debtor Finance (Proprietary) Limited.

Union Finance Holdings (Proprietary) Limited

- Changed its name to Absa Technology Finance Solutions (Proprietary) Limited.

Tridance (Proprietary) Limited

- Changed its name to ACMB Structured Products (Proprietary) Limited.

Avena LeasePlan South Africa (Proprietary) Limited

- Changed its name to Absa Vehicle Management (Proprietary) Limited.

Directors and secretary

Details of the directors and secretary of the Company are given on page 198 and that of the Company's principal operating subsidiaries on pages 198 to 201.

Since the date of the previous directors' report the following changes to the board occurred:

Changes to the board: 1 April 2005 to 31 December 2005

Director	Change	Designation	Date
D Bruynseels	Appointment	Executive	27 July 2005
N Kheraj	Appointment	Non-executive	27 July 2005
P T Motsepe	Resignation	Non-executive	27 July 2005
D L Roberts	Appointment	Non-executive	27 July 2005
T van Wyk	Resignation	Non-executive	27 July 2005
J van Zyl	Resignation	Non-executive	27 July 2005
M W Hlahla	Appointment	Independent non-executive	23 December 2005
L Boyd	Resignation	Independent non-executive	30 December 2005

Confirmation of M W Hlahla's appointment will be sought at the forthcoming annual general meeting.

In accordance with the Company's articles of association, Ms L N Angel and Messrs B P Connellan, A S du Plessis, G Griffin, P du P Kruger, L W Maasdorp, and T M G Sexwale retire by rotation but, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Interest of directors and officers

No contracts were entered into in which directors and officers of the Company had an interest and which significantly affected the business of the Group. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group. The emoluments and services of executive directors are determined by the Group Remuneration Committee. No long-term service contracts exist between executive directors and the Company.

Share capital

Authorised

The authorised share capital of the Company of R1 760 935 000 is divided into:

- 800 000 000 ordinary par value shares of R2,00 each.
- 80 467 500 redeemable cumulative option-holding par value preference shares of R2,00 each.

Issued

On 21 April 2005 and 18 May 2005 respectively, 7 000 000 and 4 800 000 ordinary shares were issued to the Absa Group Limited Share Incentive Trust to provide sufficient stock for vested options.

Directors' emoluments

Directors' emoluments in respect of the Company's executive directors are disclosed in the directors' remuneration report and note 44 of the consolidated financial statements.

Dividends

- On 9 May 2005, a dividend of 200 cents per ordinary share was declared to shareholders registered on 24 June 2005.
- On 21 November 2005, a dividend of 160 cents per ordinary share was declared to shareholders registered on 23 December 2005.
- On 21 February 2006, a dividend of 135 cents per ordinary share was declared to shareholders registered on 17 March 2006.

Post-balance sheet events

- Absa agreed to sell its stake in Bankhaus Wölbern on 20 January 2006. The sale is conditional on, inter alia, German and South African regulatory approval.
- The Group acquired substantially all the assets and liabilities of the South African branch of Barclays PLC on 1 January 2006.

		Group	
	Note	31 December 2005 Rm	31 March 2005 Rm
Assets			
Cash, cash balances and balances with central banks	2	15 043	13 183
Statutory liquid asset portfolio	3	16 289	14 384
Loans and advances to banks	4	4 602	3 528
Trading assets	5	22 830	21 351
Hedging derivative assets	5	1 016	600
Loans and advances to customers	6	322 097	268 240
Reinsurance assets	9	423	320
Other assets	10	6 762	7 563
Investments	11	12 759	13 599
Investments in associated undertakings and joint ventures	12	895	607
Intangible assets	13	191	197
Property and equipment	14	3 451	3 209
Current tax assets	15	17	5
Deferred tax assets	16	86	183
Clients' liabilities under acceptances	6	961	192
Total assets		407 422	347 161
Liabilities			
Deposits from banks	17	28 431	24 370
Trading liabilities	18	19 397	20 028
Hedging derivative liabilities	18	2 004	1 610
Deposits due to customers	19	300 298	251 984
Current tax liabilities	20	438	493
Liabilities under investment contracts	21	6 287	4 325
Policyholder liabilities under insurance contracts	22	2 736	2 390
Borrowed funds	23	6 483	5 679
Other liabilities and sundry provisions	24	11 824	10 726
Deferred tax liabilities	16	2 562	1 859
Liabilities to clients under acceptances	19	961	192
Total liabilities		381 421	323 656
Equity			
Capital and reserves attributable to the Group's equity holders:			
Share capital	26	1 327	1 310
Share premium		1 875	1 611
Other reserves		622	383
Distributable reserves		21 931	19 969
		25 755	23 273
Minority interest		246	232
Total equity		26 001	23 505
Total equity and liabilities		407 422	347 161

		Group	
	Note	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
Net interest income		9 647	10 431
Interest and similar income	27	23 212	26 937
Interest expense and similar charges	27	(13 565)	(16 506)
Impairment losses on loans and advances	7	(569)	(1 284)
		9 078	9 147
Net fee and commission income		7 067	8 920
Fee and commission income	28	7 750	9 703
Fee and commission expense	28	(683)	(783)
Net insurance premium income		1 948	2 051
Insurance premium revenue	29	2 146	2 341
Premiums ceded to reinsurers	29	(198)	(290)
Net claims and benefits paid		(797)	(929)
Gross claims and benefits paid on insurance contracts	30	(913)	(1 023)
Reinsurance recoveries	30	116	94
Changes in insurance and investment liabilities	31	(1 026)	(668)
Gains and losses from banking and trading activities	32	781	870
Gains and losses from investment activities	33	1 336	1 228
Other operating income	34	759	696
Net operating income		19 146	21 315
Operating expenses		(12 216)	(13 708)
Operating expenses	35	(11 438)	(12 785)
Impairments	36	(54)	(118)
Indirect taxation	37	(724)	(805)
Share of profit of associated undertakings and joint venture companies	12	101	59
Operating profit before income tax		7 031	7 666
Taxation expense	39	(2 187)	(2 172)
Profit for the period		4 844	5 494
Attributable to:			
Equity holders of the Group		4 776	5 419
Minority interest		68	75
		4 844	5 494
› Basic earnings per share (cents)	40	721,4	831,0
› Diluted earnings per share (cents)	40	692,7	801,6
Headline earnings	41	4 902	5 394
› Headline earnings per share (cents)	41	740,4	827,2
› Diluted headline earnings per share (cents)	41	710,9	797,9

Group	Note	Number of ordinary shares '000	Share capital Rm	Share premium Rm	**Regulatory general credit risk reserve Rm
Balance as previously reported		645 679	1 291	1 309	332
IFRS adjustment applied retrospectively*		—	—	—	—
Restated opening balance at 1 April 2004		645 679	1 291	1 309	332
Shares issued		4 000	8	111	—
Less: costs incurred			0	—	—
Consolidation of the Absa Group Limited Share Incentive Trust		4 930	11	191	—
Release in regulatory general credit risk reserve			—	—	(332)
Movement in available-for-sale reserve			—	—	—
Movement in fair value of cash flow hedges			—	—	—
Movement in share-based payments reserve	38		—	—	—
Net acquisitions/(disposals)			—	—	—
Share of net income attributable to minorities			—	—	—
Dividends declared	43		—	—	—
Foreign currency translation effects			—	—	—
Transfer to insurance statutory reserve			—	—	—
Share of associated undertakings' and joint ventures' distributable reserves	12		—	—	—
Profit for the period			—	—	—
Balance at 31 March 2005		654 609	1 310	1 611	—
IFRS adjustments applied prospectively*		**(799)**	**(2)**	**(40)**	—
Shares issued		**11 800**	**24**	**383**	—
Less: costs incurred			—	**(1)**	—
Consolidation of the Absa Group Limited Share Incentive Trust		**(2 628)**	**(6)**	**(91)**	—
Elimination of treasury shares held by Absa Life		**411**	**1**	**13**	—
Movement in available-for-sale reserve			—	—	—
Movement in fair value of cash flow hedges			—	—	—
Movement in share-based payments reserve	38		—	—	—
Net acquisitions/(disposals)			—	—	—
Share of net income attributable to minorities			—	—	—
Dividends declared	43		—	—	—
Foreign currency translation effects			—	—	—
Transfer to insurance statutory reserve			—	—	—
Share of associated undertakings' and joint ventures' distributable reserves	12		—	—	—
Profit for the period			—	—	—
Balance at 31 December 2005		**663 393**	**1 327**	**1 875**	—

Note
All movements are reflected net of taxation.

**Refer to Annexure C for further explanations on the transition to IFRS.*
***Regulatory general provisions are maintained to cover potential losses which, although not specifically identified, may be present in any portfolio of advances. These provisions are calculated in line with the Banks Act requirements. As at 31 March and 31 December 2005 no provisions were required.*
****Translation reserves represent foreign exchange gains/losses on the translation of foreign operations of the Group.*

Available-for-sale reserve Rm	Cash flow hedges reserve Rm	***Translation reserve Rm	Insurance statutory reserve Rm	Share-based payments reserve Rm	Associated undertakings' and joint ventures' distributable reserves Rm	Distributable reserves Rm	Minority interest Rm	Total Rm
(80)	95	(79)	104	—	383	15 995	171	19 521
—	—	—	—	10	—	(423)	4	(409)
(80)	95	(79)	104	10	383	15 572	175	19 112
—	—	—	—	—	—	—	—	119
—	—	—	—	—	—	—	—	0
—	—	—	—	—	—	(4)	—	198
—	—	—	—	—	—	332	—	—
(75)	—	—	—	—	—	—	—	(75)
—	(56)	—	—	—	—	—	—	(56)
—	—	—	—	40	—	—		40
—	—	—	—	—	—	—	30	30
—	—	—	—	—	—	—	75	75
—	—	—	—	—	—	(1 338)	(32)	(1 370)
—	—	31	—	—	(2)	—	(16)	13
—	—	—	30	—	—	(30)	—	—
—	—	—	—	—	(18)	18	—	—
—	—	—	—	—	—	5 419	—	5 419
(155)	39	(48)	134	50	363	19 969	232	23 505
—	—	—	—	—	—	(301)	—	(343)
—	—	—	—	—	—	—	—	407
—	—	—	—	—	—	—	—	(1)
—	—	—	—	—	—	—	—	(97)
—	—	—	—	—	—	—	—	14
90	—	—	—	—	—	—	—	90
—	97	—	—	—	—	—	—	97
—	—	—	—	70	—	—	—	70
—	—	—	—	—	—	—	(24)	(24)
—	—	—	—	—	—	—	68	68
—	—	—	—	—	—	(2 401)	(25)	(2 426)
—	—	(130)	—	—	—	—	(5)	(135)
—	—	—	11	—	—	(11)	—	—
—	—	—	—	—	101	(101)	—	—
—	—	—	—	—	—	4 776	—	4 776
(65)	136	(178)	145	120	464	21 931	246	26 001

	Note	Group Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
Cash flows from operating activities			
Interest and commission received		16 714	20 161
Insurance premiums and claims		1 070	1 122
Net trading and other income		1 239	1 450
Cash payments to employees and suppliers		(10 699)	(12 082)
Income taxes paid		(2 178)	(2 126)
Cash flows from operating profits before changes in operating assets and liabilities		6 146	8 525
Changes in operating assets and liabilities:			
Net (increase)/decrease in trading securities		(1 895)	9 130
Net increase in loans and advances to customers		(54 425)	(47 176)
Net (increase)/decrease in other assets and non-cash items		(3 895)	396
Net increase in insurance and investment funds		1 283	1 849
Net decrease in trading liabilities		(237)	(9 218)
Net increase in amounts due to customers and banks		52 374	44 088
Net increase in other liabilities and non-cash items		2 136	1 218
Net cash from operating activities		1 487	8 812
Cash flows from investing activities			
Net proceeds on sale and acquisitions of associated undertakings		54	217
Purchase of property, equipment and intangible assets		(1 022)	(824)
Proceeds from sale of property and equipment		192	47
Net decrease/(increase) in securities		2 205	(6 002)
Net cash from/(utilised in) investing activities		1 429	(6 562)
Cash flows from financing activities			
Proceeds from borrowed funds		1 500	158
Repayment of borrowed funds		(750)	(1 635)
Issue of ordinary shares		281	321
Dividends paid		(2 401)	(1 370)
Net cash from financing activities		(1 370)	(2 526)
Net increase/(decrease) in cash and cash equivalents		1 546	(276)
Cash and cash equivalents at the beginning of the period		6 796	7 077
Effects of exchange rate changes on cash and cash equivalents		1	(5)
Cash and cash equivalents at the end of the period	47	8 343	6 796

1. Summary of significant accounting policies and estimates

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies comply with International Financial Reporting Standards (IFRS). The Group transitioned to IFRS with effect from 1 April 2005. Comparatives have been restated where appropriate, having considered the transitional arrangements provided by IFRS 1 – First-time adoption IFRS. The elections made under IFRS 1 and the presentation and disclosure requirements are set out in Annexure C.

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available and reliable information. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their credibility.

1.1 Basis of presentation

The consolidated and company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), the going-concern principle, and using the historical-cost basis, except where specifically indicated below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The notes to 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.

1.2 Consolidation

The consolidated financial statements include those of the Absa Group Limited and all its subsidiaries, associated undertakings, special purpose entities and joint venture companies.

1.2.1 Subsidiaries

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the date of their acquisition or to the date of their disposal. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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 instrument 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, irrespective of the extent of any minority interest. 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 difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains are eliminated upon consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the accounting policies adopted by the Group.

1.2.2 Investments in associated undertakings and joint ventures

Associated undertakings are those companies which are not subsidiaries and in which the Group holds an equity investment and exercises significant influence on the financial and operating policies. Significant influence is normally evidenced when Absa 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 entities that are part of venture capital activities (as defined by IAS 39) have not been equity accounted, as they have been designated held at fair value through profit and loss in terms of IAS 39 and thus the exclusion in IAS 28, Investment in Associates or in IAS 31, Investment in Joint Ventures, has been elected.

Investments in associated and joint venture companies that are not deemed to be part of the Group's venture capital activities are initially carried at cost in the entity. The Group's investment includes goodwill. The carrying values of associates are reassessed at least annually for impairment.

The results of associated undertakings and joint venture companies are accounted for according to the equity method, based on their most recent audited financial statements. If the most recent available audited financial statements are for an accounting period that ended 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 Absa reporting date. The Group's share of its post-acquisition profits or losses is recognised in the income statement and the Group's interest in the post-acquisition reserves of associated undertakings and joint venture companies is treated as non-distributable in the Group's financial statements. When the Group's share of losses in an associated undertaking or joint venture company equals or exceeds its interest in that company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated or joint venture company.

Unrealised gains on transactions between the Group and its associated undertakings and joint venture companies are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

1.3 Segment reporting

Business segments are distinguishable components of the Group with products or services that are subject to risks and rewards that are different to those of other business segments.

The Group is structured into the following main operating segments: retail, commercial, wholesale, African operations, financial services and other Group activities.

Primary segment reporting is based on the type of business and correlates with the activities of the main operating divisions. Secondary segment reporting is based on the geographical location of the business.

1.4 Foreign currencies

1.4.1 Functional and presentation currency

The consolidated financial statements are presented in South African rands, which is the Company's functional currency and the Group's 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).

1.4.2 Foreign currency translations

The results and financial position of all the 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 year-end. Income statement 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).

On consolidation, exchange differences arising on the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries are maintained in foreign currency translated at the closing rate and are included in hedges of net investments where appropriate.

1.4.3 Foreign currency transactions

Foreign currency transactions are recorded at the closing exchange rate ruling at the date of the transaction. Monetary items denominated in foreign currencies are translated at the closing exchange rates ruling at year-end and unrealised differences on translation are recognised in the income statement in the period in which they arise, except where hedge accounting is applied.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the movement in fair value. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1.5 Financial instruments

Financial instruments are initially measured at fair value and are subsequently carried as set out below. Transaction costs of instruments carried at fair value through profit and loss are recognised immediately through the income statement. For other categories of financial instruments, transaction costs (which include incremental costs) and transaction income are capitalised to the initial carrying amount.

Financial instruments are recognised when the Group becomes party to the contractual provisions of the financial instrument.

All purchases and sales of financial instruments are recognised on the trade date, i.e. the date that the Group commits to purchase the financial asset or assumes the financial liability.

1.5.1 Held-to-maturity

Held-to-maturity investments are non-derivative instruments with a fixed maturity date and where the Group has a firm intention and ability to hold the investments to such date. This typically includes short-dated instruments held for regulatory liquid asset purposes. These investments are held at amortised cost and reviewed for impairment, where appropriate. Premiums and discounts arising on purchase are included in the effective interest rate.

1.5.2 Fair value through profit and loss

Financial instruments that are classified as fair value through profit and loss include those instruments that have been designated by management, trading assets and trading liabilities, and derivative financial instruments. These investments are carried at fair value and gains and losses are accounted for in the income statement under “gains or losses from banking, trading and investing activities”.

Trading assets are financial instruments acquired for the purpose of generating short-term fluctuations in price or dealer’s margin. These are held at fair value and gains and losses, along with interest and dividends, are accounted for as “gains and losses from banking and trading activities” in the income statement.

Other equity investments, including those held for investment banking purposes and investments held by the insurance companies are classified as “fair value election” and are initially recognised at fair value and subsequently carried at fair value through the income statement. Transaction costs on financial assets in this category are recognised immediately. Gains and losses are accounted for as “gains and losses from banking, trading and investing activities” in the income statement.

1.5.3 Available-for-sale assets

Available-for-sale assets include both debt and equity investments 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.

This category of financial assets is initially recognised at fair value, which represents the consideration given, plus transaction costs and subsequently carried at fair value. The fair value adjustments which represents gains and losses net of applicable taxes, is reported in shareholders’ equity 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 equity is recognised in the income statement. However, interest calculated using the effective interest rate method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement 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, *inter alia,* to whether or not there has been a significant or prolonged decline in the fair value of the security below its cost. If impairment is assessed to have occurred, the cumulative unrealised loss previously recognised in shareholders’ equity is included in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed through the income statement.

The foreign exchange adjustment related to a foreign denominated interest-bearing instrument designated as available-for-sale is included in the income statement.

The foreign exchange adjustment related to a foreign denominated equity instrument designated as available-for-sale is included in shareholders’ equity.

1.5.4 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention to trade the receivable.

Loans and advances are subsequently measured at amortised cost using the effective interest rate method.

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 of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates the cash flows considering all contractual terms of the financial instrument (for example, early settlement penalty income) 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.

1.5.4.1 Impairment of advances

The estimation of allowances for impairment is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions, and other external factors such as legal and regulatory requirements and other government policy changes.

Advances 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; or
- 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 them for impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the 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 that have not yet been incurred) discounted at the financial asset's original effective interest rate ("the recoverable amount"). The estimated recoverable amount is the present value of expected future cash flows that may result from restructuring, liquidation or collateral held.

Details on the significant estimates made by the Group are as follows:

1.5.4.1.1 Identified impairment

Impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows 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. Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in frequent 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 claim is discontinued, 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.

1.5.4.1.2 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 Bank 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 balance sheet 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 occured during the emergence period and therefore has not specifically been identified by the Group as at balance sheet 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 Bank'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 did 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.

1.5.5 Derecognition of financial assets

Financial assets (or where applicable, a part of a financial asset or a part of a group of similar financial assets) are derecognised where:

- the rights to receive cash flows from the asset have expired;
- 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; or
- the Group has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all of the risks and reward 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.

1.5.6 Derecognition of financial liabilities

A financial liability is extinguished and derecognised from the balance sheet when the obligation is discharged, cancelled or expires.

1.5.7 Fair value

The fair value of a financial instrument is the amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale.

The determination of fair values of financial instruments is generally based on quoted market prices in active markets, dealer price quotations or discounted expected cash flows.

Some of the Group's financial instruments are carried at fair value through profit or loss, including derivatives, equity portfolios and debt securities held for trading purposes.

Details regarding the significant estimates made by the Group are as follows:

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using financial markets' pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices.

1.5.8 Scrip lending

The Group does not account for scrip lending transactions on its balance sheet, as the risks and rewards of ownership of these assets and liabilities never transfer to the Group.

The fees earned for the administration of scrip lending transactions are accounted for on an accrual basis in the period in which the service is rendered.

1.5.9 Derivative financial instruments and hedge accounting

Derivatives such as financial future contracts, options, forward rate agreements and interest rate swap agreements are recognised at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow and option pricing models. All derivatives are carried as assets when fair value is positive and liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

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 time a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instruments and the hedged items, including its risk management objectives and its strategy in undertaking the hedge transaction, together with the methods that will be used to assess the hedge effectiveness. The Group assesses on an ongoing basis whether the hedge has been “highly effective” (between 80% and 125%) in offsetting fair value changes or the cash flows of hedged items. Hedge accounting is discontinued when a derivative is not highly effective as a hedge, or is sold, terminated or exercised or where the forecast transaction is no longer highly probable to occur. The same applies if the hedged item is sold or repaid.

1.5.9.1 Fair value hedges

For qualifying fair value hedges, the change in fair value of the hedging derivative is recognised in the income statement. Changes in fair value of the hedged risk within the hedged item are reflected as an adjustment to the carrying value of the hedged item, which is also recognised in the income statement.

1.5.9.2 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 shareholders’ equity. Any ineffective portion of the hedging instrument is recognised in the income statement immediately. When the cash flows that the derivative is hedging materialise, resulting in income or expense, the associated gain or loss on the hedging instrument is simultaneously transferred from shareholders’ equity to the corresponding line in the income statement.

If a cash flow hedge is deemed to be no longer effective, or the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in shareholders’ equity remains in shareholders’ equity until the committed or forecast transaction occurs, at which time it is transferred to the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders’ equity is immediately transferred to the income statement.

1.5.9.3 Derivatives that do not qualify for hedge accounting

Derivatives used as hedges that do not qualify for hedge accounting in terms of IAS 39 are fair valued, with gains and losses reflected in the income statement, which is the treatment for derivatives entered into for speculative purposes as well. Where appropriate, the underlying items of such non-qualifying hedges have been designated as fair value through profit and loss.

1.5.9.4 Embedded derivatives

A derivative may be embedded in a host contract. If the host contract is not carried at fair value with changes in fair value reported in the income statement, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative instrument at fair value. Embedded derivatives are separated from their host contracts when the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the embedded derivative meets the definition of a derivative. 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 interest rate).

1.5.10 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.5.11 Repurchase agreements

Where the Group sells investments from its investment portfolio and agrees to repurchase these at future dates, the risks and rewards of ownership remain with the Group and the considerations received are included under deposits and current accounts. The investments are shown on the balance sheet and valued according to the Group's policy regarding that category of investments.

The difference between the sale and repurchase price is treated as interest and accrued on the effective yield basis over the life of the repurchase agreements.

Conversely, where investments are purchased subject to commitments to resell these at future dates and the risk of ownership does not pass to the Group, the considerations paid are included under advances and not under investments.

1.6 Revenue recognition

1.6.1 Interest income

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 estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, for a shorter period to the net carrying amount of the financial asset or financial liability.

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. Fees are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Cash flows arising from the direct and incremental costs of issuing financial instruments are also taken into account in the calculation. This includes costs incurred to mortgage originators.

In terms of IAS 39, interest is also accrued in respect of impaired advances, based on the original effective interest rate used to determine the recoverable amount.

1.6.2 Instalment credit agreements

Leases, instalment credit and rental agreements are regarded as leases, and rentals and instalments receivable thereunder, less unearned finance charges, are included under advances. Finance charges are recognised in the income statement over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.

1.6.3 Fees and commissions

Income arising from the provision of services to customers is recognised on an accrual basis in the period in which the services are rendered.

Fees and commissions not integral to effective interest arising from negotiating or participating in the negotiation of a transaction from a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contract.

Asset management fees related to investment funds are recognised in the period in which the service is provided. The same principle is applied to wealth management, financial planning, and custody services that are provided over an extended period of time.

1.6.4 Net trading income

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 and other market variables. Financial instruments held for trading are measured at fair value and the resulting gains and losses are included in the income statement, together with interest and dividends arising from long and short positions.

1.6.5 Dividends on equity instruments

Dividends are recognised in the period in which the right to receipt is established, and are included in other operating income in the income statement, except where related to trading.

1.7 Insurance and investment contracts classification

The Group issues contracts that transfer insurance risk or financial risk. Insurance contracts are those contracts that transfer significant insurance risk. The Group defines significant insurance risk as the possibility of having to pay significant additional benefits on the occurrence of an insured event compared with those benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

1.7.1 Insurance contracts

1.7.1.1 Short-term insurance contracts

These contracts are property and engineering, motor and personal lines, guarantees and miscellaneous insurance contracts.

Property and engineering insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Motor and personal lines insurance contracts compensate for damage, loss, breakdowns and credit risk on outstanding balances suffered in relation to the vehicles and personal belongings of customers.

Guarantee insurance contracts protect the Group's customers against breakdowns on vehicles. Miscellaneous insurance contracts mainly protect the Group's customers against the risk of legal action and accidental death and medical costs.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premiums received on in-force contracts that relate to unexpired risks at the balance sheet date are reported as the unearned premium liability. Premiums are shown before the deduction of commission.

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 balance sheet date, even if they have not yet been reported 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 for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

1.7.1.2 Life insurance contracts

These contracts insure events associated with human life (for example death, 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 when the collection of the premiums in terms of the policy contract is reasonably assured. Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liabilities are valued at each balance sheet date using the Financial Soundness Valuation (FSV) basis described in PGN 104 issued by the Actuarial Society of South Africa and the liability is reflected as policyholder liabilities under insurance contracts. This is a permissible valuation methodology under IFRS 4 – Insurance contracts.

Under the FSV, 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 set to zero when the expected discounted value of the benefit payments and the future administration expenses is lower than 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 balance sheet date. Margins for adverse deviations are included in the assumptions.

Where insurance contracts have a single premium or a limited number of premiums due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contracts in force.

In respect of outstanding claims, provision is made for the costs of intimated and unintimated claims. Claims on investment contracts are excluded from the income statement. Intimated claims represent claims incurred and reported but not yet paid. The unintimated claims (incurred but not yet reported) reserve is estimated by making assumptions about future trends in reporting of claims. It has been calculated using consistent methodology as for previous years' reporting. The profile of claims run-off (over time) is modelled by using historic data of the Group and chain-ladder techniques (a methodology for estimating claims incurred). The profile is then applied to actual claims data of recent periods for which the run off is believed not to be complete.

1.7.1.3 Deferred policy acquisition costs

Commissions and other directly attributable acquisition costs that vary with and are related to renewing existing insurance contracts are capitalised under other assets. All other costs are recognised as expenses when incurred. The deferred policy acquisition cost is subsequently amortised, on an individual basis, over the expected life of the contracts.

1.7.1.4 Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. Since the liability is calculated in terms of the FSV basis as described in PGN 104 and the FSV basis meets the minimum requirement of the liability adequacy test, it is not necessary to perform an additional liability adequacy test on the liability component.

1.7.1.5 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 that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

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 reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The Group's reinsurance assets are assessed for impairment. 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 that impairment loss in the income statement.

1.7.1.6 Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from intermediaries and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement.

1.7.1.7 Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The Group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

1.7.2 Investment contracts

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and are valued at fair value. Acquisition costs directly attributable to investment management contracts are capitalised to a deferred acquisition cost asset and amortised to the income statement over the term of the contract. Only costs that are incremental and directly attributable to securing or renewing the contract are considered in the recognition of deferred acquisition costs. All other costs are recognised as expenses when incurred.

The Group issues unit-linked and fixed-interest rate investment contracts. Unit-linked investment contracts are financial liabilities, which are carried at fair value through profit and loss and their fair value is dependent on the fair value of underlying financial assets, and are designated at inception as at fair value through profit or loss.

Valuation techniques are used to establish the fair value at inception and 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 balance sheet date.

If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

1.8 Intangible assets

1.8.1 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of net assets, on the acquisition date, of the subsidiary or associated company. Negative goodwill is any excess of the fair value of the Group's share of net assets of the entity acquired, on the acquisition date, over the cost of acquisition.

Should negative goodwill arise on an acquisition, the fair value of assets and liabilities acquired will be reassessed and should negative goodwill remain, it will be recognised in the income statement in full.

Goodwill is capitalised and reviewed annually for impairment or more frequently when there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The first step of the impairment review process requires the identification of independent operating units, by dividing the Group business into as many largely independent income streams as is reasonably practicable. The goodwill is then allocated to these independent operating units. The first element of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second element reflects the allocation of the net assets acquired 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 fair value less cost to sell and value-in-use to determine whether any impairment exists. Detailed calculations may need to be carried out taking into consideration changes in the market in which a business operates (e.g. competition activity, regulatory change). In the absence of readily available market price data, this calculation is usually based on discounting expected cash flows at the Group's cost of equity, the determination of both of which requires the exercise of judgement.

Goodwill on acquisitions of associates and joint ventures is included in the amount of the investment. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

1.8.2 Computer software

Costs associated with developing computer software are recognised as an expense as incurred. Costs that are clearly associated with an identifiable and unique product, which will be controlled by the Group and have probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives, not exceeding a period of five years.

Costs associated with the maintenance and modification of existing computer software are expensed as incurred.

1.8.3 Other intangible assets

Expenditure on acquired trademarks and licences is capitalised at cost and amortised using the straight-line method over their useful lives, not exceeding a period of five years. Intangible assets are not revalued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where considered necessary.

Expenditure on the development and maintenance of the Absa brand is expensed as incurred.

1.9 Property and equipment

Property and equipment is shown at cost less accumulated depreciation and accumulated impairment, 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 are charged to the income statement during the financial period in which they are incurred.

All property and equipment, other than land, is depreciated on the straight-line basis to allocate their cost to their residual value over their estimated useful life.

The Group uses the following annual rates in calculating depreciation:

Freehold property	2%
Computer equipment and systems	20%
Furniture	10%
Other equipment	15%
Motor vehicles	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement.

Property under construction is stated at cost. Cost includes the cost of the land and construction costs to date. Borrowing costs during construction are expensed in the period incurred.

1.9.1 Property held under finance leases

Leases, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the leases' inception at the lower of the fair value of the leased asset and the present value of minimum lease payments. Lease payments are separated using the effective interest rate method to identify the finance cost, which is charged to operating 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.

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

1.10 Impairment of property, equipment and intangible assets

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property and 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 flows obtained as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax 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 income statement 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.

1.11 Cash and short-term assets

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and 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.

1.12 Provisions

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 balance sheet date. The discount rate used to determine the present value reflects the market assessments of the time value of money and the increases specific to the liability.

Transactions are classified as contingent liabilities where the Group's obligations depend on uncertain future events and principally consist of third-party obligations underwritten by banking subsidiaries.

Items are classified as commitments where the Group commits itself to future transactions or if the items will result in the acquisition of assets.

1.13 Employee benefits

1.13.1 Post-retirement benefits

The Group has different pension plans with defined benefit and defined contribution structures.

1.13.1.1 Defined benefit structure

The defined benefit sections 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 liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past-service costs.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives.

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 and recognised on a systematic basis over an employee's remaining years of service based on the projected credit methodology. In respect of pensioners, the obligation is fully funded once the member reaches retirement.

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.

1.13.1.2 Defined contribution structure

Under the defined contribution section, 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 section of a plan are expensed as incurred.

1.13.2 Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity-based benefits and termination benefits. Short-term benefits are fully payable in 12 months after the end of the period in which the employee rendered services and are recognised in the income statement in the period in which they are rendered.

1.13.3 Share-based compensation

The Group operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of the 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 granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. This recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable.

1.14 Taxation

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 assumed taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

1.14.1 Deferred taxation

Deferred tax is provided, using the liability method, for all temporary differences, with the exception of initial exclusions, arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes in the financial statements. Current and substantially enacted tax rates are used to determine deferred tax.

Under this method, the Group is required to make provision for deferred taxes on the revaluation of certain non-current assets and, in relation to an acquisition, on the difference between the fair values of net assets acquired and their tax base. Provision for tax, mainly withholding taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, is only made where there is a current intention and ability to remit such earnings.

The principal temporary differences arise from depreciation on equipment, revaluation of certain non-current assets, provisions for employee benefits and tax losses carried forward. Deferred tax assets relating to the carrying forward of unused tax losses are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

Deferred tax related to the fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged directly to equity, is also credited to or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss when realised.

1.15 Secondary tax on companies (STC)

STC is provided for at 12,5% on the net of dividends declared less dividends received (unless exempt from STC) by the Group during the reporting period. STC credits that arise from dividends received and receivable that exceed dividends paid are accounted for as a deferred tax asset.

1.16 Treasury shares

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the par value of the 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.

1.17 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, the assets and liabilities representing these activities are not reflected on the balance sheet as they are not assets of the Group.

1.18 Comparatives

Barclays PLC acquired a controlling stake in Absa with effect from 27 July 2005. At the Absa annual general meeting, held on 19 August 2005, the year-end was changed from 31 March to 31 December with effect from 31 December 2005. This is to facilitate alignment of the year-end with that of Barclays PLC. Therefore comparative amounts for the income statement, changes in equity and cash flows and related notes are not directly comparable.

1.19 Future IFRS standards

During the period, the following new standards and interpretations were issued. These standards and interpretations will only be effective for the Group in future periods:

Applicable and effective for the Group from 1 January 2006:

IAS 19 – Employee benefits (amendment)

The amendment permits the Group to recognise all actuarial gains and losses in the period in which they occur, outside of profit and loss in the statement of recognised income and expense. The Group is unlikely to implement this amendment owing to the fact that the Group does not have significant unrecognised actuarial gains and losses.

IAS 21 – The effect of changes in a foreign operation (amendment)

The amendment clarifies that a monetary receivable from or payable to a foreign operation may in substance be part of the net investment in a foreign operation and that the translation difference on this monetary item would be classified in reserves in the financial statements of the Group. The impact of this amendment to IAS 21 on the Group is not considered to be significant.

IAS 39 – Financial instruments: Recognition and measurement (amendments) and IFRS 4 – Insurance contracts

- Cash flow hedge accounting of forecast intragroup transactions:

  The amendment would allow the designation as a hedged item in the consolidated financial statements of the Group, for the foreign currency risk of a highly probable forecast intragroup transaction under certain conditions.
- Financial guarantee contracts:

  The amendment would permit the measurement of a financial guarantee contract initially at fair value and subsequently at the higher of the amount recognised in terms of IAS 37 and the amount initially recognised less any cumulative amortisation.
- Fair value option:

  The amendment restricts the extent to which the fair value option currently available in IAS 39 without restrictions can be applied to the Group in designating any financial asset or financial liability at fair value through profit and loss.

The impact of these amendments is not considered to be significant. The Group already accounts for its financial guarantee contracts in the manner prescribed in the amendment to IFRS 4, and the internal criteria applied within the Group for applying the fair value option under the current IAS 39 is restrictive enough that the amendment is unlikely to reduce the Group's current usage of the option.

IFRIC 4 – Determining whether an arrangement contains a lease

The interpretation provides guidance regarding the determination of whether arrangements that do not take the legal form of a lease, in fact does contain a lease and should be accounted for under IAS 17. The impact of the interpretation on the Group is not considered to be significant.

IFRIC 7 – Applying the restated approach under IAS 29: Financial reporting in hyperinflationary economies

The interpretation deals with the restating of financial statements in terms of the measuring unit at the balance sheet date. As the Group's adjustment relating to operations in hyperinflationary economies is not material to the Group, the impact of the interpretation is not considered to be significant.

Applicable and effective for Absa from 1 January 2007:

IFRS 7 – Financial instruments: Disclosure (including amendments to IAS 1 – Presentation of financial statements: Capital disclosures)

This standard deals with the disclosure of financial instruments, as well as the disclosure of the related qualitative and quantitative risks associated with financial instruments. As IFRS 7 will supersede the current disclosure required in IAS 30 and IAS 32, the standard will not impact the results of the Group, but will result in potentially more disclosure than what is currently provided in the Group's financial statements.

The Group does not intend to adopt this standard early, which has an effective date of annual periods commencing on or after 1 January 2007.

	Group	
	31 December 2005 Rm	31 March 2005 Rm
1. Accounting policies		
Refer to pages 71 to 88 of this report.		
2. Cash, cash balances and balances with central banks		
Coins and bank notes	**3 432**	3 463
Money on call	**575**	171
Balances with South African Reserve Bank (SARB)	**6 758**	5 981
Balances with other central banks	**542**	562
Money market assets	**3 736**	3 006
Included in cash and cash equivalents calculation (refer to note 47)	**15 043**	13 183
Portfolio analysis of money market assets		
Held-to-maturity	**668**	315
Available-for-sale	**626**	—
at cost	**628**	—
fair value adjustment	**(2)**	—
Fair value through profit and loss	**2 442**	2 691
at cost	**2 435**	2 703
fair value adjustment	**7**	(12)
	3 736	3 006
The carrying value of the held-to-maturity assets approximate their fair value.		
3. Statutory liquid asset portfolio		
RSA – government bonds	**9 335**	9 047
Treasury bills	**6 293**	4 041
Land bank bills	**661**	795
Debentures	**—**	501
Included in cash and cash equivalents calculation (refer to note 47)	**16 289**	14 384
Portfolio analysis		
Held-to-maturity	**1 332**	5 342
Available-for-sale	**10 398**	4 621
at cost	**10 183**	4 504
fair value adjustment	**215**	117
Fair value through profit and loss	**4 559**	4 421
at cost	**4 343**	4 273
fair value adjustment	**216**	148
	16 289	14 384
Included in the above are the following assets pledged with the SARB	**3 283**	3 398

The carrying value of the held-to-maturity assets approximate their fair value.

	Group	
	31 December 2005 Rm	31 March 2005 Rm
4. Loans and advances to banks		
Remittances in transit	**265**	681
Loans and advances to banks	**4 337**	2 847
Included in cash and cash equivalents calculation (refer to note 47)	**4 602**	3 528
Portfolio analysis		
Loans and receivables	**4 602**	3 528

The carrying value of loans and advances to banks approximate their fair value.

Loans with variable rates are R138 million (March 2005: R657 million) and fixed rates are R4 199 million (March 2005: R2 190 million).

	Group	
	31 December 2005 Rm	31 March 2005 Rm
5. Trading assets and hedging derivative assets		
Capital market assets	**2 717**	294
Equity securities	**—**	1 127
Trading assets (Annexure G)	**18 507**	17 934
Money market assets	**1 606**	1 996
Total trading assets	**22 830**	21 351
Hedging derivative assets (Annexure G)	**1 016**	600
	23 846	21 951
Portfolio analysis		
Held for trading	**22 830**	21 351
Fair value through profit and loss	**1 016**	600
	23 846	21 951

All trading and hedging derivative assets are carried at fair value.

	Group	
	31 December 2005 Rm	31 March 2005 Rm
6. Loans and advances to customers		
Corporate overdrafts	**2 577**	2 346
Foreign currency loans	**15 869**	16 313
Instalment credit agreements (refer to note 6.1)	**50 541**	43 951
Gross advances	**57 325**	49 962
Unearned finance charges	**(6 784)**	(6 011)
Loans granted under resale agreements (Carries)	**4 531**	3 395
Microloans	**1 416**	1 582
Mortgages	**165 524**	132 084
Overnight finance	**6 841**	6 768
Personal loans	**13 370**	10 610
Preference shares	**10 514**	8 318
Repossessed properties	**249**	327
Retail overdrafts and credit cards	**21 091**	19 351
Securitised corporate loans (Abacas)	**8 511**	6 087
Specialised and project finance	**18 883**	14 544
Other	**6 964**	8 399
Fair value adjustments	**1 139**	564
Instalment credit agreements	**—**	55
Mortgages	**337**	288
Specialised and project finance	**830**	249
Other	**(28)**	(28)
	328 020	274 639
Impairment losses on loans and advances (refer to note 7)	**(5 923)**	(6 399)
	322 097	268 240

The carrying value of loans and advances approximate their fair value.

Clients' liabilities under acceptances are a class of loans and advances to customers. They have been separately disclosed on the face of the balance sheet to provide more useful disclosure to the user. These advances are carried at amortised cost and their carrying value approximates their fair value.

	Group	
	31 December 2005 Rm	31 March 2005 Rm
6. Loans and advances to customers *(continued)*		
Portfolio analysis		
Loans and receivables	**295 290**	259 412
Fair value through profit and loss	**32 730**	15 227
at cost	**31 591**	14 663
fair value adjustment	**1 139**	564
	328 020	274 639
Sectoral analysis		
Agriculture	**10 167**	10 689
Construction and property	**19 863**	17 545
Consumer	**194 174**	150 974
Electricity	**1 353**	1 193
Finance	**54 945**	41 936
Government	**4 949**	9 072
Manufacturing	**10 282**	13 122
Mining	**4 203**	4 702
Services	**8 465**	6 138
Transport	**2 577**	2 497
Wholesale	**8 158**	8 193
Other	**8 884**	8 578
	328 020	274 639

6.1 Instalment credit agreements

Maturity analysis

	31 December 2005			31 March 2005		
	Gross investment in finance lease Rm	**Unearned finance income Rm**	**Net investment in finance lease Rm**	Gross investment in finance lease Rm	Unearned finance income Rm	Net investment in finance lease Rm
Less than one year	**1 834**	**(217)**	**1 617**	2 097	(246)	1 851
Between one and five years	**53 212**	**(6 299)**	**46 913**	46 786	(5 639)	41 147
More than five years	**2 279**	**(268)**	**2 011**	1 079	(126)	953
	57 325	**(6 784)**	**50 541**	49 962	(6 011)	43 951

Under the terms of the lease agreements, no contingent rentals are payable.

	Group	
	31 December 2005 Rm	31 March 2005 Rm
7. Impairment losses on loans and advances		
Balance at the beginning of the period	**6 399**	7 703
Impact of IFRS adjustment applied prospectively*	**(132)**	—
Exchange differences	**(9)**	(19)
Net present value unwind on non-performing book (refer to note 27)	**(98)**	(247)
Disposal	**(15)**	—
Identified impairments	**(12)**	—
Unidentified impairments	**(3)**	—
Amounts written off during the period	**(1 037)**	(2 558)
	5 108	4 879
Impairments raised during the period (refer to note 7.1)	**815**	1 520
Balance at the end of the period (refer to note 6)	**5 923**	6 399
Comprising		
Identified impairments	**4 904**	5 369
Non-performing advances	**3 572**	3 946
Other impaired loans	**1 100**	918
Net present value adjustment	**232**	505
Unidentified impairments	**1 019**	1 030
	5 923	6 399

	Group	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
7.1 Income statement charge for impairment losses on loans and advances		
Net impairments raised during the period (refer to note 7)	**815**	1 520
Identified impairments	**867**	1 705
Identified impairments – net present value adjustment	**(174)**	(149)
Unidentified impairments	**122**	(36)
Recoveries of advances previously written off	**(246)**	(236)
Charge to the income statement	**569**	1 284

**Refer to Annexure C for further explanations on the transition to IFRS.*

	Group				
	31 December 2005				
	As a % of advances	Outstanding balance Rm	Security and recoveries Rm	Net exposure Rm	Impairments raised* Rm
8. Non-performing advances					
Personal loans	0,1	200	124	76	76
Retail overdrafts and credit cards	0,2	665	104	561	561
Foreign currency loans	0,1	462	—	462	462
Instalment credit agreements	0,1	363	94	269	269
Mortgages	0,6	1 795	1 398	397	397
Microloans	0,4	1 416	220	1 196	1 196
Other	0,2	675	64	611	611
	1,7	5 576	2 004	3 572	3 572
Sectoral analysis					
Agriculture	0,1	249	116	133	133
Construction and property	0,1	415	107	308	308
Consumer	0,9	3 215	1 489	1 726	1 726
Electricity	0,0	2	1	1	1
Finance	0,1	204	97	107	107
Manufacturing	0,2	590	6	584	584
Mining	0,0	34	—	34	34
Services	0,1	231	112	119	119
Transport	0,0	18	1	17	17
Wholesale	0,1	391	36	355	355
Other	0,1	227	39	188	188
	1,7	5 576	2 004	3 572	3 572

**Impairments raised do not include the net present value adjustment on future cash flows as these are disclosed separately under note 7.*

	Group				
	31 March 2005				
	As a % of advances	Outstanding balance Rm	Security and recoveries Rm	Net exposure Rm	Impairments raised* Rm
8. Non-performing advances *(continued)*					
Personal loans	0,1	171	104	67	67
Retail overdrafts and credit cards	0,2	638	149	489	489
Foreign currency loans	0,2	559	2	557	557
Instalment credit agreements	0,1	340	86	254	254
Mortgages	0,7	1 892	1 249	643	643
Microloans	0,5	1 497	355	1 142	1 142
Other	0,4	836	42	794	794
	2,2	5 933	1 987	3 946	3 946
Sectoral analysis					
Agriculture	0,0	126	85	41	41
Construction and property	0,3	688	196	492	492
Consumer	1,2	3 214	1 284	1 930	1 930
Electricity	0,0	38	8	30	30
Finance	0,1	260	116	144	144
Manufacturing	0,2	632	25	607	607
Mining	0,0	6	6	—	—
Services	0,1	259	158	101	101
Transport	0,0	14	5	9	9
Wholesale	0,2	455	86	369	369
Other	0,1	241	18	223	223
	2,2	5 933	1 987	3 946	3 946

**Impairments raised do not include the net present value adjustment on future cash flows as these are disclosed separately under note 7.*

	Group	
	31 December 2005 Rm	31 March 2005 Rm
9. Reinsurance assets		
Insurance contracts (refer to note 22)	**241**	162
Short-term reinsurance contracts	**161**	92
Life reinsurance contracts	**80**	70
Investment contracts (refer to note 21)	**182**	158
	423	320
Maturity analysis		
Current	**161**	92
Non-current	**262**	228
	423	320

Reinsurance contracts linked to investment contracts are held at fair value through profit and loss.

Included in other assets (refer to note 10) is R65 million (31 March 2005: R62 million) relating to amounts receivable from reinsurers for claims made against them.

The Group uses reinsurance to manage risk and to utilise the experience of reinsurance partners where it is deemed necessary. Exposure is managed by having a treaty in place whereby risk up to a retention limit is retained and the excess is reinsured. The Group uses various reinsurers with strong credit ratings and therefore concentration of risk at one reinsurer (and subsequent failure of that reinsurer) is not a significant risk to the Group.

	Group	
	31 December 2005 Rm	31 March 2005 Rm
10. Other assets		
Accounts receivable and prepayments	**6 431**	7 334
Constructed assets held for resale	**197**	121
Accrued dividends	**20**	20
Deferred costs	**114**	88
Deferred acquisition costs (refer to note 10.1)	**100**	79
Other deferred costs	**14**	9
	6 762	7 563
10.1 Deferred acquisition costs		
Cost	**223**	212
Accumulated amortisation	**(123)**	(133)
	100	79
Balance at the beginning of the period	**79**	63
Additions	**138**	145
Amortisation charge*	**(117)**	(129)
Balance at the end of the period	**100**	79
Comprising		
Short-term insurance contracts	**74**	63
Investment management contracts	**26**	16
	100	79

**This amortisation charge has been included under broking commissions paid in note 28.*

	Group	
	31 December 2005 Rm	31 March 2005 Rm
11. Investments		
Debt securities	**2 318**	5 646
Listed equity securities	**4 163**	5 934
Unlisted equity securities	**6 278**	2 019
	12 759	13 599
Directors' valuation of unlisted investments	**7 007**	3 411
Market value of listed investments	**5 752**	10 188
Total directors' valuation and market value	**12 759**	13 599
Portfolio analysis		
Held to maturity	**458**	282
Available-for-sale	**85**	69
at cost	**72**	65
fair value adjustment	**13**	4
Fair value through profit and loss	**12 216**	13 248
at cost	**9 609**	11 800
fair value adjustment	**2 607**	1 448
	12 759	13 599
Included in the above are the following securities linked to investment contracts (refer to note 21)	**5 186**	3 807

	Group	
	31 December 2005 Rm	31 March 2005 Rm
12. Investments in associated undertakings and joint ventures		
Shares at book value	**415**	244
Opening balance as previously reported	**243**	234
Impact of IFRS adjustments retrospectively*	**1**	1
Acquisitions	**296**	28
Disposal (refer to note 12.2)	**(125)**	—
Impairment charge	**—**	(19)
Loans to associated undertakings and joint ventures	**10**	—
Total loan exposure	**4 116**	3 764
Included in other liabilities	**28**	28
Less: amounts included in advances	**(4 134)**	(3 792)
Share of post-acquisition reserves	**470**	363
Share of current period's income before taxation	**172**	252
Less: dividend received	**(14)**	(27)
Less: taxation on current period's income	**(39)**	(40)
Impairment charge	**(18)**	(107)
Share of current period's income	**101**	78
Realisation on disposal of an associated undertaking or joint venture company	**—**	(96)
Amount transferred to non-distributable reserve	**101**	(18)
Currency translation movements	**—**	(2)
Acquisitions (refer to note 12.2)	**6**	—
Opening balance as previously reported	**361**	383
Impact of IFRS adjustments applied retrospectively*	**2**	—
Carrying value	**895**	607
Directors' valuation of unlisted shares	**650**	488
Market value of listed associates	**344**	144
Total directors' valuation and market value	**994**	632

	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
12.1 Income statement amount for share of profit of associated undertakings and joint venture companies		
Share of current period's income	**101**	78
Less: impairment of shares	**—**	(19)
	101	59

**Refer to Annexure C for further explanations on the transition to IFRS.*

	Group
	31 December 2005 Rm
12. Investments in associated undertakings and joint ventures *(continued)*	
12.2 Acquisitions and disposals	
Acquisitions	
The following acquisitions were concluded during the year, at cost:	
Maravedi Group (Proprietary) Limited	7
On 1 May 2005, the Group acquired a 45% stake in Maravedi Group (Proprietary) Limited.	
Paramount Property Fund Limited	226
Lynmor Trading Company (Proprietary) Limited	7
Absa Corob Trust Joint Venture	0
Alamo Trading Company (Proprietary) Limited	0
During the period certain of the Group's venture capital fund investments met the definition of an associate, previously these investments were held at fair value through profit and loss.	
Banco Comercial Angolano	45
On 1 April 2005, the Group acquired a 50% stake in Banco Comercial Angolano. The Group is considered to exercise significant influence, therefore this entity has been equity accounted.	
Meeg Bank Limited	17
Cost	11
Accumulated earnings	6
Meeg Bank Limited was previously shown as a subsidiary. During the period owing to changing circumstances, the Group concluded that it no longer had control of the entity.	
Total acquisitions	**302**
Disposals	
Sage Group Limited	(125)
On 19 August 2005, the Group sold its share in Sage Group Limited to a third party.	

For further information on the Group's associated undertakings and joint venture companies refer to Annexure F on page 151 of this report.

	31 December 2005 Goodwill Rm	Computer software development costs Rm	Total Rm
13. Intangible assets			
Cost	246	161	407
Accumulated impairment	(107)	(40)	(147)
Accumulated amortisation	—	(69)	(69)
Net carrying value	139	52	191
Movement during the period			
Opening net carrying value	139	58	197
Net additions	—	47	47
Amortisation charge (refer to note 35)	—	(13)	(13)
Impairment charge (refer to note 36)	—	(40)	(40)
Closing net carrying value	139	52	191
Comprising			
Abvest Holdings (Proprietary) Limited	27	—	27
Absa Vehicle Management (Proprietary) Limited	112	—	112
	139	—	139
		31 March 2005	
Cost	246	114	360
Accumulated impairment	(107)	—	(107)
Accumulated amortisation	—	(56)	(56)
Net carrying value	139	58	197
Movement during the period			
Opening net carrying value	84	50	134
Additions	162	25	187
Amortisation charge (refer to note 35)	—	(17)	(17)
Impairment charge (refer to note 36)	(107)	—	(107)
Closing net carrying value	139	58	197
Comprising			
Abvest Holdings (Proprietary) Limited	27	—	27
Absa Vehicle Management (Proprietary) Limited	112	—	112
	139	—	139

	Leasehold property Rm	Freehold property Rm	Computer equipment Rm	Furniture and other equipment Rm	Motor vehicles Rm	Total Rm
			31 December 2005			
14. Property and equipment						
Cost	**491**	**1 471**	**3 093**	**2 690**	**45**	**7 790**
Accumulated depreciation	**(299)**	**(364)**	**(1 953)**	**(1 692)**	**(31)**	**(4 339)**
Net carrying value	**192**	**1 107**	**1 140**	**998**	**14**	**3 451**
Movement during the period						
Opening net carrying value	**211**	**1 173**	**918**	**895**	**12**	**3 209**
As previously reported	**—**	**858**	**918**	**895**	**12**	**2 683**
IFRS adjustments applied retrospectively*	**211**	**315**	**—**	**—**	**—**	**526**
Additions	**—**	**73**	**552**	**339**	**8**	**972**
Disposals	**—**	**(109)**	**(12)**	**(52)**	**(1)**	**(174)**
Depreciation charge	**(19)**	**(25)**	**(317)**	**(184)**	**(5)**	**(550)**
Exchange rate adjustments	**—**	**(5)**	**(1)**	**—**	**—**	**(6)**
Closing net carrying value	**192**	**1 107**	**1 140**	**998**	**14**	**3 451**
			31 March 2005			
Cost	490	1 626	2 430	2 616	46	7 208
Accumulated depreciation	(279)	(453)	(1 512)	(1 721)	(34)	(3 999)
Net carrying value	211	1 173	918	895	12	3 209
Movement during the period						
Opening net carrying value	237	1 151	905	849	11	3 153
As previously reported	—	832	905	849	11	2 597
IFRS adjustments applied retrospectively*	237	319	—	—	—	556
Additions and acquisitions	—	94	377	320	8	799
Disposals	—	(10)	(8)	(16)	(1)	(35)
Depreciation charge	(26)	(57)	(348)	(256)	(6)	(693)
Exchange rate adjustments	—	(5)	(8)	(2)	—	(15)
Closing net carrying value	211	1 173	918	895	12	3 209

Freehold property is officially revalued every three years by both external and internal valuers, using the income yield method. The most recent valuation was performed on 31 March 2005. It reflected a surplus amounting to R369 million, R298 million of this surplus was added to the deemed cost at 1 April 2004 in terms of IFRS 1.

In terms of the Companies Act, details regarding freehold property are kept at each company's registered office and this information will be made available to shareholders on written request.

**Refer to Annexure C for further explanations on the transition to IFRS.*

	Group	
	31 December 2005 Rm	31 March 2005 Rm
15. Current tax assets		
Amounts due from revenue authorities	**17**	5
16. Deferred tax		
Balance as previously reported	**1 882**	1 164
Impact of IFRS adjustments applied retrospectively*	**(206)**	(187)
Restated opening balance at the beginning of the period	**1 676**	977
Impact of IFRS adjustments applied prospectively*	**(9)**	—
Deferred tax on unrealised capital gains	**1**	18
Deferred tax asset released/(raised) on STC credits (refer to note 16.1)	**11**	(16)
(Disposal)/acquisition of subsidiaries	**(2)**	15
Income statement charge (refer to note 39)	**708**	704
Deferred tax on amounts charged/transferred directly to equity	**36**	46
Tax effect of translation and other differences	**55**	(68)
Closing balance at the end of the period	**2 476**	1 676
Deferred tax to reverse within twelve months	**12**	10
Deferred tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right to offset at settlement.		
The following amounts are disclosed in the balance sheet:		
Deferred tax asset – normal	**75**	161
Deferred tax asset – STC (refer to note 16.1)	**11**	22
Deferred tax assets	**86**	183
Deferred tax liabilities	**2 562**	1 859
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**2 616**	1 825
Impairment of advances	**(268)**	(202)
Property allowances	**45**	40
Gains on investment	**(92)**	(82)
Lease and rental debtor allowances	**246**	244
Tax losses	**15**	34
	2 562	1 859

**Refer to Annexure C for further explanations on the transition to IFRS.*

	Group	
	31 December 2005 Rm	31 March 2005 Rm
16. Deferred tax *(continued)*		
16.1 Secondary tax on companies (STC)		
Accumulated STC credits	**88**	176
Deferred tax asset raised (refer to note 16)	**11**	22
Movement in deferred tax asset for the period (refer to note 16)	**(11)**	16

If the total reserves of R22 553 million as at 31 December 2005 (March 2005: R20 352 million) were to be declared as dividends, the secondary tax impact at a rate of 12,5% would be R2 819 million (March 2005: R2 544 million).

16.2 Future tax relief

The Group has estimated tax losses of R531 million (March 2005: R202 million), of which R97 million (March 2005: R18 million) has been applied to reduce the deferred tax balances.

The above figures exclude tax losses and reversing timing differences of R151 million (March 2005: R520 million) for which deferred tax assets have been raised.

	31 December 2005 Rm	31 March 2005 Rm
Balance at the beginning of the period	**202**	445
Operating losses incurred	**283**	—
Deferred tax asset not raised	**73**	—
Operating losses utilised	**(5)**	(41)
Movement in timing differences	**(22)**	(202)
Balance at the end of the period	**531**	202

17. Deposits from banks

	31 December 2005 Rm	31 March 2005 Rm
Deposits from banks	**28 431**	24 370
Portfolio analysis		
Loans and receivables	**28 431**	24 370

The carrying value of deposits from banks approximate their fair value.

All deposits from banks have variable interest rates.

18. Trading liabilities and hedging derivative liabilities

	31 December 2005 Rm	31 March 2005 Rm
Trading liabilities (refer to Annexure G)	**19 397**	20 028
Hedging derivative liabilities (refer to Annexure G)	**2 004**	1 610
	21 401	21 638
Portfolio analysis		
Held for trading	**19 397**	20 028
Fair value through profit and loss	**2 004**	1 610
	21 401	21 638

All trading and hedging derivative liabilities are carried at fair value.

	Group	
	31 December 2005 Rm	31 March 2005 Rm
19. Deposits due to customers		
Call deposits	**43 108**	28 522
Current accounts	**75 320**	55 636
Savings and transmission deposits	**22 543**	19 127
Negotiable certificates of deposit	**47 549**	31 398
Fixed and notice deposits	**74 689**	71 401
Foreign currency deposits	**16 720**	18 379
Credit card deposits	**2 233**	2 050
Promissory notes	**9 623**	10 873
Other deposits	**8 513**	14 598
	300 298	251 984
Portfolio analysis		
Loans and receivables	**299 007**	245 858
Fair value through profit and loss	**1 291**	6 126
	300 298	251 984

The carrying value of deposits due to customers approximate their fair vaue.

Liabilities to clients under acceptances are a class of deposits due to customers. They have been separately disclosed on the face of the balance sheet to provide more useful disclosure to the user. These deposits are carried at amortised cost and their carrying value approximates their fair value.

20. Current tax liabilities		
Normal tax	**366**	493
Secondary tax on companies	**72**	—
	438	493
21. Liabilities under investment contracts		
Linked investment contracts	**6 287**	4 325
Balance at the beginning of the period	**4 325**	2 619
Changes in investment contracts (refer to note 31)	**837**	433
Inflows on investment contracts	**1 326**	2 166
Policyholder benefits on investment contracts	**(233)**	(1 051)
Reinsurance asset and policy charge	**32**	158
Balance at the end of the period	**6 287**	4 325
The following assets and liabilities are linked to investment contracts and are held at fair value:		
Money market assets	**940**	379
Investments (refer to note 11)	**5 186**	3 807
Other assets	**24**	866
Other liabilities	**(45)**	(885)
Reinsurance assets (refer to note 9)	**182**	158
	6 287	4 325

	Group	
	31 December 2005 Rm	31 March 2005 Rm
22. Policyholder liabilities under insurance contracts		
Gross insurance liabilities		
Short-term insurance contracts:		
Claims reported and loss adjustment expense (refer to note 22.1)	**337**	360
Claims incurred but not reported (refer to note 22.1)	**105**	90
Unearned premiums (refer to note 22.2)	**539**	457
Life insurance contracts (refer to note 22.3)	**1 673**	1 483
Maintenance contracts accounted for as insurance contracts*	**82**	—
	2 736	2 390
Reinsurers' share of insurance liabilities (refer to note 9)		
Short-term insurance contracts:		
Claims reported and loss adjustment expense (refer to note 22.1)	**139**	71
Claims incurred but not reported (refer to note 22.1)	**3**	12
Unearned premiums (refer to note 22.2)	**19**	9
Life insurance contracts	**80**	70
	241	162
Net insurance liabilities		
Short-term insurance contracts:		
Claims reported and loss adjustment expense (refer to note 22.1)	**198**	289
Claims incurred but not reported (refer to note 22.1)	**102**	78
Unearned premiums (refer to note 22.2)	**520**	448
Life insurance contracts	**1 593**	1 413
Maintenance contracts accounted for as insurance contracts*	**82**	—
	2 495	2 228
Linked insurance contracts		
Gross	**519**	370
Non-linked insurance contracts	**1 976**	1 858
Gross	**2 217**	2 020
Reinsurance	**(241)**	(162)
	2 495	2 228

**IFRS 4 as it relates to maintenance contracts has been applied prospectively.*

	Group					
	December 2005			March 2005		
	Gross	**Rein-surance**	**Net**	Gross	Rein-surance	Net
22. Policyholder liabilities under insurance contracts *(continued)*						
22.1 Reconciliation of claims and loss adjustment expense						
Balance at the beginning of the period	**450**	**(83)**	**367**	385	(78)	307
Cash paid for claims settled in the period	**(29)**	**—**	**(29)**	(44)	—	(44)
Increase in liabilities						
Arising from current period claims	**20**	**(28)**	**(8)**	97	(5)	92
Arising from prior period claims	**7**	**(31)**	**(24)**	13	—	13
Net exchange differences	**(6)**	**—**	**(6)**	(1)	—	(1)
Balance at the end of the period	**442**	**(142)**	**300**	450	(83)	367
Comprising						
Claims reported and loss adjustment expenses	**337**	**(139)**	**198**	360	(71)	289
Incurred but not reported	**105**	**(3)**	**102**	90	(12)	78
	442	**(142)**	**300**	450	(83)	367
22.2 Provision for unearned premiums						
Balance at the beginning of the period	**457**	**(9)**	**448**	417	(28)	389
Increase in the period	**773**	**(88)**	**685**	897	(129)	768
Release in the period	**(691)**	**78**	**(613)**	(857)	148	(709)
Balance at the end of the period	**539**	**(19)**	**520**	457	(9)	448

	Group	
	31 December 2005 Rm	31 March 2005 Rm
22.3 Life insurance contracts		
Balance at the beginning of the period	**1 483**	1 253
Premiums received in the period	**805**	799
Liabilities released for payments on death, surrender and other termination benefits	**(204)**	(150)
Increase in units and market value increases	**149**	125
Cash paid in respect of claims	**(223)**	(244)
Other movements	**(337)**	(300)
Balance at the end of the period	**1 673**	1 483

22. Policyholder liabilities under insurance contracts *(continued)*

22.4 Short-term insurance contracts – assumptions, change in assumptions and sensitivities

Process used to decide on assumptions

The risks associated with these short-term insurance contracts are subject to a number of variables. The exposure of the Group to policyholder claims is described in this section. This exposure is geographically concentrated in South Africa.

The Group uses a case-by-case method to measure its claims liabilities. The Group has reviewed the individual estimates on a regular basis and, where necessary, adjusted the estimates to be in line with the information available at that time.

For each class of business, the cost of the future claims includes estimates of the cost for the indemnity and the associated handling costs.

For each contract, estimated losses are compared to the maximum loss payable under the terms of the policy and reduced to such amount if lower than the estimated loss.

Change in assumptions and sensitivity analysis

A stochastic claims reserving model is being used to calculate the incurred but not yet reported (IBNR) claims liability for all products except motor warranty and legal products, where no IBNR is provided because of the nature of the product. For each calendar year-end from 31 December 1996 to 31 December 2004, the actual amount of claims that occurred before the year-end, but only reported after the year-end, expressed as a percentage of net premium income was calculated net of reinsurance. A statistical distribution was then fitted to the percentage actual claims reported after year-end. This distribution is used to calculate a 95% confidence level for the IBNR at 31 December 2005. Based on this calculation, the Group requires an IBNR equal to 6,64% of net premium income.

The reasonableness of the estimation process is tested by management and reviewed regularly.

The Group believes that the liability for claims carried at year-end is adequate.

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims.

Reinsurance

The Group continues to benefit from reinsurance programmes that were purchased in prior years and included proportional cover supplemented by excess of loss reinsurance cover. The reinsurers' share of claims liabilities is estimated net of the provision for known and expected incidents of insolvency of reinsurers.

The Group has in place a series of non-proportional reinsurance covers on a number of short-term insurance products. The Group also has stop-loss cover in place.

22. Policyholder liabilities under insurance contracts *(continued)*

22.5 Long-term life insurance contracts – assumptions, change in assumptions and sensitivities

Valuation methodology

Liabilities are valued on bases consistent with the asset values, using the Financial Soundness Valuation method in accordance with the requirements of the Long-term Insurance Act of 1998, and applicable guidance notes issued by the Actuarial Society of South Africa (ASSA). The liabilities represent the present value of expected future benefit payments and expenses less the present value of expected future premium receipts.

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 reserves have been included in accordance with the requirements of a professional guidance note (PGN 110) of the ASSA. An internationally recognised real-world stochastic model is used to do a range of asset projections from which the reserve is derived.

Sources of operational earnings

Operational earnings predominantly stem from unwinding of margins (first and second tier) in the valuation basis, differences between actual and expected experience over the period, and from new business. Experience profits have predominantly stemmed from mortality experience and investment returns that were better than expected.

Philosophy on release of profits in the valuation basis

The valuation assumptions include certain margins over and above compulsory margins as required by the Long-term Insurance Act of 1998. The Act allows such 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 and company practice. It is the Group's policy to recognise profits when premiums are paid or when investment returns are achieved. Hence, any margins contained in the premium basis should not be discounted and only released in future once premiums have been received.

The following additional (or second tier) margins were incorporated in the liability calculations:

- Additional margin on mortality, disability and dread 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) and the fact that certain classes of business are not underwritten.
- Variation in lapse assumptions owing to its inherent volatility and as it is not deemed prudent to take credit in advance for future lapses that might not arise.
- Minimum reserve equal to surrender value and elimination of all negative reserves to ensure that solvency is maintained if policy cancellations increase. It is also not the philosophy of the Group to take credit (prematurely) for the expected future profits of a policy by treating the policy as an asset.
- 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 premium margin for regular premium business to allow for uncertainty and profit margins contained in premium rates.

22. Policyholder liabilities under insurance contracts *(continued)*

22.5 Long-term life insurance contracts – assumptions, change in assumptions and sensitivities *(continued)*

Assumptions

The value of the life and new 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):

	31 December 2005 %	31 March 2005 %
Risk-free rate of return	**7,50**	8,50
Equity return	**9,50**	10,50
Cash returns	**5,50**	6,50
Overall investment return	**7,90**	9,20
Risk discount rate	**10,50**	11,50
Expense inflation	**4,00**	5,00

(a) Mortality, disability and dread disease

An industry mortality table (SA 85-90), published in 1997, is adjusted per major product line to reflect best estimates. Provision is made for deteriorating claims experience owing to Aids in accordance with guidelines as issued by the ASSA. Experience over a number of years is investigated with particular emphasis on more recent trends. Adjustments are typically percentage factors of the standard tables. For underwritten lives, select tables are used. For disability and dread disease products with limited own past experience, guidance on the assumptions is obtained from reinsurers.

(b) Persistency

Experience investigations were conducted over the past five years and it is assumed that recent experience and trends will continue in future. Persistency assumptions vary by product type, policy duration and target market. Lapse rates are typically higher for funeral and credit life business.

(c) Expenses

The expense basis is based on the results of an activity-based costing exercise whereby the previous financial year's expenses are allocated to product types and also to initial, renewal and claims activities. The expense basis allows for inflationary increases at a rate of 4,0% per annum.

(d) Investment return

Fixed-interest securities of an average term equal to the mean term of the liability outflows would constitute a matched position. The current investment mandate consciously mismatches the liabilities to some extent. However, in the valuation it has been assumed that a sufficient quantity of gilts of appropriate duration is held. The future gross redemption yield on these benchmark assets was 7,5% per annum on the valuation date and this has been used to value the liabilities. An adjustment is made for future income tax.

(e) Mismatch reserve

A mismatch reserve is maintained to allow for the fact that non-linked liabilities have been valued assuming a fully matched position (between assets and liabilities), whereas the investment mandate has consciously mismatched the liabilities to some extent at year-end. More particularly, a portion of assets backing non-linked liabilities has been invested in equities at year-end, whereas the liability valuation has assumed that this was not the case. The methodology in setting up the mismatch reserve is consistent with previous years: cognisance is taken of the difference between gross redemption yields on gilts of appropriate maturity and the earnings yield on equities and applied to the portion of assets that is held in equities.

22. Policyholder liabilities under insurance contracts *(continued)*

22.5 Long-term life insurance contracts – assumptions, change in assumptions and sensitivities *(continued)*

(f) Provision for surrender values

On 12 December 2005 a Statement of Intent was issued by the long-term insurance industry and the Minister of Finance regarding minimum surrender values. This statement specifies the measures that will be implemented in respect of retirement annuity fund member policies and other savings products offered by the long-term insurance industry when such policies are surrendered. The Group intends to at least meet the minimum standards in future and the actuarial liability was increased as a result. It was calculated assuming that policyholders receive at least a certain minimum fixed percentage of the fund value when endowment policies are surrendered. This resulted in an increase in the liability of R22 million.

(g) Tax

Future tax on income to be earned by the relevant funds is allowed for according to current tax legislation at 29% in the corporate fund and 30% in the individual policyholder fund.

Change and effect of assumptions since previous valuation

Changes in assumptions to determine insurance liabilities and reinsurance assets have a material effect on the financial results.

The table below displays the effect of the changes in assumptions, showing separately the effect of material changes.

Change in assumptions	**Effect on insurance liabilities Rm**
Economic basis and asset mix	**30**
Expense assumptions	**11**
Mortality and Aids assumptions	**(130)**
Revised valuation method	**21**
Revised surrender values	**22**
Revised valuation	**11**

The economic basis was changed in line with market movements. The assumptions about the future investment return on assets and future inflation were adjusted to reflect the change in gilt yields, resulting in a 1% per annum lower investment return assumption compared with the previous year.

The expense assumptions were changed to reflect the results of the most recent expense investigation, increasing the liability by R11 million.

The mortgage protection products and certain funeral products experienced lower mortality than expected under the previous year's mortality basis. The mortality and Aids assumptions were adjusted to reflect the actual trends in recent experience.

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 reserves. 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, hence the importance of future investment returns. The business is not very sensitive to changes in other assumptions.

22. Policyholder liabilities under insurance contracts *(continued)*

22.5 Long-term life insurance contracts – assumptions, change in assumptions and sensitivities *(continued)*

	Insurance liability Rm	Change %
Base value	**1 593**	**n/a**
Mortality and morbidity + 10%	**1 814**	**13,86**
Lapse rate + 10%	**1 547**	**2,94**
Renewal and termination expenses + 10%	**1 620**	**1,66**
Expense inflation + 1%	**1 602**	**0,52**
Investment return - 1%	**1 664**	**4,40**

The above analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur as changes in some of the assumptions are correlated.

Concentration of insurance risk

Investment risks attributable to assets that back insurance liabilities are well diversified and hence concentration risk is considered to be low.

As insurance products are sold to banking customers within Absa, the concentration risk for the geographical location of customers is negated by the fact that Absa's banking customers are spread across South Africa, with no significant geographical concentration risk. Therefore, the risk of an increase in the number of claims resulting from localised events is substantially reduced owing to the diversification of the geographical spread of the customer base.

For larger individual exposures, retention limits are in place with excess reinsurance to cover these large individual exposures.

Credit risk concentration with regard to reinsurers is also considered to be low as there is a diversification of reinsurers, all with strong credit ratings.

		Group	
		31 December 2005 Rm	31 March 2005 Rm
23. Borrowed funds			
The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act of 1990.			
23.1 Subordinated convertible loans		**—**	54
Interest rate	*Conversion date*		
16,60% effective	20 October 2005	**—**	54

The above loan is unsecured and is compulsorily convertible by Absa Group Limited into ordinary shares of Absa Bank Limited. The loan was converted into ordinary shares on 20 October 2005.

			Group	
			31 December 2005 Rm	31 March 2005 Rm
23. Borrowed funds *(continued)*				
23.2 Redeemable convertible cumulative preference shares			**—**	34
Preference dividend rate	*Redemption date*	*Number*		
5,0% fixed rate	12 March 2006	848 478	**—**	34

The dividends on the 5,0% fixed rate convertible cumulative preference shares are compounded and payable semi-annually on 31 March and 30 September. The shares were issued by Meeg Bank Limited on 12 March 2001 and the mandatory redemption date is 12 March 2006. The shares are convertible into ordinary shares at the option of the preference shareholders on redemption date. Meeg Bank Limited was equity accounted for with effect from 1 October 2005. The preference shares are therefore no longer reflected in the Group's balance sheet.

23.3 Unsecured subordinated redeemable debentures			**—**	750
Interest rate	*Redemption date*	*Number*		
14,65%	20 October 2005	200	**—**	200
14,45%	20 October 2005	300	**—**	300
17,90%	25 November 2005	250	**—**	250
23.4 Variable rate debentures			**3**	2
Interest rate	*Redemption date*			
Variable	No terms for redemption		**3**	2

The above debentures are issued by Absa Specialised Investments (Proprietary) Limited. These debentures' interest rate is variable, dependent on market performance, with no terms for redemption.

23.5 Secured redeemable compulsorily convertible debentures		**3**	4
Interest rate	*Redemption date*		
13,75%	4 April 2008	**3**	4

The above debentures are issued by Abvest Holdings (Proprietary) Limited. These debentures bear interest at 13,75% and are compulsorily redeemable for each R82 542 special dividend paid on the "B" ordinary shares. Any remaining debentures are compulsorily redeemable on 4 April 2008. As security, the company granted first ranking cessions over book debts, insurance policies and all cash balances and deposits.

		Group	
		31 December 2005 Rm	31 March 2005 Rm
23.	**Other borrowed funds** *(continued)*		
23.6	**Subordinated callable notes**	**6 326**	4 689
	Interest rate / *Final maturity date*		
	14,25% / 22 March 2014	**3 100**	3 100
	10,75% / 26 March 2015	**1 100**	1 100
	3-month JIBAR + 0,75% / 26 March 2015	**400**	400
	8,75% / 1 September 2017	**1 500**	—
	Accrued interest and fair value adjustment	**226**	89

The 14,25% notes may be redeemed in full at the option of Absa Bank Limited on 22 March 2009. Interest is paid semi-annually in arrear on 22 March and 22 September of each year, on the basis that the last date for payment is 22 March 2009. Should the notes not be redeemed on 22 March 2009, interest will be paid quartely in arrear thereafter on 22 March, 22 June, 22 September and 22 December, with the first quarterly payment commencing on 22 June 2009.

The 10,75% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 26 March 2010. Interest is paid semi-annually in arrear on 26 March and 26 September of each year, on the basis that the last date for payment is 26 March 2010. If Absa Bank Limited does not exercise the redemption option, then interest is payable thereafter at a floating rate of three-month JIBAR plus 4,35%, quarterly in arrear on 26 March, 26 June, 26 September and 26 December, with the first quarterly payment commencing on 26 June 2010.

The three-month JIBAR floating rate notes may be redeemed in full at the option of Absa Bank Limited on 26 March 2010. Interest is paid quarterly in arrear on 26 March, 26 June, 26 September and 26 December of each year, on the basis that the last date for payment is 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%.

The 8,75% 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, on the basis that the last date for payment is 1 September 2012. If Absa Bank Limited does not exercise the redemption option, then 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. These notes were issued on 1 September 2005.

The notes are listed on the Bond Exchange of South Africa. Preliminary expenses relating to the placement of the notes were capitalised and are expensed on an effective interest rate basis over the period of the notes.

			Group	
			31 December 2005 Rm	31 March 2005 Rm
23. Other borrowed funds *(continued)*				
23.7 Redeemable cumulative option-holding preference shares			**151**	146
Preference dividend rate	*Option exercise dates*	*Number*		
72% of the prime overdraft rate	1 July 2007 to 1 July 2009 1 March, 1 June, 1 September or 1 December of each year	79 237 500*	**158**	158
Accrued dividend			**5**	—
Less: shares held by the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust		6 085 200	**(12)**	(12)
The dividends are compounded and payable semi-annually in arrear on 30 September and 31 March of each year. The shares were issued by Absa Group Limited on 1 July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ending on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1 March, 1 June, 1 September or 1 December of each year. The shares are convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.				
			6 483	5 679
Fair value**			**7 350**	—
Maturity analysis				
Current			**218**	893
Non-current			**6 265**	4 786
			6 483	5 679
Portfolio analysis				
At cost			**6 067**	5 679
Fair value through profit and loss			**416**	—
Cost			**403**	—
Fair value adjustment			**13**	—
			6 483	5 679

**Refer to note 26.*
***This comparative is not required under IFRS 1.*

	Group 31 December 2005 Rm	Group 31 March 2005 Rm
24. Other liabilities and sundry provisions		
Leave pay accrual	**403**	345
Staff bonus and incentive accrual	**678**	658
Audit fees accrual	**32**	21
Deferred income	**180**	101
Liabilities under financial leases (refer to note 25)	**913**	930
Retirement benefit obligations (refer to note 42)	**285**	—
Creditors and other accruals	**9 333**	8 671
	11 824	10 726

The Group, in the normal course of business, is subject to legal claims and legal action. Each claim is evaluated on its merits and where considered probable that an obligation exists that may result in an economic outflow, a provision is raised. The Group does not expect the ultimate resolution of any of the proceedings to which the Group is party to have a significant adverse effect on the financial position of the Group and the Group has not disclosed the contingent liabilities associated with these claims either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the conduct of the claims.

All of the above amounts are expected to be settled within twelve months with the exception of liabilities under financial leases (refer note 25 below) and the abovementioned legal claims.

	31 December 2005			31 March 2005		
	Minimum lease payments Rm	**Interest Rm**	**Principal Rm**	Minimum lease payments Rm	Interest Rm	Principal Rm
25. Liabilities under financial leases						
Less than one year	**171**	**161**	**10**	139	122	17
Between one and two years	**189**	**157**	**32**	171	161	10
Between two and three years	**210**	**150**	**60**	189	157	32
Between three and four years	**233**	**136**	**97**	210	150	60
Between four and five years	**212**	**118**	**94**	233	136	97
More than five years	**844**	**224**	**620**	1 056	342	714
	1 859	**946**	**913**	1 998	1 068	930

Under the terms of the lease agreements, no contingent rentals are payable.

	Group 31 December 2005 Rm	Group 31 March 2005 Rm
26. Share capital		
Share capital		
Authorised		
800 000 000 (March 2005: 800 000 000) ordinary shares of R2 each	**1 600**	1 600
Issued		
666 855 074 (March 2005: 655 055 074) ordinary shares of R2 each	**1 334**	1 310
Less: **3 074 268** (March 2005: 446 073) shares held by the Absa Group Limited Share Incentive Trust	**(6)**	0
Less: **388 200** (March 2005: 0) treasury shares held by Absa Life Limited	**(1)**	—
	1 327	1 310

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 31 March 2005, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming annual general meeting of the Group.

The Group has a share incentive trust in terms of which shares are issued and options are granted. Details of the share incentive trust are set out in Annexure H. As required by IFRS, the share incentive trust was consolidated into the Group's annual financial statements for the first time during the March 2004 financial year.

As required by IFRS, the shares held by the life fund within Absa Life Limited were eliminated as treasury shares in the Group's consolidated financial statements for the first time during the period ended 31 December 2005.

Shares issued during the year

On 21 April 2005, 7 000 000 ordinary shares were issued at R36,42 per share, being R2 par value and R34,42 share premium. A further 4 800 000 ordinary shares were issued on 18 May 2005 at R31,35, being R2 par value and R29,35 share premium.

	Group 31 December 2005 Rm	Group 31 March 2005 Rm
Preference share capital – unlisted		
Authorised		
80 467 500 (March 2005: 80 467 500) redeemable cumulative option-holding preference shares of R2 each	**161**	161
Issued		
79 237 500 (March 2005: 79 237 500) redeemable cumulative option-holding preference shares of R2 each	**158**	158

These shares meet the definition of debt under IAS 32 and have therefore been included under borrowed funds (refer to note 23.7).

The shares held by Batho Bonke Capital (Proprietary) Limited (73 152 300) are entitled to voting rights equivalent to those of the listed ordinary shares. The remaining shares held by the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust are not entitled to voting rights.

	Group	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
27. Net interest income		
Interest and similar income		
Cash, cash balances and balances with central banks	**225**	284
Money market assets	**422**	383
Statutory liquid asset portfolio	**1 029**	1 065
Capital market assets	**245**	322
Loans and advances to customers and banks	**21 291**	24 883
Cheque accounts	**1 254**	1 635
Corporate overdrafts	**123**	147
Credit cards	**629**	692
Foreign currency loans	**738**	643
Instalment credit agreements	**3 777**	4 258
Mortgage loans	**10 249**	11 888
Other advances	**276**	685
Overnight finance	**320**	337
Microloans	**168**	246
Personal loans	**1 062**	1 346
Term loans	**65**	27
Preference shares	**742**	832
Specialised and project finance	**1 411**	1 562
Carries	**263**	320
Net present value unwind on non-performing book (refer to note 7)	**98**	247
Net other interest and hedging income	**116**	18
	23 212	26 937
Interest expense and similar charges		
Deposits from banks and customers	**12 718**	15 178
Call deposits	**1 960**	2 163
Cheque account deposits	**2 065**	2 381
Credit card deposits	**44**	58
Fixed deposits	**3 831**	4 528
Foreign currency deposits	**587**	530
Negotiable certificates of deposit	**2 944**	3 427
Notice deposits	**232**	350
Other deposits	**736**	1 332
Savings and transmission deposits	**319**	409
Borrowed funds	**725**	1 007
Interest incurred on finance leases	**122**	162
Net other interest and hedging costs	**—**	159
	13 565	16 506

	Group	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
28. Net fee and commission income		
Fee and commission income		
Asset management and related fees	**30**	81
Credit related fees and commissions	**5 779**	7 555
Credit cards	**863**	975
Cheque accounts	**1 624**	2 097
Electronic banking	**1 530**	1 881
Other	**1 762**	2 602
Corporate finance fees	**265**	234
Insurance commission received	**891**	1 054
Portfolio and other management fees	**152**	100
Trust and estate income	**127**	164
Pension fund payment services	**326**	433
External administration fees	**180**	82
	7 750	9 703
Fee and commission expense		
Broking commissions paid	**(683)**	(783)
29. Net insurance premium income		
Insurance premium reserve		
Life insurance contracts	**804**	799
Short-term insurance contracts	**1 342**	1 542
	2 146	2 341
Premiums ceded to reinsurers		
Reinsurance on life insurance contracts	**(47)**	(43)
Reinsurance on short-term insurance contracts	**(151)**	(247)
	(198)	(290)
30. Net claims and benefits paid		
Gross claims and benefits paid on insurance contracts		
Life claims and benefits	**224**	244
Short-term claims and benefits	**689**	779
	913	1 023
Reinsurance recoveries		
Reinsurance recoveries on life insurance contracts	**(12)**	(10)
Reinsurance recoveries on short-term insurance contracts	**(104)**	(84)
	(116)	(94)

Benefits under short-term insurance policies relate to claims made by policyholders in relation to motor and personal line business underwritten. Benefits under life insurance comprise death and disability claims.

	Group Nine months ended 31 December 2005 Rm	Group Twelve months ended 31 March 2005 Rm
31. Changes in insurance and investment liabilities		
Insurance liabilities	189	235
Investment contracts (refer to note 21)	837	433
	1 026	668
32. Gains and losses from banking and trading activities		
Net gains on investments	291	67
Available-for-sale	5	26
Fair value through profit and loss	286	41
Net trading income	744	803
Trading income	417	520
Net interest income	213	151
Dividend income	114	132
Derivatives (non-qualifying hedges)*	(254)	—
	781	870
Dividends received from banking activities, other than from trading activities, have been included under other operating income (refer to note 34).		
33. Gains and losses from investment activities		
Fair value through profit and loss	1 451	1 228
Net investment gains in life insurance company (before transfer to the life fund)	1 052	758
Investment gains	399	470
Available-for-sale	(115)	—
	1 336	1 228
Dividends received from investing activities have been included under other operating income (refer to note 34).		
34. Other operating income		
Dividend income	211	167
Banking activities	60	45
Investing activities	151	122
Profit on sale of property and equipment (refer to note 41)	18	12
Property development profit	95	41
Property rental	53	76
Unit/property trust commission	170	202
Other banking income	212	198
	759	696

**There was no requirement to restate comparatives in terms of IFRS 1.*

	Group	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
35. Operating expenses		
Administrative expenses	**2 208**	2 344
Amortisation of intangible assets (refer to note 13)	**13**	17
Auditors' remuneration	**69**	70
Audit fees current period	**57**	42
Underprovision prior period	**—**	1
Other fees	**12**	27
Depreciation (refer to note 14)	**550**	693
Leasehold property	**19**	26
Freehold property	**25**	57
Computer equipment and systems	**317**	348
Furniture and other equipment	**184**	256
Motor vehicles	**5**	6
Information technology cost	**813**	1 075
Operating lease rentals	**557**	721
Other professional fees	**880**	949
Marketing costs	**541**	510
Staff costs (refer to note 38)	**5 807**	6 406
	11 438	12 785
36. Impairments		
Goodwill (refer to note 13)	**—**	107
Computer software development costs* (refer to note 13)	**40**	—
Available-for-sale investments	**14**	11
	54	118
37. Indirect taxation		
Payments to third parties	**189**	187
Value-added tax net of input credits	**433**	511
Regional Services Council Levies	**66**	72
Training levy	**36**	35
	724	805

The quantum of the future economic benefit of certain computer software capitalised during the period could not, in accordance with the criteria set out in the accounting standards, be demonstrated to exceed one year. As a consequence it has been impaired.

	Group	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
38. Staff costs		
Salaries	**5 077**	5 575
Employer contribution to post-retirement funds	**312**	314
Training costs	**146**	198
Share-based payments (refer to note 48)	**70**	40
Other staff costs	**202**	279
	5 807	6 406
39. Taxation expense		
South African current taxation	**1 189**	1 313
South African current taxation prior year	**14**	6
Deferred tax (refer to note 16)	**708**	704
Secondary tax on companies	**199**	66
Foreign taxation	**77**	83
	2 187	2 172
Further information about deferred income tax is presented in note 16. The tax rate on the Group's profit differs from the theoretical rate as follows:		
Tax rate	**29%**	30%
Income not subject to normal taxation	**(2%)**	(4%)
Secondary tax on companies	**1%**	1%
Utilisation of previously unrecognised tax losses	**—**	(1%)
Other permanent differences	**3%**	2%
Effective tax rate	**31%**	28%

	Group	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
40. Earnings per share		
Profit attributable to equity holders of the Group	**4 776**	5 419
Weighted average number of ordinary shares in issue (million)	**662,1**	652,1
Basic earnings per share (cents)	**721,4**	831,0
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 potentially dilutive ordinary shares. The Group has two categories of potentially dilutive ordinary shares and share options linked to redeemable preference shares.		
The redeemable preference shares are 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 market share price of the Group'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.		
Profit attributable to equity holders in the Group	**4 776**	5 419
Interest expense on convertible debt (net of tax)	**9**	10
Diluted earnings	**4 785**	5 429
Weighted average number of ordinary shares in issue (million)	**662,1**	652,1
Adjustments for:		
Options linked to redeemable preference shares (million)	**17,3**	12,5
Share options (million)	**11,4**	12,7
Diluted weighted average number of ordinary shares in issue (million)	**690,8**	677,3
Diluted earnings per share (cents)	**692,7**	801,6

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 Share Incentive Trust, the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust and Batho Bonke Capital (Proprietary) Limited, Absa's black economic empowerment partner.

	Group	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
41. Headline earnings per share		
Headline earnings is determined as follows:		
Net income attributable to equity holders of the Group	**4 776**	5 419
Adjustments for:		
Net profit on disposal of property and equipment (refer to note 34)	**(18)**	(12)
Net loss/(profit) on disposal of available-for-sale assets and strategic investments	**130**	(150)
Impairment costs	**14**	137
Available-for-sale and strategic investments	**14**	30
Goodwill impaired	**—**	107
Headline earnings	**4 902**	5 394
Interest expense on convertible debt (net of tax)	**9**	10
Diluted headline earnings	**4 911**	5 404
Headline earnings per share (cents)	**740,4**	827,2
Diluted headline earnings per share (cents)	**710,9**	797,9
42. Retirement benefit obligation		
42.1 On-balance sheet funds		
Pension schemes	**284**	—
Other post-retirement benefits	**1**	—
Disclosed under other liabilities (refer to note 24)	**285**	—
Pension schemes		
Present value of funded obligations	**(284)**	—
Fair value of plan assets	**—**	—
Net liability	**(284)**	—
Current service cost	**6**	—
Interest cost	**32**	—
Net actuarial gains recognised during the period	**(19)**	—
Total cost	**19**	—
Reconciliation of movement		
First-time recognition of liability	**(282)**	—
Total expense	**(19)**	—
Contributions paid	**17**	—
Balance at the end of the period	**(284)**	—
The principal actuarial assumptions used were as follows:		
Discount rate	**12,0%**	—
Expected return on plan assets	**9,6%**	—
Future salary increases	**9,0%**	—
Future pension increases	**3,6%**	—

	Group	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
42. Retirement benefit obligation *(continued)*		
Pension fund assets		
Investments		
Government bonds	**152**	—
Current assets	**177**	—
Interest owing by government	**6**	—
Bank balances with Banco Austral, Sarl	**171**	—
Total assets	**329**	—

The assets have been ringfenced/allocated to the retirement benefits, but do not qualify as plan assets in terms of IAS 39 as they are not in a separate entity, but carried on the Group's balance sheet. The major constraint in this regard is the lack of enabling legislation in certain African countries.

The on-balance sheet fund reflected above relates to a subsidiary of the Group and was recognised for the first time on 1 April 2005.

42.2 Off-balance sheet funds		
Pension schemes		
Present value of funded obligations	**(3 641)**	(3 512)
Fair value of plan assets	**4 618**	4 144
Net assets before unrecognised actuarial gains	**977**	632
Unrecognised actuarial gains	**(249)**	(243)
Net off-balance sheet asset	**728**	389
Current service cost	**1**	1
Interest cost	**246**	310
Expected return on plan assets	**(296)**	(345)
Total cost	**(49)**	(34)
Funded status		
Net assets before unrecognised actuarial gains	**977**	632
Less: contingency reserves as per the rules of the fund	**(119)**	(104)
Less: investment reserve account	**(831)**	(527)
Surplus	**27**	1

	Group	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
42. Retirement benefit obligation *(continued)*		
The principal actuarial assumptions used were as follows:		
Discount rate	**10%**	10%
Expected return on plan assets	**10%**	10%
Future salary increases	**7,5% + merit**	7,5% + merit

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 rate 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. The threshold rates of 4,5%, 6,0% or 7,0% aim to award pension increases in the long term equivalent to respectively 100%, 75% or 60% of the increase in the consumer price index.

With the exception of certain employees who have exercised an option not to become members, all full-time permanent employees are members of the Absa Group Pension Fund (the fund), which has a defined benefit and a defined contribution structure. All members at 31 March 1997 had the option to convert to the defined contribution structure of which the majority did. Members joining the fund on or after 1 April 1997 are only entitled to benefits under the defined contribution structure.

Of the employees belonging to the fund, 99,8% (31 March 2005: 99,8%) were members of the defined contribution structure, whereas 0,2% (31 March 2005: 0,2%) were members of the defined benefit structure. As at 31 December 2005, the defined benefit structure had 62 (31 March 2005: 67) contributing members.

The fund is financed by company and employee contributions and investment income. Company contributions in respect of the defined benefit structure are based on actuarial advice and are expensed in the income statement. It is Absa's policy to ensure that the fund is adequately funded to provide for the benefits of members, and particularly to ensure that any shortfall with regard to the defined benefit structure is being met by way of additional contributions.

The benefits provided by the defined benefit structure are based on a formula taking into account years of membership and remuneration levels. The benefits provided by the defined contribution structure are determined by accumulated contributions and returns on investments.

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation be carried out at least every three years. The most recent valuation of the fund was effected on 1 April 2005 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. This Act facilitates the determination of the surplus apportionment to members, while avoiding the inappropriate distribution of surpluses. The Act requires that a fund explicitly establish additional contingency reserves to ensure the financial soundness of the fund going forward. The valuation has been performed using a projected benefit method in respect of the defined benefit structure, which is consistent with the prior year.

Liabilities in respect of the defined benefit structure are calculated based on assumptions regarding the expected experience in respect of death, withdrawals, early retirement, family statistics, rate of increase in pensionable remuneration and medical allowances, administration costs and the expected yield on assets.

Post-retirement medical aid contributions

The Group has no commitments in respect of medical aid contributions of pensioners who retired after 31 March 1996. Future liabilities in respect of pensioners who retired prior to 1 April 1996 have been provided for in the Absa Group Pension Fund.

	Group	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
43. Dividends per share		
Dividends		
Final dividend number 37 of 200 cents per ordinary share (March 2004: 110 cents)	**1 334**	716
Interim dividend number 38 of 160 cents per ordinary share (September 2004: 95 cents)	**1 067**	622
Total dividends paid during the period	**2 401**	1 338
Interim dividend number 38 of 160 cents per ordinary share (September 2004: 95 cents)	**1 067**	622
Final dividend number 39 of 135 cents per ordinary share (March 2005: 200 cents)	**900**	1 334
Total dividends relating to income for the period	**1 967**	1 956

A final dividend of 135 cents per ordinary share was approved by the board on 21 February 2006. The total dividend amounts to R900 million and the STC payable by the Group in respect of the dividend approved and declared subsequent to 31 December 2005 amounts to R113 million. No provision has been made for this dividend and the related STC in the financial statements for the period ended 31 December 2005.

44. Related party transactions

The Group's ultimate parent company is Barclays PLC (incorporated in the United Kingdom), which owns 56,61% of the ordinary shares. The remaining 43,39% of the shares are widely held on the JSE Limited.

The following are defined as related parties of the Group:

- The parent Barclays Bank PLC
- Subsidiaries (refer to Annexure F)
- Associated undertakings and joint ventures (refer to Annexure F)
- Post-retirement benefit funds
- Key management personnel:

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. This includes directors. The Group has accordingly defined key management personnel to include:

(i) Executive and non-executive directors

(ii) Members of the Group Executive Committee (Exco)

(iii) Minor children and spouses of executive and non-executive directors, and members of Exco

(iv) An entity controlled/jointly controlled or significantly influenced by any individual referred to in (i to iii) above.

A number of banking and insurance transactions are entered into in the normal course of business. These include loans, deposits and foreign currency transactions. The related-party transactions, outstanding balances at year-end, and relating expenses and income for the period were as indicated on the following page:

44. Related party transactions *(continued)*

44.1 Transactions with parent company

The following transactions were entered into with the parent company:

- Loans and advances to related party: R4 011 million
- Deposits due to related party: R4 777 million
- Dividends paid: R602 million
- Interest paid: R46 million
- Interest received: R7 million

All transactions entered into are on the same commercial terms and conditions in the normal course of business. Barclays is only considered a related party from the date of acquisition and hence no comparatives have been given.

44.2 Transactions with retirement benefit funds

At December 2005 the fund held shares to the value of R285 million and other securities to the value of R29 million in the Group.

	31 December 2005		31 March 2005	
	Transactions with key management/ directors Rm	**Transactions with entities controlled by key management/ directors Rm**	Transactions with key management/ directors Rm	Transactions with entities controlled by key management/ directors Rm
44.3 Transactions with key management personnel/directors				
Loans				
Loans outstanding at the beginning of the period	**4**	**18**	5	15
Loans issued during the period	**13**	**11**	13	9
Loan repaid during the period	**(8)**	**(16)**	(14)	(6)
Loans outstanding at the end of the period	**9**	**13**	4	18
Interest income earned	**1**	**—**	1	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 mortgage loans, asset finance transactions and overdraft facilities.				
Deposits				
Deposits at the beginning of the period	**12**	**238**	10	306
Deposits received during the period	**106**	**226**	54	792
Deposits repaid during the period	**(101)**	**(284)**	(51)	(860)
Discontinuance of related party relationships and other	**(1)**	**(103)**	(1)	—
Deposits at the end of the period	**16**	**77**	12	238
Interest expense on deposits	**0**	**7**	1	10
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.				
Guarantees issued by the Group	**42**	**—**	—	—

44. Related party transactions *(continued)*

Unit trust investments

At 31 December 2005, key management personnel held units to the value of R0,4 million (March 2005: R0,4 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.

Other investments

At 31 December 2005, the Group managed on behalf of key management personnel certain investments. These management agreements are entered into in the normal course of business under terms no more favourable than those arranged with third parties.

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of R0,1 million for both the year ended 31 March 2005 and for the nine months ended 31 December 2005. Key management personnel received claims which in total were less than R0,1 million for both the year ended 31 March 2005 and for the period ended 31 December 2005. These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
44.4 Key management personnel compensation		
Directors		
Salaries and other short-term benefits	49	40
Post-employment benefits	1	1
Termination benefits	—	4
	50	45
Other key management personnel		
Salaries and other short-term benefits	63	20
Post-employment benefits	1	1
	64	21
45. Managed funds		
Estates	1 755	1 327
Portfolio management	6 390	5 971
Trusts	4 603	3 898
Participation bond schemes	1 344	1 328
Unit trusts	52 303	46 110
Property funds	15 263	16 490
Other	6 202	5 167
	87 860	80 291

	Group	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
46. Contingencies and commitments		
46.1 Contingent liabilities		
Guarantees	**14 037**	13 188
Letters of credit	**2 294**	3 430
Commercial paper	**—**	12
	16 331	16 630
The letters of credit are predominantly denominated in rands.		
Guarantees consist predominantly of acceptances, endorsements and performance guarantees.		
46.2 Commitments		
Capital expenditure		
Authorised and contracted for	**140**	215
Authorised and not contracted for	**—**	33
	140	248
Operating lease commitments		
No later than one year	**580**	568
Later than one year and no later than five years	**1 557**	1 372
Later than five years	**403**	68
	2 540	2 008
Total commitments	**2 680**	2 256
47. Cash and cash equivalents		
Cash, cash balances and balances with central banks (refer to note 2)	**15 043**	13 183
Statutory liquid asset portfolio (refer to note 3)	**16 289**	14 384
Loans and advances to banks (refer to note 4)	**4 602**	3 528
Less: amounts not held for cash flow purposes	**(27 591)**	(24 299)
	8 343	6 796

48. Share-based payments

Absa Group Limited Share Incentive Trust (Share Incentive Trust)

In terms of the rules of the Absa Group Limited 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. Options are allocated to Absa 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 period. The options expire after a period of 10 years from the issuing date. Options issued since August 2005 (issue 193) have vesting performance criteria associated with them, which require headline earnings per share to exceed an agreed benchmark over a three-year period from July 2005 for the options to vest.

Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust (Share Ownership Trust)

All employees (as of the implementation date – 1 July 2004) of South African wholly owned subsidiaries, including South African employees on secondment elsewhere in the Absa Group (excluding executive directors of Absa Group and Absa Bank), were eligible to participate in this one-off offer. Each employee who elected to participate was issued and allotted 200 redeemable cumulative option-holding preference shares against a receipt of the R400 subscription price. 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. Absa Group will redeem the preference shares on exercise of the options by the employee or on lapse of the options on the final option exercise date. Options vest after three years from the date of issue and lapse 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 Limited.

Batho Bonke Capital (Proprietary) Limited

The Group entered into a black economic empowerment (BEE) transaction with Batho Bonke Capital (Proprietary) Limited in July 2004. As the shares issued in terms of the transaction vested immediately and the issue was before 1 January 2005, the provisions of IFRS 2 were not applicable. No costs will be recognised in the income statement of the Group.

	Group	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
The income statement charge for share-based payments is as follows (refer to note 38):		
Share Incentive Trust	**53**	23
Share Ownership Trust	**17**	17
The fair value of options granted in the financial periods is as follows:		
Share Incentive Trust	**110**	121
Share Ownership Trust	**n/a**	66
Batho Bonke Capital (Proprietary) Limited	**n/a**	1 080

48. Share-based payments *(continued)*

Fair values for the Share Incentive Trust are calculated at the date of grant using a modified Black-Scholes model. The significant weighted average assumptions used to estimate the fair value of the options granted in 2005 are as follows:

	31 December 2005
Weighted average share price (R)	**89,73**
Exercise price (R)	**89,10**
Expected volatility*	**n/a**
Expected option life for Group Executive Committee members	**8 years**
Expected option life for all other employees	**5 years**
Expected lapse ratio for Group Executive Committee members	**2,78%**
Expected lapse ratio for business unit heads	**3,04%**
Expected lapse ratio for senior management	**15,69%**
Expected lapse ratio for middle and junior management level	**21,08%**

The risk-free rate of return represents the yield, recorded on date of option grant, on a South African government zero coupon bond of a term equal to the expected life of the option.

For purposes of determining the expected life and number of options to vest, historical exercise and lapse patterns were determined.

It is assumed that all Share Incentive Trust options issued since August 2005 (issue 193) will meet the Group performance criteria set.

Fair values for the Share Ownership Trust and the BEE transaction are calculated at the date of grant by using a 250-step binomial model, adjusted to incorporate the Bermudan option structure (i.e. a hybrid of a European and American call option) of the transaction. The valuation is based on the average of 10 000 fair values calculated by Monte-Carlo simulation, varying the volatility according to the approximate bipolar distribution observed in the period leading up to the date of the grant. The significant weighted average assumptions used to estimate the fair value of the one-off options granted on 1 July 2004 are as follows:

	1 July 2004
Weighted average share price (R)	50,25
Exercise price** (R)	48 > 69
Expected volatility	26% > 39,6%
Expected option life	5 years
Expected lapse ratio for Share Ownership Trust	22,56%
Expected lapse ratio for Batho Bonke Capital (Proprietary) Limited	0%
Dividend ratio	3,7%
Risk-free rate of return on a South African government five-year zero coupon bond	10,2%

**Volatility assumptions vary according to the bipolar distribution observed over five-year rolling periods (and eight years for Group Executive Committee members) up to the end of the financial period in which the grant occurs.*

***The exercise price is determined in accordance with the circular issued on 28 May 2004, as follows:*

If the 30-day volume-weighted average trading price on the JSE Limited of an ordinary share on the effective date of exercise of the option (option exercise date) is:

- *less than or equal to R70,00, then the option strike price is R48,00; or*
- *greater than R70,00 but less than or equal to R100,00, then the option strike price is R48,00 plus R0,70 for each complete R1,00 increment in the ordinary share price over R70,00; or*
- *greater than R100,00, then the option price is R69,00.*

The option strike price may be changed at the election of Absa, after consultation with Batho Bonke Capital (Proprietary) Limited, if there is a change as envisaged by the proposed new article 176, including a change in interpretation of accounting standards, which has the effect of any adjustments having to be made to the existing and/or any prior income statements and/or balance sheets and/or earnings per ordinary share and/or prior years' profits of Absa, to a fixed option strike price of R58,00 per ordinary share.

48. Share-based payments *(continued)*

An analysis of the movement in the number of shares and weighted average exercise price of options is set out below:

	Share Incentive Trust				Share Ownership Trust			
	Number 000's		Weighted average exercise price R		Number 000's		Weighted average exercise price R	
	31 December 2005	31 March 2005	**31 December 2005**	31 March 2005	**31 December 2005**	31 March 2005	**31 December 2005**	31 March 2005
Outstanding at the beginning of the period	**30 705**	33 965	**36,23**	31,24	**5 665**	—	**48 > 69**	—
Granted in the period	**4 347**	7 090	**91,48**	49,65	**—**	6 085	**—**	48 > 69
Less: exercised in the period	**9 606**	9 183	**30,50**	28,00	**—**	—	**—**	—
Less: forfeited in the period	**320**	1 167	**41,68**	34,35	**306**	420	**48 > 69**	48 > 69
Outstanding at the end of the period	**25 126**	30 705	**47,76**	36,74	**5 359**	5 665	**48 > 69**	48 > 69
Of which exercisable	**3 390**	6 667	**30,67**	29,42	**—**	—	**—**	—

	Batho Bonke Capital (Proprietary) Limited			
	Number 000's		Weighted average exercise price R	
	31 December 2005	31 March 2005	**31 December 2005**	31 March 2005
Outstanding at the beginning of the period	**73 152**	—	**48 > 69**	—
Granted in the period	**—**	73 152	**—**	48 > 69
Less: forfeited in the period	**—**	—	**48 > 69**	48 > 69
Less: expired in the period	**—**	—	**—**	—
Outstanding at the end of the period	**73 152**	73 152	**48 > 69**	48 > 69
Of which exercisable	**—**	—	**—**	—

The weighted average price of share options at the date of exercise is set out below:

	31 December 2005 R	31 March 2005 R
Share Incentive Trust	**82,54**	63,80
Share Ownership Trust	**n/a**	n/a
Batho Bonke Capital (Proprietary) Limited	**n/a**	n/a

48. Share-based payments *(continued)*

	31 December 2005				31 March 2005			
	Exercise price ranges R	**Weighted average contractual remaining life years**	**Weighted average fair value R**	**Number out-standing ’000**	Exercise price ranges R	Weighted average contractual remaining life years	Weighted average fair value R	Number out-standing ’000
Share Incentive Trust	**20,77 – 22,25**	**0,75**	*****	**115**	14,22 – 19,35	0.75	*	68
	27,75 – 38,05	**1,75**	*****	**215**	20,77 – 22,25	1,75	*	277
	17,85 – 43,92	**2,75**	*****	**254**	27,75 – 38,05	2,75	*	570
	33,78	**3,75**	*****	**554**	17,85 – 43,92	3,75	*	599
	21,16 – 36,19	**4,75**	*****	**712**	33,78	4,75	*	1 882
	24,74 – 39,27	**5,75**	*****	**3 336**	21,16 – 36,19	5,75	*	2 112
	27,05 – 35,97	**6,75**	*****	**4 958**	24,74 – 39,27	6,75	*	6 310
	32,00 – 46,05	**7,75**	*****	**4 239**	27,05 – 35,97	7,75	*	7 410
	44,36 – 73,35	**8,75**	**17,08**	**6 457**	32,00 – 46,05	8,75	11,76	4 626
	74,97 – 94,63	**9,75**	**26,84**	**4 284**	44,36 – 73,35	9,75	17,08	6 852
Share Ownership Trust	**48,00 – 69,00**	**3,50**	**14,76**	**5 359**	48,00 – 69,00	3,50	14,76	5 359
Batho Bonke Capital (Proprietary) Limited	**48,00 – 69,00**	**3,50**	**14,76**	**73 152**	48,00 – 69,00	3,50	14,76	73 152

All share-based payment arrangements are equity settled.

**There was no requirement under IFRS 1 to value the options in the prior period.*

	31 December 2005				
	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	11 516	3 440	87	—	15 043
Statutory liquid asset portfolio	—	7 240	9 049	—	16 289
Loans and advances to banks	4 602	—	—	—	4 602
Trading assets	22 530	272	28	—	22 830
Hedging derivative assets	—	309	645	62	1 016
Loans and advances to customers	36 882	49 624	82 429	153 162	322 097
Reinsurance assets	262	161	—	—	423
Other assets	1 842	4 829	—	91	6 762
Investments	1 116	9 150	2 148	345	12 759
Investments in associated undertakings and joint ventures	—	8	277	610	895
Intangible assets	—	6	66	119	191
Property and equipment	917	138	1 033	1 363	3 451
Current tax assets	4	13	—	—	17
Deferred tax assets	22	63	—	1	86
Clients' liabilities under acceptances	356	605	—	—	961
Total assets	80 049	75 858	95 762	155 753	407 422
Liabilities					
Deposits from banks	28 431	—	—	—	28 431
Trading liabilities	19 397	—	—	—	19 397
Hedging derivative liabilities	8	348	1 333	315	2 004
Deposits due to customers	116 014	166 386	9 949	7 949	300 298
Current tax liabilities	282	25	33	98	438
Liabilities under investment contracts	—	—	—	6 287	6 287
Policyholder liabilities under insurance contracts	1	477	143	2 115	2 736
Borrowed funds	—	383	—	6 100	6 483
Other liabilities and sundry provisions	2 018	7 805	815	1 186	11 824
Deferred tax liabilities	1 559	148	196	659	2 562
Liabilities to clients under acceptances	356	605	—	—	961
Total liabilities	168 066	176 177	12 469	24 709	381 421
Equity					
Capital and reserves attributable to the Group's equity holders:					
Share capital	—	—	—	1 327	1 327
Share premium	—	—	—	1 875	1 875
Other reserves	29	48	8	537	622
Distributable reserves	4 809	157	269	16 696	21 931
	4 838	205	277	20 435	25 755
Minority interest	—	—	—	246	246
Total equity	4 838	205	277	20 681	26 001
Total equity and liabilities	172 904	176 382	12 746	45 390	407 422
Net liquidity position	(92 855)	(100 524)	83 016	110 363	—

	31 March 2005				
	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	11 528	1 306	349	—	13 183
Statutory liquid asset portfolio	10	5 618	8 568	188	14 384
Loans and advances to banks	3 528	—	—	—	3 528
Trading assets	—	20 745	570	36	21 351
Hedging derivative assets	—	583	16	1	600
Loans and advances to customers	47 728	39 366	61 742	119 404	268 240
Reinsurance assets	—	—	—	320	320
Other assets	2 302	4 848	199	214	7 563
Investments	—	5 834	1 557	6 208	13 599
Investments in associated undertakings and joint ventures	152	—	192	263	607
Intangible assets	27	19	151	—	197
Property and equipment	282	404	1 199	1 324	3 209
Current tax assets	—	—	—	5	5
Deferred tax assets	—	127	33	23	183
Clients' liabilities under acceptances	192	—	—	—	192
Total assets	65 749	78 850	74 576	127 986	347 161
Liabilities					
Deposits from banks	24 370	—	—	—	24 370
Trading liabilities	1	18 597	1 229	201	20 028
Hedging derivative liabilities	—	1 495	99	16	1 610
Deposits due to customers	86 025	155 037	9 406	1 516	251 984
Current tax liabilities	—	192	301	—	493
Liabilities under investment contracts	—	385	—	3 940	4 325
Policyholder liabilities under insurance contracts	—	—	—	2 390	2 390
Borrowed funds	2 259	803	2 617	—	5 679
Other liabilities and sundry provisions	3 617	6 032	343	734	10 726
Deferred tax liabilities	—	588	697	574	1 859
Liabilities to clients under acceptances	192	—	—	—	192
Total liabilities	116 464	183 129	14 692	9 371	323 656
Equity					
Capital and reserves attributable to the Group's equity holders:					
Share capital	—	—	—	1 310	1 310
Share premium	—	—	—	1 611	1 611
Other reserves	76	14	4	289	383
Distributable reserves	3 934	717	197	15 121	19 969
	4 010	731	201	18 331	23 273
Minority interest	—	—	—	232	232
Total equity	4 010	731	201	18 563	23 505
Total equity and liabilities	120 474	183 860	14 893	27 934	347 161
Net liquidity position	(54 725)	(105 010)	59 683	100 052	—

	31 December 2005					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	12 269	313	342	538	1 581	15 043
Statutory liquid asset portfolio	16 289	—	—	—	—	16 289
Loans and advances to banks	4 602	—	—	—	—	4 602
Trading assets	20 272	—	—	2 558	—	22 830
Hedging derivative assets	1 016	—	—	—	—	1 016
Loans and advances to customers	304 316	13 237	1 217	2 971	356	322 097
Reinsurance assets	423	—	—	—	—	423
Other assets	6 442	3	84	187	46	6 762
Investments	11 483	629	29	136	482	12 759
Investments in associated undertakings and joint ventures	895	—	—	—	—	895
Intangible assets	177	—	—	—	14	191
Property and equipment	3 257	—	5	19	170	3 451
Current tax assets	17	—	—	—	—	17
Deferred tax assets	57	—	5	24	—	86
Clients' liabilities under acceptances	932	14	—	15	—	961
Total assets	382 447	14 196	1 682	6 448	2 649	407 422
Liabilities						
Deposits from banks	28 431	—	—	—	—	28 431
Trading liabilities	19 397	—	—	—	—	19 397
Hedging derivative liabilities	2 004	—	—	—	—	2 004
Deposits due to customers	275 922	13 237	560	5 456	5 123	300 298
Current tax liabilities	438	—	—	—	—	438
Liabilities under investment contracts	6 036	158	16	77	—	6 287
Policyholder liabilities under insurance contracts	2 736	—	—	—	—	2 736
Borrowed funds	6 483	—	—	—	—	6 483
Other liabilities and sundry provisions	10 829	34	39	265	657	11 824
Deferred tax liabilities	2 532	—	—	23	7	2 562
Liabilities to clients under acceptances	932	14	—	15	—	961
Total liabilities	355 740	13 443	615	5 836	5 787	381 421
Equity						
Capital and reserves attributable to the Group's equity holders:						
Share capital	1 327	—	—	—	—	1 327
Share premium	1 875	—	—	—	—	1 875
Other reserves	608	(4)	6	9	3	622
Distributable reserves	21 450	(158)	204	321	114	21 931
	25 260	(162)	210	330	117	25 755
Minority interest	197	—	—	1	48	246
Total equity	25 457	(162)	210	331	165	26 001
Total equity and liabilities	381 197	13 281	825	6 167	5 952	407 422
Gross currency position		915	857	281	(3 303)	(1 250)
Foreign currency derivative						1 972
Net currency position						722

annexure b: currency analysis

as at 31 March 2005

	31 March 2005					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	9 675	1 666	—	474	1 368	13 183
Statutory liquid asset portfolio	14 384	—	—	—	—	14 384
Loans and advances to banks	3 528	—	—	—	—	3 528
Trading assets	21 233	97	20	1	—	21 351
Hedging derivative assets	596	3	1	—	—	600
Loans and advances to customers	256 415	11 825	—	—	—	268 240
Reinsurance assets	320	—	—	—	—	320
Other assets	7 241	24	60	164	74	7 563
Investments	10 940	893	29	916	821	13 599
Investments in associated undertakings and joint ventures	607	—	—	—	—	607
Intangible assets	167	—	—	8	22	197
Property and equipment	3 028	3	27	7	144	3 209
Current tax assets	5	—	—	—	—	5
Deferred tax assets	127	1	37	18	—	183
Clients' liabilities under acceptances	74	33	—	85	—	192
Total assets	328 340	14 545	174	1 673	2 429	347 161
Liabilities						
Deposits from banks	24 363	—	—	—	7	24 370
Trading liabilities	19 973	36	18	—	1	20 028
Hedging derivative liabilities	1 606	3	1	—	—	1 610
Deposits due to customers	233 328	10 807	—	308	7 541	251 984
Current tax liabilities	468	5	15	—	5	493
Liabilities under investment contracts	4 325	—	—	—	—	4 325
Policyholder liabilities under insurance contracts	2 390	—	—	—	—	2 390
Borrowed funds	5 679	—	—	—	—	5 679
Other liabilities and sundry provisions	10 046	60	53	271	296	10 726
Deferred tax liabilities	1 827	—	—	24	8	1 859
Liabilities to clients under acceptances	74	33	—	85	—	192
Total liabilities	304 079	10 944	87	688	7 858	323 656
Equity						
Capital and reserves attributable to the Group's equity holders:						
Share capital	1 310	—	—	—	—	1 310
Share premium	1 611	—	—	—	—	1 611
Other reserves	376	(2)	3	5	1	383
Distributable reserves	19 582	(131)	169	288	61	19 969
	22 879	(133)	172	293	62	23 273
Minority interest	190	—	—	42	—	232
Total equity	23 069	(133)	172	335	62	23 505
Total equity and liabilities	327 148	10 811	259	1 023	7 920	347 161
Gross currency position		3 734	(85)	650	(5 491)	(1 192)
Foreign currency derivative						1 878
Net currency position						686

Introduction

The date of transition to IFRS is 1 April 2004, therefore the balance sheet at 31 March 2004 was restated on 1 April 2004 to reflect an opening position that is compliant with all existing IFRS standards and interpretations expected to be applicable on 31 December 2005, except for IAS 32, 39 and IFRS 4, which were applied prospectively from 1 April 2005, in terms of the transitional provisions of IFRS 1.

IFRS 1 – First-time adoption of IFRS

This standard allows a number of exemptions and exceptions from the retrospective application principle applicable to changes in accounting standards. Absa has elected the following IFRS exemptions on transition to IFRS:

- Fair value as deemed cost – Absa has elected, in relation to its owner-occupied property, to adopt the exemption and set the fair value at 1 April 2004 to be the deemed cost.
- Cumulative translation adjustment – Absa has elected to not set the foreign currency translation reserve to zero at the date of transition.
- Comparatives for financial instruments – Absa will apply IAS 39, IAS 32 – Dealing with financial instruments and the disclosure thereof and IFRS 4 – Insurance contracts, prospectively with effect from 1 April 2005. Where the disclosures contained in IFRS 4 were fundamental to the comparability of the financial statements, these disclosures, where practicable, have been restated.
- Designation of financial instruments – having adopted AC 133, there was no requirement to redesignate financial instruments on transition to IFRS.
- Share-based payments – Absa has elected not to apply IFRS 2 to any equity instruments that were granted before 7 November 2002 or to awards that were granted after that date but which had vested prior to 1 January 2005.

The impacts of changing from SA GAAP to IFRS, and the restatement of the balance sheet and income statement, and reconciliations of assets, liabilities and equity for the periods ended 31 March 2005 and 31 December 2005, are presented in the tables that follow.

Adjustments implemented with effect from 1 April 2004

1. IFRS 2 – Share-based payments

Absa issues share options to employees as part of its remuneration strategy. Under SA GAAP, the issue of such options, other than the administrative costs of running the share scheme, was not accounted for in the income statement. Under IFRS, the fair value of equity-settled share options is now expensed over the vesting period of such options. The options issued to eligible Absa staff members, that had not vested prior to 31 December 2004, have been accounted for under this standard.

In anticipation of the final international interpretation on IFRS 2, Absa has extended the scope of IFRS 2 to include the Group's black economic empowerment transaction.

The options issued to Batho Bonke Capital (Proprietary) Limited have vested prior to that date, as there were no conditions required, other than the elapse of time, before they could be exercised and therefore no expense is required. The treatment in the Group's results for the nine months ending 31 December 2005 was based on the final interpretation issued by IFRIC 8 (the interpretation committee of the international standard-setting body).

2. IFRS 3/IAS 36 – Goodwill

The South African statement dealing with business combinations, AC 140, which is the same as IFRS 3 – Business combinations, was applicable to the accounting for business combinations and any resultant goodwill for which the acquisition agreement date was on or after 31 March 2004. This SA GAAP statement was therefore applied in the financial year 1 April 2004 to 31 March 2005 and coincided with the Group's transition date. Accordingly, there is no impact on the restated transition position or income statement of the Group.

Goodwill amortisation ceased with effect from 1 April 2004 and goodwill is now tested annually for impairment.

3. IAS 16 – Property, plant and equipment

Absa continues to measure property, plant and equipment at cost less accumulated depreciation. However, under IFRS 1, the Group has elected, at the transition date, to set the fair value of property, which is principally owner-occupied, as the deemed cost. The fair value adjustment of fixed property revalued in terms of IFRS 1 was R298 million at 1 April 2004. This establishes a new base cost which will be depreciated on a straight-line basis over their estimated useful lives of the properties concerned.

4. IAS 17 – Leases

In August 2005, the South African Institute of Chartered Accountants issued circular 7/2005, which required South African entities to align their interpretation in relation to leases with recent guidance issued by IFRIC. This has resulted in operating lease contracts with fixed escalation clauses having to be expensed on a straight-line basis as opposed to the practice common in South Africa of expensing these based on the contractual terms of the agreement. The impact of this change is that lease revenue and expenses are recognised earlier than was the case under SA GAAP. This has resulted in higher lease costs for previously reported periods with a reduction in the opening retained income at 1 April 2004.

As part of this alignment to a global interpretation of accounting standards, certain leasing transactions within the Group have been reviewed. The consequence of this alignment is that certain leases, which were previously reported as operating leases, have been reclassified as finance leases. This has resulted in a gross-up of the balance sheet with the asset and related liability being brought on balance sheet with a net adjustment to opening retained income at 1 April 2004.

5. IAS 18 – Revenue

Previously, certain fees charged and costs incurred in the origination of an asset were recognised and/or expensed immediately. Under IFRS, fees charged are required to be recognised as revenue over the period the service is provided, and certain costs are deferred and recognised when the related revenue is accounted for. This relates to items such as guarantee fees, commission on the sale of certain policies and card-issuing fees.

6. IAS 27 – Consolidation

6.1 Consolidation of mutual funds

IFRS requires the consolidation of certain mutual funds (unit trusts) where the Group or an entity within the Group (Absa Life) is considered to have control of such funds through the size of their investment, voting arrangements and related management contracts. The consolidation of such funds results in a gross-up of the balance sheet and has no impact on equity. The consolidation of such funds is the subject of industry debate both locally and internationally, and the progress in this regard is being monitored.

6.2 Line-by-line consolidation

Furthermore, IFRS requires that entities be consolidated on a line-by-line basis. Previously, in South Africa, a number of different treatments of life assurance operations in consolidated financial statements emerged, as the SA GAAP statement dealing with long-term insurers was not prescriptive. A line-by-line consolidation has now been performed, but this has no impact on equity or on previously reported earnings figures. However, certain ratios, such as the cost-to-income ratio is affected. For future reporting, the income in relation to premiums and the cost in relation to claims will be separately disclosed in the income statement.

Adjustments implemented with effect from 1 April 2005

7. IAS 39/IAS 32 – Financial instruments: recognition and measurement and disclosure and presentation

7.1 Effective interest rate on loans

The previous South African version of IAS 39 (AC 133 – Financial instruments recognition and measurement) required that fees earned and/or costs incurred in the origination of an asset be included in the effective interest rate of that asset. The most significant item in this regard is the fees paid to mortgage originators. On adoption of AC 133, Absa applied a prudent approach of expensing these costs over four years with 55% in the first year. On transition to IFRS, with the benefit of hindsight in relation to the origination market and the refinement of methodologies to more closely align with Barclays, an adjustment was required to opening retained income at 1 April 2005. The outcome is that originators' costs are now spread over five years on a basis that approximates the effective interest rate on a portfolio approach.

7.2 Credit impairments

Previously, the Group determined its portfolio impairment applying an expected loss methodology, which entailed estimating the expected future cash flows over the expected remaining maturity of the loans and present valuing these at the original contract rate, modified for a credit spread.

Under IAS 39, an incurred loss methodology is required. Under this methodology, impairment losses are only incurred if there is objective evidence that a loss event has occurred after the initial recognition of the asset but before the balance sheet date. IFRS also allows for the creation of a credit impairment for incurred but not yet reported losses in order to provide for latent losses in a loan portfolio that have not yet been identified individually. The effect of this change in methodology has resulted in a reduction in the portfolio provision with a corresponding increase in retained earnings at 1 April 2005.

7.3 Remeasurement of client liabilities

The application of IFRS has resulted in certain client obligations being remeasured to reflect the entire legal obligation. This differs from the previous approach, which only reflected management's best estimate of the expected obligation that would realise. This also facilitates alignment with Barclays policy in this regard.

7.4 Elimination of treasury shares in policyholder funds

To date, in South African life insurance accounting, assets held on behalf of policyholders were considered to be ringfenced for their benefit. Under IFRS, any shares held by the life fund in Group companies are required to be eliminated as treasury shares, notwithstanding the fact that the risks and rewards of these shares accrue to the policyholders.

As a result of the issuance of IFRS 4, the standard dealing with insurance contracts, the SA GAAP statement dealing with long-term insurance was withdrawn. Assets are now subject to IAS 39 and IAS 32, and are accounted for as equity instruments. Under IAS 32, the cost of such shares is now eliminated against equity and any fair value movements are eliminated from the income statement.

This treatment results in a mismatch arising between the policyholder liabilities and the policyholder assets (which are now reduced under this treatment), which is charged against equity.

8. IFRS 4 – Accounting for insurance contracts

On adoption of AC 133, Absa was required to separate insurance from investment contracts. Investment contracts fall within the scope of AC 133 (IAS 39), whereas insurance contracts now fall within the ambit of IFRS 4, which allows for existing measurement principles to continue to be applied, however, with expanded disclosure requirements. These new disclosure requirements, which include the gross-up of reinsurance assets, will be applied prospectively as allowed under IFRS 1.

Balance sheet

	Group		
	IFRS after adoption of IAS 32 and 39 and IFRS 4, 1 April 2005 Rm	Remeasured Rm	IFRS 1 April 2005 Rm
Assets			
Cash and short-term assets	—	—	—
Money market assets	—	—	—
Capital market assets	—	—	—
Cash, cash balances and balances with central banks	13 183	—	13 183
Statutory liquid asset portfolio	14 384	—	14 384
Loans and advances to banks	3 528	—	3 528
Trading assets	21 351	—	21 351
Hedging derivative assets	600	—	600
Derivative and trading assets	—	—	—
Loans and advances to customers	268 242	2	268 240
Reinsurance assets	320	—	320
Other assets	7 563	—	7 563
Investments	13 537	(62)	13 599
Investments in associated undertakings and joint ventures	607	—	607
Intangible assets	197	—	197
Goodwill	—	—	—
Property and equipment	3 209	—	3 209
Current tax assets	5	—	5
Deferred tax assets	183	—	183
Clients' liabilities under acceptances	192	—	192
Total assets	347 101	(60)	347 161
Liabilities			
Deposits from banks	24 370	—	24 370
Trading liabilities	20 028	—	20 028
Hedging derivative liabilities	1 610	—	1 610
Derivative and trading liabilities	—	—	—
Deposits due to customers	252 267	283	251 984
Current tax liabilities	502	9	493
Insurance funds	—	—	—
Liabilities under investment contracts	4 325	—	4 325
Policyholder liabilities under insurance contracts	2 390	—	2 390
Borrowed funds	5 679	—	5 679
Provisions	—	—	—
Other liabilities and sundry provisions	10 726	—	10 726
Deferred tax liabilities	1 850	(9)	1 859
Liabilities to clients under acceptances	192	—	192
Total liabilities	323 939	283	323 656
Equity			
Capital and reserves attributable to the Group's equity holders			
Share capital	1 308	(2)	1 310
Share premium	1 571	(40)	1 611
Reserves	(301)	(301)	—
Other reserves	383	—	383
Distributable reserves	19 969	—	19 969
	22 930	(343)	23 273
Minority interest	232	—	232
Total equity	23 162	(343)	23 505
Total equity and liabilities	347 101	(60)	347 161

Balance sheet

	Group			
	IFRS 31 March 2005 Rm	Reclassified Rm	Remeasured Rm	SA GAAP 31 March 2005 Rm
Assets				
Cash and short-term assets	—	(15 250)	66	15 184
Money market assets	—	(5 002)	—	5 002
Capital market assets	—	(5 940)	—	5 940
Cash, cash balances and balances with central banks	13 183	13 183	—	—
Statutory liquid asset portfolio	14 384	—	—	14 384
Loans and advances to banks	3 528	3 528	—	—
Trading assets	21 351	21 351	—	—
Hedging derivative assets	600	600	—	—
Derivative and trading assets	—	(18 534)	—	18 534
Loans and advances to customers	268 240	—	—	268 240
Reinsurance assets	320	320	—	—
Other assets	7 563	(679)	85	8 157
Investments	13 599	4 519	668	8 412
Investments in associated undertakings and joint ventures	607	—	3	604
Intangible assets	197	139	—	58
Goodwill	—	(139)	—	139
Property and equipment	3 209	—	526	2 683
Current tax asset	5	—	—	5
Deferred tax assets	183	2	—	181
Clients' liabilities under acceptances	192	(971)	—	1 163
Total assets	347 161	(2 873)	1 348	348 686
Liabilities				
Deposits from banks	24 370	24 370	—	—
Trading liabilities	20 028	20 028	—	—
Hedging derivative liabilities	1 610	1 610	—	—
Derivative and trading liabilities	—	(21 638)	—	21 638
Deposits due to customers	251 984	(26 598)	—	278 582
Current tax liability	493	4	—	489
Insurance funds	—	(5 964)	—	5 964
Liabilities under investment contracts	4 325	4 325	—	—
Policyholder liabilities under insurance contracts	2 390	2 390	—	—
Borrowed funds	5 679	89	—	5 590
Provisions	—	(1 509)	—	1 509
Other liabilities and sundry provisions	10 726	989	2 014	7 723
Deferred tax liabilities	1 859	2	(206)	2 063
Liabilities to clients under acceptances	192	(971)	—	1 163
Total liabilities	323 656	(2 873)	1 808	324 721
Equity				
Capital and reserves attributable to the Group's equity holders				
Share capital	1 310	—	—	1 310
Share premium	1 611	—	—	1 611
Reserves	—	(20 312)	(504)	20 816
Other reserves	383	343	40	—
Distributable reserves	19 969	19 969	—	—
	23 273	—	(464)	23 737
Minority interest	232	—	4	228
Total equity	23 505	—	(460)	23 965
Total equity and liabilities	347 161	(2 873)	1 348	348 686

Income statement

	Group			
	IFRS 31 March 2005 Rm	Reclassified Rm	Remeasured Rm	SA GAAP 31 March 2005 Rm
Net interest income	10 431	(133)	—	10 564
Interest and similar income	26 937	(195)	—	27 132
Interest expense and similar charges	(16 506)	62	—	(16 568)
Impairment losses on loans and advances	(1 284)	(1)	—	(1 283)
	9 147	(134)	—	9 281
Net fee and commission income	8 920	8 920	—	—
Fee and commission income	9 703	9 703	—	—
Fee and commission expense	(783)	(783)	—	—
Net insurance premium income	2 051	2 051	—	—
Insurance premium revenue	2 341	2 341	—	—
Premiums ceded to reinsurers	(290)	(290)	—	—
Net claims and benefits paid	(929)	(929)	—	—
Gross claims and benefits paid on insurance contracts	(1 023)	(1 023)	—	—
Reinsurance recoveries	94	94	—	—
Non-interest income	—	(11 898)	(16)	11 914
Changes in insurance and investment liabilities	(668)	(668)	—	—
Gains and losses from banking and trading activities	870	870	—	—
Gains and losses from investment activities	1 228	1 228	—	—
Other operating income	696	696	—	—
Net operating income	21 315	136	(16)	21 195
Operating expenses	(13 708)	66	(96)	(13 678)
Operating expenses	(12 785)	72	(96)	(12 761)
Impairments	(118)	19	—	(137)
Indirect taxation	(805)	(25)	—	(780)
Share of profit of associated undertakings and joint venture companies	59	(59)	2	116
Operating income before income tax	7 666	143	(110)	7 633
Taxation expense	(2 172)	(143)	20	(2 049)
Profit for the period	5 494	—	(90)	5 584
Attributable to:				
Equity holders of the Group	5 419	—	(91)	5 510
Minority interest	75	—	1	74
	5 494	—	(90)	5 584
Headline earnings	5 394	—	(90)	5 484

IFRS reconciliation of assets, liabilities and equity

	Group		
	1 April 2005 Rm	31 March 2005 Rm	1 April 2004 Rm
Assets			
As previously reported	347 161	348 686	
IFRS adjustments	(60)	(1 525)	
IAS 16 – Fair value as deemed cost	—	315	
IAS 17 – Finance leases	—	211	
IAS 17 – Operating leases	—	23	
IAS 18 – Revenue recognition	—	26	
IAS 27 – Consolidation of unit trust	—	770	
IAS 39 – Effective interest rate	(130)	—	
IAS 39 – Credit impairments	132	—	
IAS 32 – Treasury shares in Life company	(62)	—	
Other	—	3	
Reclassification of disclosures	—	(2 873)	
Restated under IFRS	347 101	347 161	—
Liabilities			
As previously reported	323 656	324 721	
IFRS adjustments	283	(1 065)	
IAS 16 – Fair value as deemed cost	—	86	
IAS 17 – Finance leases	—	702	
IAS 17 – Operating leases	—	170	
IAS 18 – Revenue recognition	—	79	
IAS 27 – Consolidation of unit trust	—	770	
IAS 39 – Effective interest rate	(38)	—	
IAS 39 – Impairments	38	—	
IAS 39 – Remeasurement of financial liabilities	283	—	
Other	—	1	
Reclassification of disclosures	—	(2 873)	
Restated under IFRS	323 939	323 656	—
Equity			
As previously reported	23 505	23 965	19 521
IFRS adjustments	(343)	(460)	(409)
IAS 16 – Fair value as deemed cost	—	229	236
IAS 17 – Finance leases	—	(491)	(464)
IAS 17 – Operating leases	—	(146)	(139)
IAS 18 – Revenue recognition	—	(52)	(42)
IAS 39 – Effective interest rate	(91)	—	—
IAS 39 – Credit impairments	93	—	—
IAS 39 – Remeasurement of financial liabilities	(283)	—	—
IAS 32 – Treasury shares in Life company	(62)	—	—
Other	—	—	—
Restated under IFRS	23 162	23 505	19 112

annexure d: segment reporting – per geographical segment

	31 December 2005				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia Rm	Total Rm
Net interest income	9 144	263	211	29	9 647
Impairment of advances	(513)	(12)	(14)	(30)	(569)
Non-interest income	9 489	229	340	10	10 068
Operating expenditure	(10 658)	(348)	(370)	(62)	(11 438)
Taxation and other	(2 723)	(43)	(43)	3	(2 806)
Headline earnings	4 739	89	124	(50)	4 902
Advances	314 262	1 786	5 923	126	322 097
Deposits and current accounts	286 002	4 088	10 197	11	300 298
Total assets	389 424	5 387	12 159	452	407 422
Capital expenditure	1 356	—	—	—	1 356

	31 March 2005				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia Rm	Total Rm
Net interest income	9 938	228	204	61	10 431
Impairment of advances	(1 108)	(20)	(263)	107	(1 284)
Non-interest income	11 336	185	577	70	12 168
Operating expenditure	(12 053)	(314)	(369)	(49)	(12 785)
Taxation and other	(3 127)	(8)	5	(6)	(3 136)
Headline earnings	4 986	71	154	183	5 394
Advances	257 707	1 160	6 775	2 598	268 240
Deposits and current accounts	233 402	3 168	12 760	2 654	251 984
Total assets	321 811	4 390	16 233	4 727	347 161
Capital expenditure	787	27	3	2	819

	Retail		Commercial		Wholesale	
	31 December 2005	31 March 2005	**31 December 2005**	31 March 2005	**31 December 2005**	31 March 2005
Income statement (Rm)						
Net interest income	**4 916**	5 771	**3 373**	3 550	**1 044**	958
Net interest income – external	**9 060**	9 916	**4 646**	4 937	**(4 649)**	(4 753)
Net interest income – internal	**(4 144)**	(4 145)	**(1 273)**	(1 387)	**5 693**	5 711
Impairment of advances	**(128)**	(355)	**(331)**	(639)	**(195)**	(267)
Non-interest income	**4 548**	5 452	**1 498**	1 861	**1 414**	1 735
Depreciation and amortisation	**(38)**	(51)	**(5)**	(9)	**(18)**	(17)
Other operating expenditure	**(5 968)**	(7 008)	**(2 453)**	(2 665)	**(1 428)**	(1 513)
Equity-accounted earnings	**(1)**	2	**55**	—	**—**	1
Taxation and other	**(1 193)**	(1 403)	**(843)**	(695)	**(148)**	(54)
Attributable earnings	**2 136**	2 408	**1 294**	1 403	**669**	843
Headline earnings	**2 136**	2 397	**1 294**	1 403	**669**	843
Balance sheet (Rm)						
Total assets	**221 762**	182 733	**114 469**	102 038	**258 701**	214 188
Total assets – external	**165 806**	133 225	**91 134**	78 529	**122 901**	111 440
Total assets – internal	**55 956**	49 508	**23 335**	23 509	**135 800**	102 748
Total advances	**164 940**	132 206	**88 248**	76 115	**66 100**	58 071
Investment in associates	**16**	28	**232**	177	**37**	14
Total deposits and current accounts	**70 448**	62 745	**53 777**	50 565	**171 551**	135 202
Total liabilities	**214 388**	177 636	**107 005**	96 367	**251 976**	207 729
Total liabilities – external	**72 628**	64 951	**56 577**	54 246	**228 597**	186 146
Total liabilities – internal	**141 760**	112 685	**50 428**	42 121	**23 379**	21 583
Financial performance (%)						
Return on average equity	**41,0**	39,9	**26,2**	27,9	**14,0**	14,8
Return on average assets, excluding acceptances	**1,57**	1,42	**1,73**	1,49	**0,59**	0,45
Operating performance (%)						
Net interest margin on average assets	**3,23**	3,43	**4,14**	3,77	**0,59**	0,59
Charge for impairment of advances to average advances	**0,11**	0,30	**0,53**	0,92	**0,42**	0,49
Non-interest income as a percentage of operating income	**48,1**	48,6	**30,7**	34,4	**57,5**	58,8
Cost-to-income ratio	**63,5**	62,9	**50,5**	49,4	**58,8**	56,8
Cost-to-assets ratio	**3,9**	4,2	**3,0**	2,8	**0,8**	0,8

	African operations*		Financial services		Other	
	31 December 2005	31 March 2005	31 December 2005	31 March 2005	31 December 2005	31 March 2005
Income statement (Rm)						
Net interest income	263	229	266	333	(215)	(410)
Net interest income – external	277	248	266	333	47	(250)
Net interest income – internal	(14)	(19)	—	—	(262)	(160)
Impairment of advances	(12)	(20)	(3)	(3)	100	—
Non-interest income	229	185	2 057	2 051	322	884
Depreciation and amortisation	(28)	(26)	(11)	(14)	(464)	(618)
Other operating expenditure	(320)	(288)	(657)	(763)	(48)	187
Equity-accounted earnings	34	59	—	28	13	(31)
Taxation and other	(76)	(65)	(577)	(340)	(196)	(613)
Attributable earnings	90	74	1 075	1 292	(488)	(601)
Headline earnings	90	71	1 075	1 127	(362)	(447)
Balance sheet (Rm)						
Total assets	5 387	4 390	17 022	13 279	18 250	21 906
Total assets – external	5 383	4 387	16 912	13 279	5 286	6 301
Total assets – internal	4	3	110	—	12 964	15 605
Total advances	1 786	1 160	93	167	930	521
Investment in associates	320	245	—	—	290	142
Total deposits and current accounts	4 088	3 168	—	—	434	304
Total liabilities	4 703	3 814	13 486	10 017	18 032	19 466
Total liabilities – external	4 385	3 504	12 441	8 480	6 793	6 329
Total liabilities – internal	318	310	1 045	1 537	11 239	13 137
Financial performance (%)						
Return on average equity	16,9	13,8	42,0	38,5	n/a	n/a
Return on average assets, excluding acceptances	2,09	1,74	9,46	9,41	n/a	n/a
Operating performance (%)						
Net interest margin on average assets	7,15	5,30	n/a	n/a	n/a	n/a
Charge for impairment of advances to average advances	0,79	1,82	n/a	n/a	n/a	n/a
Non-interest income as percentage of operating income	46,6	44,7	88,5	92,7	n/a	n/a
Cost-to-income ratio	70,6	74,9	28,8	33,0	n/a	n/a
Cost-to-assets ratio	9,4	7,2	5,9	5,8	n/a	n/a

**The African operations segment contains products of both a retail and commercial nature. These have been separately disclosed as the Group manages its business on this basis and therefore this disclosure provides the user with more useful information.*

	Absa Group 31 December 2005	Absa Group 31 March 2005
Income statement (Rm)		
Net interest income	9 647	10 431
Net interest income – external	9 647	10 431
Net interest income – internal	—	—
Impairment of advances	(569)	(1 284)
Non-interest income	10 068	12 168
Depreciation and amortisation	(564)	(735)
Other operating expenditure	(10 874)	(12 050)
Equity-accounted earnings	101	59
Taxation and other	(3 033)	(3 170)
Attributable earnings	4 776	5 419
Headline earnings	4 902	5 394
Balance sheet (Rm)		
Total assets	635 591	538 534
Total assets – external	407 422	347 161
Total assets – internal	228 169	191 373
Total advances	322 097	268 240
Investment in associates	895	607
Total deposits and current accounts	300 298	251 984
Total liabilities	609 590	515 029
Total liabilities – external	381 421	323 656
Total liabilities – internal	228 169	191 373
Financial performance (%)		
Return on average equity	26,5	25,3
Return on average assets, excluding acceptances	1,73	1,65
Operating performance (%)		
Net interest margin on average assets	3,36	3,25
Charge for impairment of advances to average advances	0,26	0,52
Non-interest income as percentage of operating income	51,1	53,8
Cost-to-income ratio	58,0	56,6
Cost-to-assets ratio	3,1	3,3

	Absa Private Bank*		Retail Banking Services		Flexi Banking Services	
	31 December 2005	31 March 2005	**31 December 2005**	31 March 2005	**31 December 2005**	31 March 2005
Retail banking						
Headline earnings (Rm)	**153**	221	**355**	404	**200**	203
Total assets (Rm)	**20 910**	18 106	**5 243**	5 076	**1 192**	774
Total advances (Rm)	**20 672**	18 040	**5 223**	5 058	**918**	497
Total deposits and current accounts (Rm)	**16 354**	14 281	**32 504**	30 352	**5 909**	3 991
Return on average equity (%)	**17,6**	22,4	**93,6**	79,1	**226,6**	202,9
Cost-to-income ratio (%)	**69,0**	65,1	**78,0**	78,8	**76,1**	77,7

	Absa Home Loans**		Absa Card		Small Business	
	31 December 2005	31 March 2005	**31 December 2005**	31 March 2005	**31 December 2005**	31 March 2005
Retail banking						
Headline earnings (Rm)	**793**	838	**385**	441	**250**	290
Total assets (Rm)	**128 245**	99 924	**6 910**	5 448	**3 306**	3 897
Total advances (Rm)	**128 191**	99 851	**6 630**	5 161	**3 306**	3 599
Total deposits and current accounts (Rm)	**—**	—	**2 230**	2 047	**13 451**	12 074
Return on average equity (%)	**20,9**	22,6	**106,3**	113,5	**102,9**	90,1
Cost-to-income ratio (%)	**42,4**	37,7	**45,5**	44,6	**68,6**	69,9

	Total	
	31 December 2005	31 March 2005
Retail banking		
Headline earnings (Rm)	**2 136**	2 397
Total assets (Rm)	**165 806**	133 225
Total advances (Rm)	**164 940**	132 206
Total deposits and current accounts (Rm)	**70 448**	62 745
Return on average equity (%)	**41,0**	39,9
Cost-to-income ratio (%)	**63,5**	62,9

	Business Banking Services		Absa Vehicle and Asset Finance		Total	
	31 December 2005	31 March 2005	**31 December 2005**	31 March 2005	**31 December 2005**	31 March 2005
Commercial banking						
Headline earnings (Rm)	**764**	844	**530**	559	**1 294**	1 403
Total assets (Rm)	**39 202**	34 272	**51 932**	44 257	**91 134**	78 529
Total advances (Rm)	**37 210**	32 799	**51 038**	43 316	**88 248**	76 115
Total deposits and current accounts (Rm)	**50 858**	47 700	**2 919**	2 865	**53 777**	50 565
Return on average equity (%)	**35,0**	38,4	**19,2**	19,7	**26,2**	27,9
Cost-to-income ratio (%)	**52,3**	50,8	**47,6**	47,2	**50,5**	49,4

**Includes the results of Personal Financial Services.*

***Includes the results of repossessed properties.*

These results are after the allocation of all head office and support charges.

Capital is allocated based on a Basel I risk-weighted assets calculation. As a consequence, business units that have relatively lower asset levels attract a lower capital requirement.

Detailed information on the associated undertakings of the Group

Name	Nature of business
CBZ Holdings Limited	A commercial bank that provides primarily retail and commercial banking services from a network of branches, sub-branches and agencies.
Capricorn Investment Holdings Limited	Financial services institution, providing primarily retail and commercial banking services in Namibia with a network of branches and ATMs.
Conbros Limited	Provides offshore loan facilities. Currently winding down.
FFS Finance South Africa (Proprietary) Limited	Provides financing solutions to Ford Motor Company customers.
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.
MAN Financial Services (S.A.) (Proprietary) Limited	Joint venture between Absa Bank and MAN Financial Services GmbH for the financing of trucks and buses.
Unitrans Finance (Proprietary) Limited	Strategic alliance between Absa Bank and Unitrans Motors.
Blake and Associates Holdings (Proprietary) Limited	Provides debt recovery management and operates an international call centre.
Maravedi Group (Proprietary) Limited	Provides debtor management.
Paramount Property Fund Limited	Property investment company with investments in retail, industrial and commercial properties in South African major centres.
Lynmor Trading Company (Proprietary) Limited	Property development.
Alamo Trading Company (Proprietary) Limited	Property development.
Banco Comercial Angolano	A commercial bank that provides retail and commercial banking services from a network of branches.
Absa Corob Trust Joint Venture	Acquires immovable property for investments.
Sanlam Home Loans (Proprietary) Limited	Manages and administers the granting of loans as well as secure funding for these loans.
Stonehage Financial Services Holdings Limited	Provides individualised wealth protection and preservation services to high net worth individuals. Absa's holding has been sold.
Sage Group Limited	Provides life assurance, investment and unit trust management activities to customers. Sold during the nine months.

Detailed information on the associated undertakings of the Group

	31 December 2005	
Name	**Country of incorporation**	**Carrying values**
CBZ Holdings Limited**[(4)]	Zimbabwe	—
Capricon Investment Holdings Limited*[(3)]	Namibia	280
Conbros Limited	Isle of Man	37
FFS Finance South Africa (Proprietary) Limited	South Africa	199
Meeg Bank Limited**[(2)]	South Africa	26
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa	30
Unitrans Finance (Proprietary) Limited	South Africa	3
Blake and Associates Holdings (Proprietary) Limited**	South Africa	8
Maravedi Group (Proprietary) Limited***	South Africa	8
Paramount Property Fund Limited****	South Africa	245
Lynmor Trading Company (Proprietary) Limited	South Africa	11
Alamo Trading Company (Proprietary) Limited	South Africa	—
Banco Comercial Angolano	Angola	45
Absa Corob Trust Joint Venture*****	South Africa	—
Sanlam Home Loans (Proprietary) Limited	South Africa	3
		895

	31 March 2005	
Name	Country of incorporation	Carrying values
CBZ Holdings Limited**[(4)]	Zimbabwe	3
Capricon Investment Holdings Limited*[(3)]	Namibia	245
Conbros Limited	Isle of Man	37
FFS Finance South Africa (Proprietary) Limited	South Africa	153
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa	21
Unitrans Finance (Proprietary) Limited	South Africa	3
Blake and Associates Holdings (Proprietary) Limited**	South Africa	9
Sanlam Home Loans (Proprietary) Limited	South Africa	11
Stonehage Financial Services Holdings Limited	United Kingdom	—
Sage Group Limited[(1)]	South Africa	125
		607

Details are given in respect of companies that are material to the proper appreciation of the affairs of the Group.

All companies are registered in South Africa unless otherwise indicated.

**30 June year-end.*

***31 March year-end.*

****31 August year-end.*

*****31 October year-end.*

******28 February year-end.*

(1) Sage Group Limited was sold during the nine months.

(2) Meeg Bank Limited was recorded as a subsidiary in the prior year.

(3) Capricon Investment Holdings Limited was previously known as Bank Windhoek Holdings Limited.

(4) Absa exchanged its shares in the Commercial Bank of Zimbabwe Limited to CBZ Holdings Limited.

The adjusted share of attributable income after dividends amounted to R13 million (March 2005: R108 million). The balance sheet figures for the March 2005 financial years were adjusted for inflation.

	31 December 2005			
Assets	**Liabilities**	**Profit/(loss)**	**Loans (from)/to entities**	**% interest held**
368	**330**	**(2)**	**—**	**24**
6 540	**5 784**	**36**	**—**	**35**
46	**11**	**—**	**(28)**	**100**
7 483	**7 073**	**44**	**3 016**	**50**
948	**913**	**—**	**—**	**50**
1 428	**1 368**	**10**	**1 122**	**50**
12	**3**	**—**	**(4)**	**35**
42	**18**	**(1)**	**10**	**28**
64	**63**	**—**	**—**	**45**
1 392	**1 238**	**18**	**—**	**28**
68	**41**	**4**	**—**	**20**
1	**1**	**—**	**—**	**50**
—	**—**	**—**	**—**	**50**
25	**25**	**—**	**—**	**50**
2 092	**2 077**	**(8)**	**—**	**50**
20 509	**18 944**	**101**	**4 116**	

	31 March 2005			
Assets	Liabilities	Profit/(loss)	Loans (from)/to entities	% interest held
2 768	2 382	2	—	26
5 168	4 458	40	—	35
45	12	1	(28)	100
5 471	5 150	10	2 871	50
1 265	1 225	7	904	50
91	83	2	16	35
31	13	2	1	28
376	355	(8)	—	50
—	—	28	—	50
8 970	8 895	(6)	—	21
24 185	22 573	78	3 764	

Detailed information on the subsidiaries of the Group

Name	Nature of business
Banking related	
Absa Bank Limited and its major divisions/subsidiaries	
Retail banking	
Segment-focused business units	
Absa Private Bank	Offers banking and wealth management services to the affluent market.
Retail Banking Services	Provides customer-centric financial solutions to middle-market customers.
Flexi Banking Services	Provides affordable and appropriate financial services to the lower income segment of the market.
UB Micro Loans Limited	Provides microlending services to the underbanked market.
Small Business	Offers a comprehensive range of commercial banking products and services to small business customers.
Product-focused business units	
Absa Card	Provides global card acceptance, electronic payment and financial solutions in selected market segments.
Absa Home Loans	Offers innovative products and services to suit the needs of residential property customers.
Shared services	
Delivery Channel Services	Provides the physical and electronic delivery footprint to the Group's customers.
Commercial banking	
Business Banking Services	Offers a comprehensive range of commercial banking products and services to medium and large business customers.
Absa Vehicle and Asset Finance (AVAF)	Offers asset-based finance through customised products and services ranging from tax-efficient finance and insurance to financial packages structured to suit the customer's particular needs.
Wholesale banking	
Absa Corporate and Merchant Bank	Provides corporate and merchant banking solutions to the corporate market segment.
Absa Bank London	Offers a range of niche corporate and merchant banking and treasury products and services to selected customer bases.
Absa Bank Singapore*	Offers a range of niche corporate and merchant banking and treasury products and services to selected customer bases.
Bankhaus Wölbern and Co.**	Provides commercial banking and closed-end property investments products to predominantly high-net-worth customers.
Absa Bank (Asia) Limited*	Offers a range of niche corporate and merchant banking and treasury products and services to selected customer bases.
Absa Development Company Holdings (Proprietary) Limited	Specialises in township development and the sale of residential, commercial and industrial land.
Absa Debtor Finance (Proprietary) Limited	Provides debtor financing to business customers.
Woodbook Finance Limited (previously MLS Bank Limited)	Markets and delivers a range of banking and insurance products to medical and dental practitioners and private hospitals in South Africa.
Absa Manx Holdings Limited	Captive insurance company for the Group and responsible for investment in the insurance markets.
Absa Syndicate Investments Holdings Limited	It is a corporate member of Lloyd's based in London. It underwrites on ten syndicates and had a premium income limit of £24 million for 2005.
Absa Stockbrokers (Proprietary) Limited	Enables customers to trade online or by telephone in shares, warrants and exchange-traded funds (EFTs).
Abvest Holdings (Proprietary) Limited	An institutional asset management company that offers fixed income, equity, structured products and alternative investment solutions to customers through various pooled and segregated investment mandates.
AllPay Consolidated Investment Holdings (Proprietary) Limited	Distributes social security grants and other payments to beneficiaries on behalf of third parties, mainly provincial government departments.
Alpha Trust	Provides preference share funding.

In the process of being closed down.
**Sold conditional on German and South African regulatory approval.*

Country of incorporation	Issued capital 31 December 2005 Rm	Direct holding 31 December 2005 %	Shares at book value 31 December 2005 Rm	Shares at book value 31 March 2005 Rm	Net indebtedness 31 December 2005 Rm	Net indebtedness 31 March 2005 Rm
	302	100	6 546	3 469	(1 902)	(1 725)
South Africa						
South Africa						
South Africa						
South Africa						
South Africa						
South Africa						
South Africa						
South Africa						
South Africa						
South Africa						
South Africa						
London						
Singapore						
Germany						
Hong Kong						
South Africa	—	100	14	33	(108)	(3)
South Africa	—	100	—	—	780	761
South Africa	—	100	75	76	91	—
Isle of Man	—	100	436	436	(736)	—
United Kingdom						
South Africa	—	100	—	—	612	1 213
South Africa	—	90	68	68	—	—
South Africa	—	100	—	—	1 558	1 383
South Africa	n/a	100	500	500	—	—

Detailed information on the subsidiaries of the Group

Name	Nature of business
Banking related	
Cars1 (Proprietary) Limited	Securitisation vehicle for Absa Vehicle and Asset Finance division.
UniFer Holdings Limited	Microlending holding company.
Banco Austral, Sarl	Commercial bank that provides retail and limited corporate services from a network of branches, ATMs and savings posts.
National Bank of Commerce Limited	Commercial bank that provides retail and limited corporate services from a national network of branches, agencies and ATMs.
Absa Trading and Investment Solutions Holdings Limited	Investment bank holding company.
Asset Backed Collateralised Securities (Proprietary) Limited (Abacus)	Securitisation vehicle for the Specialised Finance division.
Financial services	
Absa Financial Services Limited and its major subsidiaries:	
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.
Absa Life Limited	Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments.
Absa Brokers (Proprietary) Limited	Provides a full spectrum of financial advisory services ranging from risk management to wealth creation, and preservation and estate planning.
Absa Trust Limited	Main activities include the drafting and safe custody of wills, the administration of deceased estates and trusts, portfolio management, and estate and financial planning.
Absa Consultants and Actuaries (Proprietary) Limited	Offers comprehensive administrative, actuarial and consulting services, including asset consulting services in respect of pension funds, provident funds and other employee benefit group schemes.
Absa Fund Managers Limited	Offers a variety of unit trust investment products, ranging from low-risk, fixed-interest funds such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.
Absa Mortgage Fund Managers (Proprietary) Limited	Provides loans to small and large companies, close corporations trusts, property investors and developers for the development, acquisition or refinancing of income-producing commercial and industrial property.
Absa Investment Management Services (Proprietary) Limited	Approved investment manager and linked investment service provider. It offers off-the-shelf local and international linked investment products, as well as investment solutions to suit specific needs.
Share trusts	
Absa Group Limited Share Incentive Trust	Share purchase and option scheme to senior staff.
Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust	Share purchase and option scheme to all staff.
Subsidiaries' aggregate profits and losses after taxation	
Aggregate profits after taxation	
Aggregate losses after taxation	

Country of incorporation	Issued capital 31 December 2005 Rm	Direct holding 31 December 2005 %	Shares at book value 31 December 2005 Rm	Shares at book value 31 March 2005 Rm	Net indebtedness 31 December 2005 Rm	Net indebtedness 31 March 2005 Rm
South Africa	—	100	60	60	(21)	—
South Africa	13	100	—	—	1 378	1,379
Mozambique	165	80	131	131	26	—
Tanzania	81	55	86	86	—	—
South Africa	8	100	857	857	2	—
South Africa	—	100	—	—	—	—
	—	100	118	118	83	44
South Africa						
South Africa						
South Africa						
South Africa						
South Africa						
South Africa						
South Africa						
South Africa						
South Africa	—	—	96	13	97	(23)
	—	—	12	12	0	—
			4,891	5,354	—	—
			(37)	(2)		

a) Trading	Group 31 December 2005 Notional amount Rm	Fair value Rm	Fair value assets Rm	Fair value liabilities Rm	31 March 2005 Notional amount Rm	Fair value Rm
Foreign exchange derivatives						
Forward exchange contracts	296 076	1	5 706	(5 705)	288 346	195
Currency swaps	33 406	(1 565)	728	(2 293)	33 660	(2 343)
Currency interest rate swaps	11 939	22	79	(57)	6 072	84
OTC foreign exchange options	1 762	(7)	14	(21)	3 967	(18)
OTC foreign exchange options purchased	892	14	14	—	2 101	40
OTC foreign exchange options written	870	(21)	—	(21)	1 866	(58)
Other OTC foreign exchange derivatives	—	—	—	—	—	—
OTC derivatives	343 183	(1 549)	6 527	(8 076)	332 045	(2 082)
Total	343 183	(1 549)	6 527	(8 076)	332 045	(2 082)
Interest rate derivatives						
Forward rate agreements	343 186	4	238	(234)	258 493	46
Swap contracts	2 628	(6)	2	(8)	6 103	26
Interest rate swaps	368 599	(2 094)	4 535	(6 629)	322 204	(1 667)
OTC options on FRAs and swaps	22 002	14	39	(25)	25 711	18
OTC options on FRAs and swaps purchased	10 796	39	39	—	25 711	18
OTC options on FRAs and swaps written	11 206	(25)	—	(25)	—	—
OTC bond option contracts	55	—	1	(1)	278	(5)
OTC bond options purchased	25	1	1	—	103	1
OTC bond options written	30	(1)	—	(1)	175	(6)
Total OTC derivatives	736 470	(2 082)	4 815	(6 897)	612 789	(1 582)
Exchange-traded futures	646	—	—	—	19 530	—
Exchange-traded derivatives	646	—	—	—	19 530	—
Total	737 116	(2 082)	4 815	(6 897)	632 319	(1 582)
Equity derivatives						
OTC options purchased	9 161	1 003	1 003	—	6 131	140
OTC options written	8 046	(1 126)	—	(1 126)	4 896	(234)
Equity futures	1 372	1 008	1 044	(36)	902	676
Other OTC equity derivatives	366	90	90	—	645	17
OTC derivatives	18 945	975	2 137	(1 162)	12 574	599
Exchange-traded options purchased	9 885	—	—	—	12	12
Exchange-traded options written	12 683	(35)	—	(35)	1 757	(20)
Exchange-traded futures	3 832	—	—	—	30	(18)
Exchange-traded derivatives	26 400	(35)	—	(35)	1 799	(26)
Total	45 345	940	2 137	(1 197)	14 373	573

	Group					
	31 December 2005				31 March 2005	
a) Trading *(continued)*	**Notional amount Rm**	**Fair value Rm**	**Fair value assets Rm**	**Fair value liabilities Rm**	Notional amount Rm	Fair value Rm
Commodity derivatives						
Agricultural forwards	9	1	1	—	89	(12)
OTC agricultural options purchased	8	1	1	—	33	3
OTC agricultural options written	8	(1)	—	(1)	203	(26)
OTC options on gold	4 721	35	574	(539)	2 553	25
OTC gold options purchased	2 360	574	574	—	1 336	46
OTC gold options written	2 361	(539)	—	(539)	1 217	(21)
Other OTC commodity derivatives	2 117	(11)	296	(307)	3 057	161
OTC derivatives	6 863	25	872	(847)	5 935	151
Exchange-traded agricultural options purchased	12	—	—	—	153	24
Exchange-traded agricultural options written	8	—	—	—	5	(1)
Exchange-traded agricultural futures	14	—	—	—	70	11
Exchange-traded derivatives	34	—	—	—	228	34
Total	6 897	25	872	(847)	6 163	185
Credit derivatives						
Credit derivatives purchased (Swaps)	—	—	—	—	191	2
Credit derivatives written (Swaps)	1 704	29	29	—	2 135	30
Total	1 704	29	29	—	2 326	32
Embedded derivatives	636	(1)	—	(1)	—	—
Total trading	1 134 881	(2 638)	14 380	(17 018)	987 226	(2 874)
b) Hedging						
Cash flow hedges						
Curency swaps	—	—	—	—	749	—
Interest rate swaps	61 941	157	252	(94)	38 695	50
OTC options bought and sold	8 500	10	10	—	—	—
Total	70 441	167	262	(94)	39 444	50
Fair value hedges						
Interest rate swaps	11 235	(250)	134	(384)	8 130	(245)
Equity options	1 149	(8)	—	(8)	—	—
Total	12 384	(258)	134	(392)	8 130	(245)
Non-qualifying hedges						
Interest rate swaps	75 089	(897)	620	(1 518)	119 134	(815)
Total	75 089	(897)	620	(1 518)	119 134	(815)
Total hedges	157 914	(988)	1 016	(2 004)	166 708	(1 010)
Total derivative instruments	1 292 795	(3 626)	15 396	(19 022)	1 153 934	(3 884)

c) Maturity analysis	31 December 2005 Less than 1 year Rm	1 to 2 years Rm	2 to 3 years Rm	3 to 4 years Rm	More than 4 years Rm	Total Rm
Trading						
Foreign exchange derivatives	123	11	(518)	(148)	(1 017)	(1 549)
Interest rate derivatives	71	(253)	(263)	(408)	(1 229)	(2 082)
Equity derivatives	941	(56)	—	(4)	59	940
Commodity derivatives	3	20	—	24	(22)	25
Credit derivatives	—	1	—	4	24	29
Embedded derivatives	—	(1)	—	—	—	(1)
Total trading	1 138	(278)	(781)	(532)	(2 185)	(2 638)
Qualifying for hedge accounting						
Cash flow hedges	86	72	4	4	1	167
Interest rate swaps	76	72	4	4	1	157
OTC options bought and sold	10	—	—	—	—	10
Fair value hedges	(7)	(13)	(27)	(160)	(51)	(258)
Interest rate swaps	1	(13)	(27)	(160)	(51)	(250)
Equity options	(8)	—	—	—	—	(8)
Non-qualifying hedges	(126)	(95)	(147)	(216)	(313)	(897)
Interest rate swaps	(126)	(95)	(147)	(216)	(313)	(897)
Total qualifying for hedge accounting	(47)	(36)	(170)	(372)	(363)	(988)
Total derivative instruments	1 091	(314)	(951)	(904)	(2 548)	(3 626)

	31 March 2005 Less than 1 year Rm	1 to 2 years Rm	2 to 3 years Rm	3 to 4 years Rm	More than 4 years Rm	Total Rm
Trading						
Foreign exchange derivatives	149	220	(15)	(861)	(1 575)	(2 082)
Interest rate derivatives	73	(549)	(318)	(360)	(428)	(1 582)
Equity derivatives	585	1	(13)	—	—	573
Commodity derivatives	166	19	—	—	—	185
Credit derivatives	—	13	—	—	19	32
Total trading	973	(296)	(346)	(1 221)	(1 984)	(2 874)
Qualifying for hedge accounting						
Cash flow hedges	38	10	—	2	—	50
Interest rate swaps	38	10	—	2	—	50
Fair value hedges	(5)	—	(57)	(155)	(28)	(245)
Interest rate swaps	(5)	—	(57)	(155)	(28)	(245)
Non-qualifying hedges	(4)	(250)	(230)	(154)	(177)	(815)
Interest rate swaps	(4)	(250)	(230)	(154)	(177)	(815)
Total qualifying for hedge accounting	29	(240)	(287)	(307)	(205)	(1 010)
Total derivative instruments	1 002	(536)	(633)	(1 528)	(2 189)	(3 884)

	31 December 2005		
	Cash flow hedges Rm	Fair value hedges Rm	Hedges of net investment Rm
c) Maturity analysis *(continued)*			
The fair value of movement included in the income statement relating to the ineffective portion of hedges amounts to:			
Ineffectiveness	20	(47)	—

	31 December 2005	
	Fair value assets Rm	Fair value liabilities Rm
d) Classification		
Total derivative instruments	15 396	(19 022)
Less: exchange-traded derivatives settled	—	35
Add: other trading instruments	4 1274	(2 414)
Less: hedging instruments (refer to notes 5 and 18)	(1 016)	2 004
Total trading instruments (refer to notes 5 and 18)	18 507	19 397)

Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks.

Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Group's accounting policies as set out in note 1.5.9 (refer to page 78).

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.

Included in the notional values for equity derivatives (equity futures) are long and short derivative positions that have been reported on a net basis. The absolute notional value of these positions amounts to R597 billion, while the net amounts to R1 billion.

Fair value

The amounts disclosed represent the net fair value as at period-end of all derivative financial instruments held. The fair value of a derivative financial instrument represents the market value if the rights and obligations arising from derivative instruments were closed out by the Group in orderly market conditions at period-end. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, where appropriate.

Fair value assets and liabilities

The fair value assets and liabilities represent the fair value of derivative financial instruments aggregated per counterparty. The impact of master netting agreements is taken into account on an aggregate basis in determining the on-balance-sheet fair value of assets which represent the credit exposure arising on such contracts.

Other information

Information regarding derivative financial instruments and other banking risks, additional to those included in this note, is provided in Annexure K of this report.

Absa Group Limited Share Incentive Trust

The Absa Group Limited Share Incentive Scheme is designed to link the interests of executive directors and employees with those of shareholders and the long-term desired strategic positioning of the Group. All full-time employees are eligible to participate in the scheme, principally based on performance and retention. This scheme has been replaced by the Group's revised share scheme (subject to shareholder approval). However, the options of the previous scheme remain in place and may be excercised in terms of the rules under which the shares were granted.

Refer note 48 for information regarding the rules and activities of this trust.

	Number of shares	
	31 December 2005	31 March 2005
Shares and options subject to the trust		
Balance at the beginning of the period		
Shares issued to participants	**432 741**	847 702
Options granted	**30 705 178**	33 964 889
	31 137 919	34 812 591
Shares issued and options granted during the period	**4 346 639**	7 090 603
	35 484 558	41 903 194
Options exercised and implemented, options cancelled and shares released or repurchased by the trustees in terms of the rules of the trust	**(10 358 814)**	(10 765 275)
Balance at the end of the period	**25 125 744**	31 137 919
Comprising		
Shares issued to participants	**—**	432 741
Options granted and unexercised	**25 125 744**	30 705 178
	25 125 744	31 137 919

	31 December 2005		31 March 2005	
	% of total issued shares	**Number of shares**	% of total issued shares	Number of shares
Shares and options available for allocation				
Maximum shares and options available	**10,0**	**66 685 507**	10,0	65 505 507
Shares and options subject to the trust	**(3,8)**	**(25 125 744)**	(4,8)	(31 137 919)
Balance of shares and options available	**6,2**	**41 559 763**	5,2	34 367 588

Details regarding the options granted and still outstanding at 31 December 2005 are as follows:

Issue date	Expiry date*	Number of options	Average option price R
Year to 31 March 1997	Year to 31 March 2007	114 676	20,77
Year to 31 March 1998	Year to 31 March 2008	215 245	30,55
Year to 31 March 1999	Year to 31 March 2009	254 169	17,85
Year to 31 March 2000	Year to 31 March 2010	555 783	27,66
Year to 31 March 2001	Year to 31 March 2011	711 877	26,77
Year to 31 March 2002	Year to 31 March 2012	3 336 411	36,63
Year to 31 March 2003	Year to 31 March 2013	4 957 521	33,62
Year to 31 March 2004	Year to 31 March 2014	4 238 778	35,32
Year to 31 March 2005	Year to 31 March 2015	6 457 276	49,81
Year to 31 March 2006	Year to 31 December 2015	4 284 008	91,49
		25 125 744	**47,76**

As required by IFRS, the trust has been consolidated into the Group's financial statements. A summarised balance sheet of the trust is presented below:

	31 December 2005 Rm	31 March 2005 Rm
Assets		
Shares in Absa Group Limited at cost**	**96**	13
Loans to participants	**—**	12
Cash at bank	**4**	—
	100	25
Liabilities		
Loan from Absa Bank Limited	**96**	23
Other liabilities	**4**	2
	100	25

Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust

Refer to note 48 for information regarding the rules and activities of the trust.

A maximum number of 7 315 200 preference shares were available for allocation to the trust.

The trust has also been consolidated into the Group financial statements. The trust held 6 085 500 redeemed cumulative option-holding preference shares at the end of the period (March 2005: 6 085 200).

**Options are implementable at least five years before expiry date.*
***As at 31 December 2005, the trust held 3 074 268 (March 2005: 446 073) shares in Absa Group Limited.*

annexure i: group average balance sheet and effective interest rates

	Group					
	31 December 2005			31 March 2005		
	Average balance Rm	**Average rate %**	**Interest* income/ expense Rm**	Average balance Rm	Average rate %	Interest income/ expense Rm
Assets						
Liquid assets						
Cash, cash balances and balances with central banks and money market assets	**14 113**	**4,58**	**647**	11 923	5,59	667
Statutory liquid asset portfolio	**15 337**	**6,71**	**1 029**	13 491	7,89	1 065
	29 450	**5,69**	**1 676**	25 414	6,82	1 732
Other assets						
Loans and advances to customers and banks	**299 234**	**7,08**	**21 175**	249 023	9,99	24 865
Investments and trading assets	**35 270**	**0,69**	**245**	39 438	0,82	322
Hedging derivative assets	**808**	**14,36**	**116**	467	3,86	18
Reinsurance assets	**372**	**—**	**—**	160	—	—
Other assets	**7 308**	**—**	**—**	7 104	—	—
Interest-earning assets	**372 442**	**6,23**	**23 212**	321 606	8,38	26 937
Investments in associated undertakings and joint ventures	**751**	**—**	**—**	616	—	—
Subsidiary companies						
Property and equipment and intangible assets	**3 524**	**—**	**—**	3 347	—	—
Total assets	**376 717**	**6,16**	**23 212**	325 569	8,27	26 937
Liabilities						
Deposits from banks and customers	**302 542**	**4,20**	**12 718**	254 295	5,97	15 178
Trading liabilities	**19 713**	**—**	**—**	25 054	—	—
Hedging derivative liabilities	**1 807**	**0,00**	**0**	1 193	13,33	159
Other liabilities and sundry provisions	**11 740**	**1,04**	**122**	10 251	1,58	162
	335 802	**3,82**	**12 840**	290 793	5,33	15 499
Deferred tax liabilities	**2 211**	**—**	**—**	1 678	—	—
	338 013	**3,80**	**12 840**	292 471	5,30	15 499
Liabilities under investment contracts and policyholder liabilities under insurance contracts	**7 869**	**—**	**—**	5 415	—	—
Debentures and long-term liabilities						
Borrowed funds	**6 081**	**11,92**	**725**	6 373	15,80	1 007
Interest-bearing liabilities	**351 963**	**3,85**	**13 565**	304 259	5,42	16 506
Equity						
Share capital	**1 319**	**—**	**—**	1 301	—	—
Share premium	**1 743**	**—**	**—**	1 460	—	—
Other reserves	**503**	**—**	**—**	783	—	—
Distributable reserves	**20 950**	**—**	**—**	17 562	—	—
	24 515	**—**	**—**	21 106	—	—
Minority interest	**239**	**—**	**—**	204	—	—
Total equity	**24 754**	**—**	**—**	21 310	—	—
Total equity and liabilities	**376 717**	**3,60**	**13 565**	325 569	5,07	16 506

**The interest income/expense for 31 December 2005 comprises nine months compared to to twelve months in the prior period.*

Summarised balance sheet

	31 December 2005 Rm	31 March 2005 Rm
Equity and liabilities		
Shareholders' funds	3 536	3 262
Insurance funds	8 941	6 715
Other liabilities and taxation	4 488	3 302
	16 965	13 279
Assets		
Equity, money market assets and investments	13 409	11 178
Mortgage bond participation stock	94	122
Other assets	3 462	1 979
	16 965	13 279
Funds under management		
Estates	1 755	1 327
Portfolio management	1 000	1 908
Trust activities	4 603	3 898
Participation bond schemes	1 344	1 328
Unit trusts	51 418	46 172
Other	4 658	3 471
	64 778	58 104

Summarised income statement

	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
Net interest income	266	335
Impairment losses of loans and advances	(3)	(3)
	263	332
Net fee and commission income	193	283
Net insurance premium income	1 948	2 051
Net claims and benefits paid	(797)	(929)
Changes in insurance and investment liabilities	(1 026)	(668)
Gains and losses from investment activities	1 446	1 036
Other operating income	293	278
Net operating income	2 320	2 383
Operating expenses	(711)	(815)
Share of profit of associated and joint venture companies	—	28
Operating profit before income tax	1 609	1 596
Taxation expense	(534)	(469)
Profit for the period	1 075	1 127

Net insurance underwriting surplus – Short-term insurance

	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
Insurance premium revenue	**1 402**	1 593
Premiums ceded to reinsurers	**(151)**	(247)
Net insurance premium income	**1 251**	1 346
Provision for unexpired risk	**(60)**	(51)
Net premiums for expired risk	**1 191**	1 295
Commission expense	**(178)**	(190)
Net claims and benefits paid	**(585)**	(695)
Net insurance underwriting surplus	**428**	410

Summarised income statement – Life insurance

	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
Net interest income	**148**	182
Net fee and commission income	**(142)**	(171)
Net insurance premium income	**757**	756
Net claims and benefits paid	**(212)**	(234)
Changes in insurance and investment liabilities	**(1 026)**	(668)
Gains and losses from investment activities	**1 052**	758
Other operating income	**89**	57
Net operating income	**666**	680
Operating expenses	**(97)**	(116)
Operating profit before income tax	**569**	564
Taxation expense	**(189)**	(183)
Profit for the period	**380**	381

Introduction

The overall objective of the risk management process in Absa is to enhance shareholder value. Controls and policies are focused on risks that could prevent the Group from achieving its business objectives and the desired added value for shareholders.

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

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

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

In this process, Absa adopts the following approach to risk management:

- all risks must be identified, assessed and appropriately responded to, including the necessary control initiatives. The returns must be commensurate with the risks taken, relative to the approved risk appetite;
- formal governance and comprehensive regular reporting processes in a well-defined control environment are established and maintained to ensure the effectiveness of the risk management processes throughout the Group;
- each individual is required, relative to his or her own position, to align with risk management as a declared priority of the Group, and to identify present and future risks and take appropriate action.

Status of risk types

Risk type		Absa's current position
Credit risk	✔	The Group has processes in place to identify, measure, monitor, control and report on credit risk. Absa is adequately capitalised for potential unforeseen credit losses, should they occur, with surplus capital held for credit risk in excess of regulatory minimum requirements.
Market risk		
› Trading risk	✔	Absa operates within an acceptable risk profile and capital is held against trading position risk in accordance with the capital adequacy requirements (CAR) of the South African Reserve Bank (SARB).
› Interest rate risk	✔	The banking book interest rate risk profile is considered to be within acceptable risk levels and is managed effectively.
› Liquidity risk	✔	Liquidity risk is proactively managed on a daily basis and Absa complies with the prudential requirements of the SARB and other appropriate requirements.
› Investment risk	✔	Absa's investment risk profile is acceptable and continues to reflect an improving trend.
Underwriting risk	✔	Underwriting risk is managed through a process that measures risk in the Group's insurance/assurance companies.
Operational risk	✔	The Group's operational risk profiles were within the tolerance levels set and were considered to be acceptable during the period under review.
Strategic risk	✔	The Group's strategic risk profiles were considered to be acceptable during the period under review.
Reputation risk	✔	The required functions, processes and procedures to manage the Group's reputation are in place.

Credit risk

Definition of credit risk

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

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

Objectives of credit risk management

Growth, consistent returns and capital are jeopardised if credit risk is not controlled. Absa's credit risk management framework seeks to reduce volatility in its operating performance and lower the cost of equity by managing risks both within and across businesses. Absa limits its credit and overall risk profile by diversifying risk and revenue sources, growing fee-based and recurring revenues and minimising its breakeven point by carefully managing fixed costs. Other credit risk management objectives include closely monitoring risk-taking and long-term exposure to illiquid assets. Absa continually looks for opportunities to strengthen its credit risk controls, with particular attention to avoiding undue concentrations. At all levels of the Group, sound corporate governance and oversight policies and employee integrity are recognised as critical to effectively managing risk and protecting the interests of shareholders.

Credit risk identification

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

Credit risk assessment – measurement

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

To measure credit risk, Absa employs several methodologies to estimate the likelihood of counterparty default. Losses generated by retail loans are more predictable than wholesale losses, but are subject to cyclical and seasonal factors. Although the frequency of loss is higher on retail loans than on wholesale loans, the severity of loss on the former is typically lower and more manageable. As a result of these differences, methodologies vary depending on certain factors, including type of asset (for example, consumer instalment versus wholesale loan), risk measurement parameters (for example, delinquency status and credit bureau score versus wholesale risk rating), and risk management and collection processes (for example, retail collection centre versus a centrally managed unit specialising in wholesale recoveries and restructuring). Credit risk measurement is based on the amount of exposure should the counterparty default, and the loss severity given a default event. Based on these factors and related market-based inputs, Absa estimates both expected and unexpected losses for the wholesale and retail portfolios. Expected losses (EL) are statistically based estimates of credit losses over time, anticipated as a result of counterparty default. However, EL is not the sole indicator of risk. If losses were entirely predictable, the EL rate could be factored into pricing and covered as a normal and recurring cost of doing business. Unexpected losses (UL), reflected in the allocation of risk capital for credit risk, represent the potential volatility of expected losses relative to the probable level of losses. Risk measurement for the wholesale portfolio is primarily based on risk-rated exposure, and for the retail portfolio it is based on credit-scored exposure.

Wholesale portfolio: Risk-rated exposure

For portfolios that are risk-rated, expected and unexpected loss calculations are based on estimates of probability of default (PD) and loss-given default (LGD). PD is expected default calculated on a counterparty basis. LGD is an estimate of losses based on collateral and structural support for each credit facility. Calculations and assumptions are based on management information systems and methodologies that are under continual review. Risk ratings are assigned and reviewed on an ongoing basis and revised, if needed, to reflect the borrowers' current risk profile and the related collateral and structural position.

Retail portfolio: Credit-scored exposure

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

Credit risk response (including mitigation)

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

- **Absa's rating system.** All business units operate an authorised rating system complying with the Group's standard methodology. Absa uses a master rating scale structure with ratings corresponding to a range of probabilities of future default.
- **Portfolio analysis.** Group Credit and Enterprise-wide Risk Management (ERM) jointly identify and define portfolios of credit and related-risk exposures and key benchmarks, behaviours and characteristics by which portfolios are managed in terms of credit risk exposure. This entails the production and analysis of regular portfolio monitoring reports for review by the Credit Risk Committee (CRC). To further enhance the ability to measure and predict future risk, Absa continues to develop new policies and risk management systems.
- **Counterparty limits.** Exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities. Approval requirements for each decision are based on the transaction amount, the customer's aggregate facilities, credit risk ratings and the nature and term of the risk and collateral held. Regular reports on significant credit exposures are provided to Group Exco and the board.
- **Cross-border and cross-currency exposures.** Country limits are authorised and managed by a dedicated unit, taking economic and political factors into account.
- **Settlement risk.** Trading activities may give rise to risk at settlement. Settlement risk is the risk of loss owing to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.
- **Concentration risk** is the formulation of concentration limits per industry, sector and geographical area. Sector caps that reflect risk appetite are set to monitor exposures to prevent excessive concentration of risk.
- **Credit derivatives** are a method of transferring credit risk from one counterparty to another and of managing exposure to selected counterparties. Credit derivatives include credit swaps, credit spread options and credit linked notes. Absa has limited exposure to such instruments.
- **Credit mitigation** techniques include, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral should unfavourable events occur, the right to call for collateral when certain exposure thresholds are exceeded and the purchase of credit default protection.

Credit risk monitoring

Absa's policies and practices are designed to preserve the independence and integrity of decision-making and ensure credit risks are accurately assessed, properly approved, continually monitored and actively managed at both the transaction and portfolio levels.

Credit risk reporting

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

Exposure at default

Exposure in the event of default represents the expected level of usage of the credit facility when default occurs. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit. When Absa evaluates loans, it takes exposure at default into consideration, using its extensive historical experience. It recognises that customers may make heavier than average use of their facilities as they approach default. For derivative instruments, exposure in the event of default is the estimated cost of replacing contracts with a positive value if counterparties should fail to perform their obligations. Contingent liabilities consist of financial and performance guarantees, standby letters of credit and indemnity agreements.

Current exposure

Current exposure of loans and advances is disclosed per geographic region, product, industry sector and maturity in the financial statements. In addition, Absa also categorises its current exposure according to creditworthiness criteria in respect of retail and wholesale exposures. The combined borrower and facility rating composition (borrower ratings adjusted for available collateral and other forms of risk mitigation) of Absa's retail exposure is as follows:

S&P equivalent	**Moodys equivalent**	**Minimum EL* %**	**Maximum EL* %**	**31 December 2005 EL* percentage distribution %**	31 March 2005 EL* percentage distribution %
AAA/AA+/AA	Aaa/Aa/A1	0,00	0,02	**0,00**	0,06
AA-/A+	A2	0,03	0,05	**3,91**	7,15
A/A-	A3	0,05	0,07	**9,53**	0,00
BBB+	Baa1	0,08	0,12	**1,26**	6,77
BBB	Baa2	0,13	0,15	**14,98**	0,16
BBB-	Baa3	0,15	0,30	**29,01**	28,32
BB+	Ba1	0,30	0,52	**15,45**	28,35
BB	Ba2	0,52	0,75	**13,44**	9,66
BB-	Ba3	0,75	1,30	**8,81**	1,83
B+/B	Ba4	1,30	1,70	**0,21**	9,43
B-	B1	1,70	2,56	**1,14**	3,01
CCC+/CCC-	B2/B3	2,56	5,00	**1,23**	4,13
CC/C	Caa/Ca/C	5,00	7,50	**0,05**	0,08
D	D	7,50	10,00	**0,96**	0,79
Other		10,00	50,00	**0,02**	0,26

**EL = Expected loss.*

The average EL of the Group's retail portfolio has declined from 0,78% to 0,50% over the period under review, indicating a significant improvement in credit quality. Similar credit quality improvements, although not to the same extent, have been experienced in the Group's non-retail credit portfolios.

Future exposure

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

Recovery rate

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

Impairment of credit risk

The current discussion of credit risk management deals with the manner in which Absa manages credit risk from a business perspective. However, the measurement of credit risk via impairment charges reflected in the financial statements is governed by IAS 39.

Under IAS 39, impairment on an advance and the resulting impairment charge to the income statement is recognised only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition (known as the loss event). Absa's list of potential loss events are contained within accounting policy 1.5.4.1.

Absa converts the data gathered in its credit risk management assessment (which determines Absa's total expected loss) into data which reflects Absa's incurred losses at the end of the financial period.

For identified impairments detailed in accounting policy 1.5.4.1.1, Absa's credit management data for loss-given default (LGD) and exposure at defaults is utilised to quantify this impairment.

For unidentified impairment detailed in accounting policy 1.5.4.1.2, Absa's credit management data used to determine the expected loss (EL) for both the wholesale and retail portfolios is modified by removing the expected and unexpected loss assumptions and replacing the data with an estimate of Absa's emergence period and proportion of assets that are likely to display objective evidence over the emergence period.

Macroeconomic factor sensitivity of the credit portfolio

Various economic factors will impact on the actual future credit losses that will be realised. While the non-retail segment of Absa's credit portfolio is influenced by several economic factors, changes in interest rates are the main driver of credit quality for the retail segment. Sophisticated stress testing models are used to measure the sensitivity of the Group's credit portfolios to changes in economic variables, such as interest rates, energy prices, real estate prices, currency rates, etc. Adequate controls are in place to ensure that stress impacts are within approved risk tolerances.

Market risk

Definition of market risk

Market risk is the risk that changes in financial market prices and interest and exchange rates will (adversely) impact the financial position of Absa. Market risk consists of trading risk, banking book interest rate risk, liquidity risk and investment risk.

Trading risk

Market risk in the trading area is the potential loss in the trading portfolio as a result of changes in market conditions, including changes in market variables (for example interest rates, foreign exchange rates, credit spreads, equity prices, commodity prices and their related volatilities) and changes in market liquidity.

Absa's trading risk management approach is based on the internal model for market risk in the trading book as specified in the Basel Capital Accord of 1996 and approved for use in Absa by the South African Reserve Bank.

Absa's trading risk management approach is based on the principle that trading risks must be properly identified, measured and reported to facilitate effective risk-based decision-making in terms of the Group's governance structures. To this end, a set of comprehensive and complementary measures encompassing value-at-risk (VaR), stress testing and sensitivity measures is used. A key aspect of the risk management approach is compliance with the capital adequacy requirement (CAR) in respect of the use of internal models to ensure the ongoing approval of Absa's internal model with the lowest possible capital multiple.

Risk limits are set to govern the trading activities within the risk appetite of the Group. Criteria for setting risk limits include, amongst others, relevant market analysis, market liquidity and business strategy. Trading risk limits are set at an aggregate and portfolio level and are expressed in terms of VaR and exposure limits. Appropriate performance triggers are also utilised as part of the risk management process. VaR is the maximum expected loss in the value of a portfolio at a chosen confidence level over an assumed holding period. Absa's primary VaR measure, calculated daily, is computed consistent with Basel requirements for calculating position risk capital (a 99% confidence level with a holding period of ten days is used). Absa's VaR approach recognises diversification across instruments and portfolios. The quality of VaR models is assessed through hypothetical and actual backtesting. Acceptable backtesting results as required have been maintained for the nine months under review.

Absa's ten-day trading book VaR for domestic, offshore and Africa operations is stated in the following table:

Trading book ten-day VaR

	Nine months ended 31 December 2005				Twelve months ended
	Minimum Rm	**Maximum Rm**	**Average Rm**	**Year-end Rm**	31 March 2005 Rm
Interest rate products	**3,1**	**25,7**	**8,1**	**7,6**	6,8
Foreign exchange	**1,3**	**16,0**	**5,9**	**3,8**	3,9
Commodities	**0,2**	**3,7**	**1,0**	**1,5**	0,6
Equities	**2,0**	**26,8**	**6,8**	**5,0**	4,0
Money market	**1,4**	**5,8**	**3,3**	**2,7**	4,5
Credit derivatives	**0,8**	**7,1**	**1,7**	**1,1**	4,6
Non-linear derivatives	**0,3**	**15,4**	**1,5**	**1,1**	2,3
Total – domestic operations	**3,6**	**27,1**	**12,2**	**7,9**	6,7
Offshore operations	**0,1**	**12,7**	**2,7**	**0,1**	4,1
Africa operations	**0,5**	**10,0**	**4,5**	**1,8**	8,0
Total – Absa Group	**5,7**	**29,0**	**14,3**	**7,5**	13,4

The results of the VaR computation are used in the computation of position risk capital and as part of the capital management process. The sensitivity of the capital computation to changes in market conditions is computed through the use of stress VaR, which is based on historical stress scenarios for volatility of risk factors and correlation between risk factors. Stress VaR is calculated on a daily basis and reported to senior management. VaR measures potential loss up to a particular confidence level, but does not indicate potential losses outside the confidence interval. Stress testing is used to supplement VaR computations by assessing Absa's potential vulnerability to exceptional but plausible events.

Banking book interest rate risk

Banking book interest rate risk refers to the potential variability in the Group's financial position owing to changes in the level of interest rates. From an earnings perspective, changes in interest rates affect a bank's net interest income and the level of other interest-sensitive income and operating expenditure, as well as impacting on overall credit risk, whereas from an economic value perspective, changes in interest rates affect the underlying value of assets, liabilities and off-balance sheet instruments.

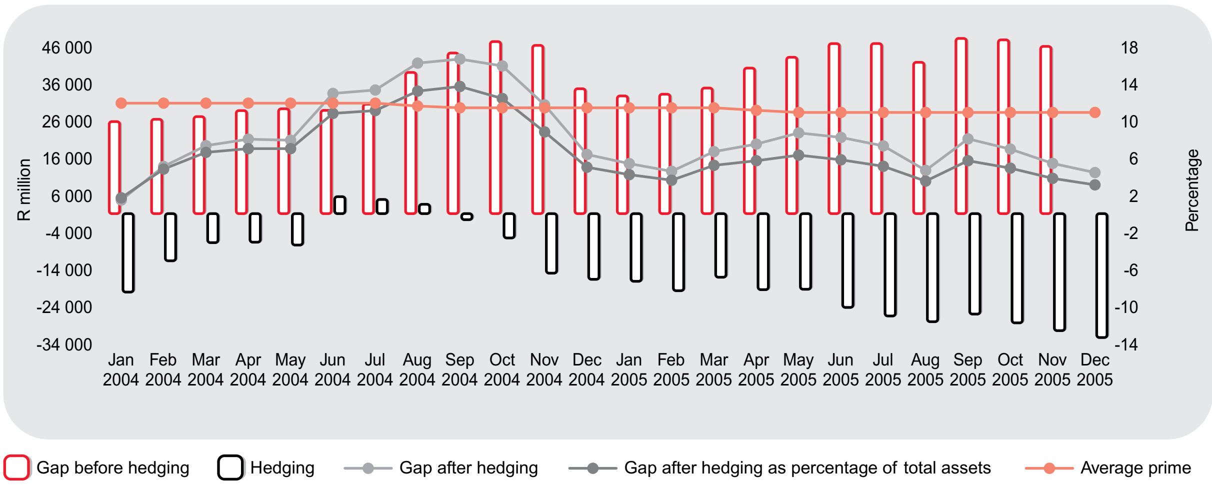
Through matched funds transfer pricing, one of the main components of interest rate risk, being asset/liability repricing risk, is transferred from businesses, with the resulting inherent repricing mismatch risk managed centrally within an agreed risk tolerance at net interest income level (taking cognisance of diversification between the different components of net interest income, such as the impact of interest rates on customer behaviour). In so doing, the effects of interest rates on other aspects of the business, which may offset the impact of interest rates on net interest income, are therefore also considered. That said, the primary objective of the Group's interest rate risk management is to contain reductions in net interest income resulting from changes in interest rates to an appropriate level, this being established by taking diversification of this risk type with other risks, such as credit risk, into consideration, so that the Group ultimately remains within total earnings at risk limits.

Interest rate risk management strategies considered by the Market Risk Committee (MRC) include the following:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- execution of applicable derivative contracts if it is deemed that such activity is necessary to maintain the Group's interest rate risk exposure within the limits. For strategies constituting hedging of banking book interest rate risk via derivative contracts, applicable accounting rules (including cash flow hedging and fair value hedging) as stipulated in the Group's accounting policies are followed.

Standard measures of interest rate risk include the repricing gap and the income impact of standardised interest rate shocks and other interest rate projections and simulations, including meaningful stress scenarios. Absa's monthly three-month cumulative repricing gap is depicted in the graph and table which follow.

Three-month cumulative repricing gap



Repricing analysis

Repricing maturity period	Call – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm	Not rate sensitive Rm
	31 December 2005				
Interest rate sensitivity gap	**44 434**	**(12 502)**	**(20 604)**	**17 270**	**(28 597)**
Derivatives*	**(33 373)**	**9 524**	**9 394**	**14 455**	
Cumulative interest rate gap	**11 061**	**8 083**	**(3 128)**	**28 598**	
Cumulative interest rate gap including National Bank of Commerce and Banco Austral, Sarl	**9 819**	**7 218**	**(3 678)**	**28 481**	

Repricing maturity period	Call – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm	Not rate sensitive Rm
	31 March 2005				
Interest rate sensitivity gap	33 825	(17 635)	(17 649)	16 742	(15 282)
Derivatives*	(17 128)	(2 601)	(427)	20 154	
Cumulative interest rate gap	16 696	(3 540)	(21 615)	15 282	
Cumulative interest rate gap including National Bank of Commerce and Banco Austral, Sarl	15 536	(4 322)	(22 199)	15 177	

Assuming no management action in response to interest rate movements, Absa's repricing sensitivity to a hypothetical immediate and sustained parallel fall of 100 basis points in all interest rates for a twelve-month forward period is indicated in the following table:

Repricing sensitivity as a percentage of net interest income

31 December 2005	31 March 2005
2,07	2,89

Liquidity risk

Liquidity risk is the possibility that operations cannot be funded and financial commitments met timeously and cost-effectively.

Prudent management of liquidity contributes positively to earnings, with sound liquidity risk management being pivotal to the viability of the Group and the maintenance of overall banking stability. Absa believes that the management of liquidity should encompass an overall balance sheet approach, which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, profitability and interest rate risk considerations. In terms of the existing governance framework, the MRC is responsible for overseeing the management of the liquidity risk profile within set tolerance limits.

**Derivatives for interest rate risk management purposes (net nominal value).*

Management focus points for liquidity risk, which is actively managed at Absa, include:

- measuring and managing the expected, in addition to the contractual, maturity mismatch profile between assets and liabilities and projected cash flows, ensuring that sufficient liquidity is available to meet requirements, as well as assessing cash flow profiles under different strategies;
- monitoring and managing the cost of liquidity in the Group;
- ensuring the Group holds, at all times, a set amount of liquid assets that could easily be liquidated as protection against an unforeseen disruption in cash flow; and
- considering and managing the characteristics and risks of different sources of liquidity by adopting appropriate funding strategies (including the mix of funding sources, with due cognisance of the stability of funding sources) to meet liquidity needs.

A summary of Absa's liquidity profile is reflected in the table that follows. Additional information is provided on pages 135 to 136 in the notes to the financial statements.

Group liquidity profile

	31 December 2005				
	On demand Rm	**Within 1 year Rm**	**From 1 year to 5 years Rm**	**More than 5 years Rm**	**Total Rm**
Total assets	**80 049**	**75 858**	**95 762**	**155 753**	**407 422**
Total liabilities	**168 066**	**176 177**	**12 469**	**24 709**	**381 421**
Total liabilities and shareholders' funds	**172 904**	**176 382**	**12 746**	**45 390**	**407 422**

	31 March 2005				
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Total assets	65 749	78 850	74 576	127 986	347 161
Total liabilities	116 464	183 129	14 692	9 371	323 656
Total liabilities and shareholders' funds	120 474	183 860	14 893	27 934	347 161

Investment risk

Investment risk refers to the risk of changes in the value of investments owing to price risk. Investments are those longer-term investments made for strategic or operational reasons.

The investment risk management approach for Absa Corporate and Merchant Bank, Business Banking Services and Absa Financial Services' investment portfolios is based on the VaR methodology. The holding period is set at three months.

Underwriting risk

Definition of underwriting risk

Underwriting risk, originating from insurance activities, refers to unexpected losses owing to events which result in exceeding predetermined prudent exposures of forecasts.

Underwriting risk consists of the following elements:

- Long-term assurance underwriting risk is the risk associated with insuring the life and/or health of an individual or groups of individuals, as well as the provision of investment guarantees, where such an investment guarantee is provided as part of the policy benefits in terms of a policy.
- Short-term insurance underwriting risk is the risk associated with the indemnification of an insured entity against contingencies with regard to assets.

Underwriting risk can be seen as the risk that the actual results of an insurer differ from the expected results relating to assumptions with regard to frequency and severity of claims.

Forecast exposures are based on assumptions with regard to mortality, morbidity, frequency and severity of claims. Underwriting risk is influenced by the type and nature of insurance activities undertaken and includes the nature of underwriting exposures involved in the products and services provided, portfolio characteristics, external events, the nature and extent of reinsurance cover, and the risk appetite of the insurance companies and the Group. Procedures to ensure the proper management of underwriting risk are maintained in both life assurance and short-term insurance.

The following risks are inherent in insurance underwriting and contribute to the overall insurance underwriting risk:

- concentration risk – the risk inherent in a specific individual or groups of individuals;
- inappropriate pricing and underwriting criteria;
- frequency and severity of events that result in valid claims, including catastrophes;
- specialised risk – the risk that the company takes on specific risks in respect of which it does not have the expertise or sufficient data to evaluate the risk;
- reinsurance risk – the risk of having appropriate reinsurance as well as the credit (counterparty) risk attached to the reinsurer;
- reserving risk – the risk that the provisions held in the insurer's financial statements for its policyholder obligations will prove to be inadequate.

Underwriting risk is managed during the underwriting process in the following manner:

- selection of market;
- selection of type of risk to underwrite;
- having appropriate underwriting criteria and limits as well as the regular review and evaluation of such criteria;
- appropriate pricing of insurance risk;
- appropriate diversification of risks underwritten;
- setting and revision of claims cost control criteria;
- setting and revision of assessment criteria;
- having reinsurance and ensuring that reassurance agreements cover the same risks which the Company bears, and does not exclude specific events.

Long-term assurance underwriting risk

Long-term assurance underwriting risk is measured as the maximum exposure on a single life and the maximum exposure on a single event. The risk is monitored within the life assurer with reference to monitoring the actual claims experience, investment guarantees, exposure analyses done during annual actuarial valuation and managing the underwriting costs per policy to ensure the right balance between the actual risk exposure and the cost of underwriting.

Short-term insurance underwriting risk

Short-term insurance underwriting risk is measured by calculating the estimated maximum loss and maximum probable loss per policy. The risk is monitored by monitoring the claims experience, policy movements, concentration of exposures and changes in the environment.

Details pertaining to the embedded value and capital adequacy of the life assurance company can be found on page 180 of this report, whereas note 22 of the notes to the financial statements contains details relating to the year-end balances of insurance funds.

Operational risk

Definition of operational risk

Operational risk is defined as the risk of loss resulting from inadequate and/or failed internal processes, people and systems or from external events. Operational risk is thus the risk of failure, or near failure, of critical business processes and their underlying operational systems and data, be it failure of activities, systems or people. Operational risk is typically not directly taken in return for expected reward, but exists in the natural course of corporate activity. For the purpose of the Basel II regulatory operational risk capital charge, legal risk is included, but strategic and reputational risks are excluded.

Measuring and managing operational risk

Operational risk management forms part of the day-to-day responsibilities of all Absa's business unit and specialist function management teams. Qualitative and quantitative methodologies and tools are applied on a Group-wide basis to identify and assess operational risks and to provide management information for determining appropriate mitigating measures. These include:

- a loss database of operational risk events categorised according to the Basel II operational risk event types;
- a database of key risk indicators (KRIs) used to track levels and trends of identified operational risk drivers; and
- a detailed risk and control assessment (DRCA) process to facilitate Group-wide consistent qualitative assessing, treating, monitoring and communicating of operational risks and controls associated with business processes and activities.

Monitoring operational risk

Effective operational risk management protects and enhances shareholder value by reducing operational losses – both high-impact, low-frequency events that may imperil Absa's financial position, and low-impact, more frequently occurring events that may add unnecessarily to operating costs. To eliminate all operational risks is not cost-effective and Absa manages operational risk in accordance with its agreed operational risk tolerance levels.

In terms of the existing governance framework, the Operational Risk Committee (ORC) is responsible for the management of the operational risk profile within the set tolerance limits. The effectiveness of the ORC is enhanced by the support of various specialist functions and governance structures.

Strategic risk

Definition of strategic risk

There are various definitions of strategic risk, but in essence it is the potential that Absa's strategy may be inappropriate to support long-term corporate goals (such as sustainable growth) because of an inadequate strategic planning and/or decision-making process or the inadequate implementation of such strategies. This includes the risk of having a strategy that is unclear, or clear but not viable, or clear and viable, but badly implemented. It also includes the risk of having an otherwise effective strategy fail as a result of unexpected circumstances.

Strategic risk measurement and management

There is industry consensus that strategic risk is the most important (and difficult) risk to manage, because it overlays all other risks. The identification of strategic risk is a well-established component of the strategic and business planning process. The process includes risk-reward profile assessments for strategies, on a business unit level, to which due consideration is given during the annual budgeting and strategic planning process. Actual performance is measured against strategic targets, both financial and non-financial. The risk event identification process aims to ensure that all material potential risks are identified and incorporated into appropriate management strategies for the Group.

Capital and performance measurement

A common approach to assess the creation of shareholder value is applied across the Group. This is measured by value added (the profit attributable to shareholders, less a notional charge, calculated at a risk-adjusted rate, for the equity invested in the business). The focus on value added allows the Group to compare the returns being made on capital employed in each business. The use of risk capital and regulatory capital with greater risk sensitivity is closely monitored at business and Group level. The Group's risk capital model covers credit, market, insurance, business and operational risks.

Risk appetite

Risk appetite is the Group's chosen methodology to balance risk and return in the implementation of business plans as it recognises a range of possible outcomes. The risk appetite is approved annually by the board and regular strategic planning sessions are held across the Group at board, executive director and executive management level. These sessions include quantitative and qualitative assessments of the risks in Absa's strategic plan. Risk appetite and risk tolerance setting is an integrated process that relies on the quantitative and qualitative risk assessments done by all the risk types. The risk appetite is validated by estimating Absa's sensitivity to macroeconomic events using stress testing and scenario analysis.

Changes in certain macroeconomic variables represent environmental stresses that may reveal systemic credit and market risk sensitivities in Absa's retail and wholesale portfolios. The stresses considered include, for example, the following sensitivities:

- general economic scenarios, including variables relating to gross domestic product, employment, interest rates, interest rate curve shifts, property prices and currency values; and
- business-specific sensitivities relating to asset and liability levels and product pricing.

More complex scenarios, such as recessions, can be represented by combinations of variables. These scenarios allow senior management to gain a better understanding of how the Group is likely to react to changing economic and business conditions. Insights gained are fully integrated into the management process and the risk appetite framework. These analyses and insights and the close involvement of management also provide the basis for fulfilling the stress testing requirements of the new Basel II Capital Accord.

Reputational risk

Definition of reputational risk

Reputational risk is the threat to earnings or capital that results from negative public opinion. The Financial Services Authority defines it as: "the risk that the firm may be exposed to negative publicity about its business practices or internal controls, which could have an impact on the liquidity or capital of the firm, or cause a change in its credit rating". A company's success depends not only on its prudent management of credit, market, operational and business risks, but equally on the maintenance of its reputation among many stakeholders.

Reputational risk measurement and management

The management of reputational risk is an integral part of management at all levels and is supported by the risk governance framework. Various role-players follow formal processes in executing the Group's communication strategies.

Reputational risk profile

Absa's reputational risk is evaluated as part of its operational and compliance risk profiles. These profiles establish links to key processes, systems and controls.

Scope of the embedded value report

This report deals with the embedded value of Absa Life Limited and the value of new business written during the financial year.

Definitions

Embedded value

The embedded value of the life business is the discounted present value of the projected stream of future after-tax shareholder profits from business in force at the valuation date, as well as the shareholders' net assets. No allowance has been made for STC on future dividends as full credit is obtained by the shareholder.

Shareholders' net assets are the excess of the assets of the life business, less current liabilities, over the actuarial value of policy liabilities, as determined using the financial soundness valuation method.

Value of new business

This is a measure of the value added to a company as a result of writing new business. This is calculated as the discounted value, at the date of sale, of projected after-tax shareholder profit from new business written during the nine-month period – net of the opportunity cost of the solvency capital requirements of new business.

Embedded value and value of new business

	31 December 2005 Rm	31 March 2005 Rm
Shareholders' net assets	**1 105**	1 101
Cost of solvency capital	**(18)**	(15)
Value of business in force	**959**	857
Total embedded value	**2 046**	1 943
Value of new business	**118**	117

The shareholders' net assets of R1,105 million (March 2005: R1,101 million) represents the excess of assets over liabilities with assets at market value and liabilities on the financial soundness valuation method. The shareholders' net assets covered the capital adequacy requirement (CAR) 4,7 times as at 31 December 2005 (March 2005: 5,4 times).

Assumptions

The embedded value and value of new business was determined using the same "best estimate" assumptions regarding future mortality, discontinuance rate and expenses used in the financial soundness valuation.

The discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that the actual experience in future years may differ from that assumed.

The main economic assumptions that were used for the embedded value calculations are set out in the following table:

	31 December 2005 %	31 March 2005 %
Risk-free rate of return	**7,5**	8,5
Equity return	**9,5**	10,5
Cash return	**5,5**	6,5
Overall investment return	**7,9**	9,2
Risk discount rate	**10,5**	11,5
Unit cost inflation	**4,0**	5,0

Sensitivities

In order to indicate the sensitivity of the values to varying risk discount rates, an increase/(decrease) in the risk discount rate of one percent would reduce/(increase) the value of existing business by R50 million/(R55 million) and the value of new business by R7 million/(R8 million), should all the other assumptions remain unchanged.

The development of the embedded value can be analysed as follows:

	31 December 2005 Rm	31 March 2005 Rm
Embedded value at the end of the period/year	**2 046**	1 943
Less: embedded value at the beginning of the period	**1 943**	1 572
Plus: dividends declared and paid (including STC)	**409**	151
Embedded value earnings	**512**	522
Comprising		
Investment return on shareholders' net assets	**148**	174
Unwinding of risk discount rate	**76**	94
Value of new business written	**118**	117
Changes in assumptions and methodology	**66**	21
Investment variation on assets backing liabilities	**64**	61
Experience better than assumptions	**40**	55
	512	522
Return on embedded value (%)*	**36,6**	33,2

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.

**Embedded value earnings expressed as percentage of the embedded value at the beginning of the year (annualised for December 2005).*

		Company	
	Note	**31 December 2005 Rm**	31 March 2005 Rm
Assets			
Cash, cash balances and balances with central banks	2	**59**	6
Loans and advances to banks	3	**14**	16
Other assets	4	**5**	71
Investments in associated undertakings and joint ventures	5	**64**	133
Current tax assets	6	**13**	—
Subsidiary companies	7	**7 004**	4 208
Total assets		**7 159**	4 434
Liabilities			
Current tax liabilities	8	**40**	26
Borrowed funds	9	**163**	158
Other liabilities and sundry provisions	10	**66**	78
Deferred tax liabilities	11	**2**	16
Total liabilities		**271**	278
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	12	**1 334**	1 310
Share premium		**2 005**	1 624
Other reserves		**109**	(62)
Distributable reserves		**3 440**	1 284
Total equity		**6 888**	4 156
Total equity and liabilities		**7 159**	4 434

		Company	
	Note	**Nine months ended 31 December 2005 Rm**	Twelve months ended 31 March 2005 Rm
Net interest income		**55**	90
Interest and similar income	13	**64**	101
Interest expense and similar charges	13	**(9)**	(11)
Gains and losses from investment activities	14	**(115)**	2
Other operating income	15	**4 725**	1 729
Net operating income		**4 665**	1 821
Operating expenses		**(15)**	(11)
Operating expenses	16	**(9)**	(8)
Indirect taxation	17	**(6)**	(3)
Impairments of associated and joint venture companies	5	**—**	(19)
Operating profit before income tax		**4 650**	1 791
Taxation expense	18	**(93)**	(83)
Profit for the period		**4 557**	1 708
Attributable to:			
Equity holders of the Company		**4 557**	1 708
Headline earnings	19	**4 672**	1 725

Company	Note	Number of ordinary shares '000	Share capital Rm
Balance as previously reported		651 055	1 302
IFRS adjustment applied retrospectively		—	—
Restated opening balance at 1 April 2004		651 055	1 302
Shares issued		4 000	8
Less: costs incurred		—	—
Movement in available-for-sale reserve		—	—
Increase in share-based payments reserve		—	—
Profit for the period		—	—
Dividends declared	20	—	—
Balance at 31 March 2005		655 055	1 310
Shares issued		**11 800**	**24**
Less: costs incurred		—	—
Movement in available-for-sale reserve		—	—
Increase in share-based payments reserve		—	—
Profit for the period		—	—
Dividends declared	20	—	—
Balance at 31 December 2005		**666 855**	**1 334**

Share premium Rm	Available-for-sale reserve Rm	Translation (deficit)/ reserve Rm	Share-based payments reserve Rm	Associated companies' retained earnings Rm	Distributable reserves Rm	Total Rm
1 513	(82)	(11)	—	204	912	3 838
—	—	—	10	(204)	2	(192)
1 513	(82)	(11)	10	—	914	3 646
111	—	—	—	—	—	119
0	—	—	—	—	—	0
—	(19)	—	—	—	—	(19)
—	—	—	40			40
—	—	—	—	—	1 708	1 708
—	—	—	—	—	(1 338)	(1 338)
1 624	(101)	(11)	50	—	1 284	4 156
382	**—**	**—**	**—**	**—**	**—**	**406**
(1)	**—**	**—**	**—**	**—**	**—**	**(1)**
—	**101**	**—**	**—**	**—**	**—**	**101**
—	**—**	**—**	**70**	**—**	**—**	**70**
—	**—**	**—**	**—**	**—**	**4 557**	**4 557**
—	**—**	**—**	**—**	**—**	**(2 401)**	**(2 401)**
2 005	**—**	**(11)**	**120**	**—**	**3 440**	**6 888**

company cash flow statement

	Note	Company Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
Cash flows from operating activities			
Interest and commission received		64	101
Net trading and other income		4 725	1 721
Cash payments to employees and suppliers		(18)	(19)
Income taxes paid		(83)	(64)
Cash flows from operating profits before changes in operating assets and liabilities		4 688	1 739
Changes in operating assets and liabilities:			
Net decrease/(increase) in other assets		80	(22)
Net increase in other liabilities		(9)	(7)
Net cash from operating activities		4 759	1 710
Cash flows from investing activities			
Acquisition of subsidiaries and associates, net of cash acquired		—	(683)
Acquisition of associates		—	—
Investment in shares		(1 986)	—
Loans to subsidiaries		(740)	—
Proceeds on disposal of investment		—	2
Dividends received from associated companies		14	8
Net cash used in investing activities		(2 712)	(673)
Cash flows from financing activities			
Issue of ordinary shares		405	119
Proceeds from borrowed funds		—	158
Dividends paid		(2 401)	(1 338)
Net cash from financing activities		(1 996)	(1 061)
Net increase/(decrease) in cash and cash equivalents		51	(24)
Cash and cash equivalents at the beginning of the period		22	46
Cash and cash equivalents at the end of the period	21	73	22

	Company	
	31 December 2005 Rm	31 March 2005 Rm
1. Summary of significant accounting policies		
The financial statements of Absa Group Limited (Company) are prepared according to the same accounting principals used in preparing the consolidated financial statements of Absa Group Limited. For detailed accounting policies refer to pages 71 to 88 of this report.		
2. Cash, cash balances and balances with central banks		
Money on call	**59**	6
Included in cash and cash equivalents (refer to note 21)	**59**	6
3. Loans and advances to banks		
Loans and advances to banks	**14**	16
Included in cash and cash equivalents (refer to note 21)	**14**	16
Portfolio analysis		
Loans and receivables	**14**	16
The carrying value of loans and advances to banks approximate their fair value. All loans have variable rates.		
4. Other assets		
Accounts receivable and prepayments	**—**	58
Accrued dividends	**5**	13
	5	71
5. Investments in associated undertakings and joint ventures		
Shares at book value	**64**	133
Opening balance as previously reported	**132**	156
Impact of IFRS adjustment applied retrospectively	**1**	1
Acquisitions	**56**	—
Disposals	**(125)**	(5)
Impairment charge	**—**	(19)
Share of post acquisition reserves	**—**	—
Opening balance as previously reported	**—**	204
Adjustment to carry investments at cost	**—**	(204)
Carrying value	**64**	133
Directors' valuation of unlisted shares	**342**	249
Market value of listed associates	**—**	144
Total directors' valuation and market value	**342**	393

	Company	
	31 December 2005 Rm	31 March 2005 Rm
5. Investments in associated undertakings and joint ventures *(continued)*		
5.1. Acquisitions and disposals		
Acquisitions		
The following acquisitions were concluded during the year, at cost:		
Banco Comercial Angolano	**45**	
On 1 April 2005, the Company acquired a 50% stake in Banco Comercial Angolano. The Company is considered to exercise significant influence, therefore this entity has been equity accounted.		
Meeg Bank Limited	**11**	
Meeg Bank Limited was previously shown as a subsidiary. During the period, owing to changing circumstances, the Company concluded that it no longer had control of the entity.		
Total acquisitions	**56**	
Disposals		
Sage Group Limited	**(125)**	
On 19 August 2005, the Company sold its share of Sage Group Limited to a third party.		
6. Current tax assets		
Amounts due from revenue authorities	**13**	—
7. Subsidiary companies		
Shares at cost less amounts written off	**8 536**	6 480
Indebtedness to the Company	**(1 532)**	(2 272)
	7 004	4 208
8. Current tax liabilities		
Normal taxation	**—**	26
Secondary tax on companies	**40**	—
	40	26

	Company	
	31 December 2005 Rm	31 March 2005 Rm
9. 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
Accrued dividend	**5**	—
The dividends are compounded and payable semi-annually in arrear on 30 September and 31 March of each year. The shares were issued by Absa Group Limited on 1 July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ending on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1 March, 1 June, 1 September or 1 December of each year. The shares are convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.		
	163	158
Maturity analysis		
Current	**5**	—
Non-current	**158**	158
	163	158
Portfolio analysis		
At cost	**163**	158
The carrying value of borrowed funds approximate their fair value.		
10. Other liabilities		
Creditors and other accruals	**66**	78

	Company	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
11. Deferred tax		
Deferred income tax and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right to offset at settlement.		
The following amounts are disclosed in the balance sheet:		
Deferred tax liabilities	**2**	16
Tax effects of temporary differences between tax and book value for:		
Gains on investment	**2**	16
Balance as previously reported	**16**	9
Deferred tax released on STC credits	**—**	6
Income statement charge (refer to note 18)	**(14)**	(18)
Tax effect of translation and other differences	**—**	19
Closing balance at the end of the period	**2**	16
12. Share capital		
Share capital		
Authorised		
800 000 000 (March 2005: 800 000 000) ordinary shares of R2 each	**1 600**	1 600
Issued		
666 855 074 (March 2005: 655 055 074) ordinary shares of R2 each	**1 334**	1 310
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 31 March 2005, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming annual general meeting of the Group.		
Shares issued during the year		
On 21 April 2005, 7 000 000 ordinary shares were issued at R36,42 per share, being R2 par value and R34,42 share premium. A further 4 800 000 ordinary shares were issued on 18 May 2005 at R31,35, being R2 par value and R29,35 share premium.		
Preference share capital – unlisted		
Authorised		
80 467 500 (March 2005: 80 467 500) redeemable cumulative option-holding preference shares of R2 each	**161**	161
Issued		
79 237 500 (March 2005: 79 237 500) redeemable preference shares of R2 each	**158**	158

These shares meet the definition of debt under IAS 32 and have therefore been included under borrowed funds (refer to note 9).

	Company	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
13. Net interest income		
Interest and similar income		
Cash, cash balances and balances with central banks	**8**	2
Loans to subsidiary companies	**56**	99
	64	101
Interest expense and similar charges		
Borrowed funds	**9**	11
14. Gains and losses from investment activities		
Net (loss)/profit on available-for-sale investments	**(115)**	2
15. Other operating income		
Dividend income	**4 717**	1 723
Sundry income	**8**	6
	4 725	1 729
16. Operating expenses		
Administrative expenses	**8**	7
Other professional fees	**1**	1
	9	8
17. Indirect taxation		
Regional Services Council levies	**6**	3

	Company	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
18. Taxation expense		
South African current taxation	**42**	69
Deferred tax	**(14)**	(18)
Secondary tax on companies	**65**	30
Foreign taxation	**—**	2
	93	83
Further information about deferred income tax is presented in note 11.		
The tax rate on the Company's profit differs from the theoretical rate as follows:		
Tax rate	**29%**	30%
Income not subject to normal taxation	**(29%)**	(28%)
Secondary tax on companies	**1%**	2%
Other permanent differences	**1%**	2%
Effective tax rate	**2%**	6%
19. Headline earnings		
Headline earnings is determined as follows:		
Net income attributable to shareholders	**4 557**	1 708
Adjustments for:		
Net loss/(profit) on disposal of available-for-sale assets and strategic investments	**115**	(2)
Impairment of available-for-sale and strategic investments	**—**	19
	4 672	1 725

	Company	
	Nine months ended 31 December 2005 Rm	Twelve months ended 31 March 2005 Rm
20. Dividends per share		
Dividends		
Final dividend number 37 of 200 cents per ordinary share (March 2004: 110 cents)	**1 334**	716
Interim dividend number 38 of 160 cents per ordinary share (September 2004: 95 cents)	**1 067**	622
Total dividends paid during the period	**2 401**	1 338
Interim dividend number 38 of 160 cents per ordinary share (September 2004: 95 cents)	**1 067**	622
Final dividend number 39 of 135 cents per ordinary share (March 2005: 200 cents)	**900**	1 334
Total dividends relating to income for the period	**1 967**	1 956

A final dividend of 135 cents per ordinary share was approved by the board on 21 February 2006. The total dividend amounts to R900 million and the STC payable by the Company in respect of the dividend approved and declared subsequent to 31 December 2005 amounts to R113 million. No provision has been made for this dividend and the related STC in the financial statements for the period ended 31 December 2005.

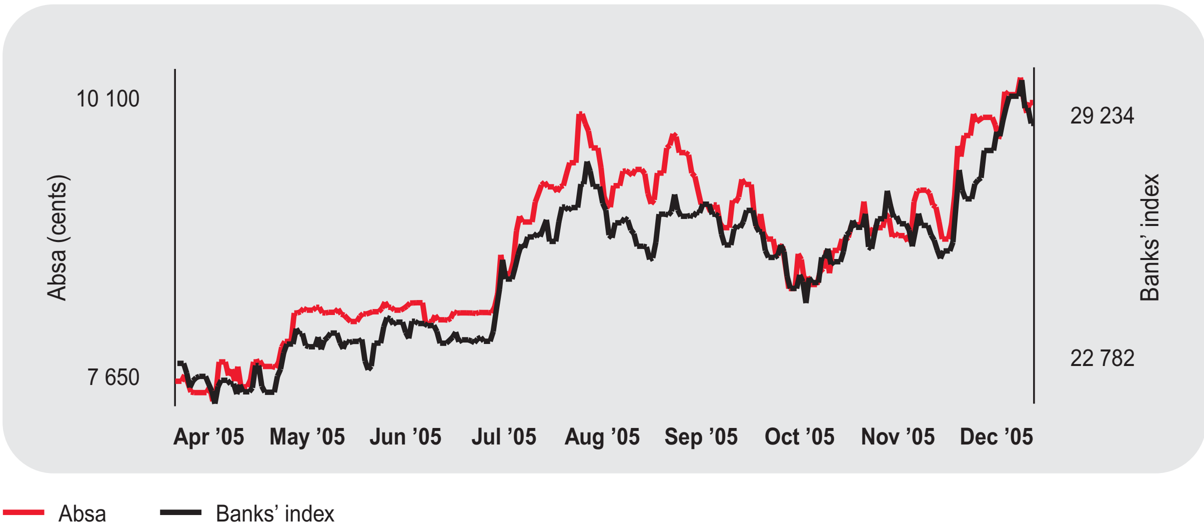
21. Cash and cash equivalents		
Cash, cash balances and balances with central banks (refer to note 2)	**59**	6
Loans and advances to banks (refer to note 3)	**14**	16
	73	22

22. Related party transactions

Refer to note 44 of Absa Group Limited and its subsidiaries' financial statements on page 128 for the full disclosure of related party transactions.

shareholder and administrative information – contents

	Nine months ended 31 December 2005	Twelve months ended 31 March 2005
Number of shares in issue (000)*	**666 855**	655 055
Market price (cents per share)		
› Closing	**10 100**	7 540
› High	**10 320**	8 150
› Low	**7 475**	4 320
› Weighted average	**8 674**	6 160
Closing price/net asset value per share	**2,60**	2,11
Closing price/earnings	**10,3**	9,1
Volume of shares traded (R million)**	**298,2**	455,5
Value of shares traded (R million)**	**26 443,4**	27 892,2
Market capitalisation (R million)	**67 352,4**	49 391,2



Includes 3 074 268 shares held by the Absa Group Limited Share Incentive Trust (March 2005: 446 073) and 388 200 shares held by Absa Life Limited (March 2005: not applicable).

***Only one block trade, of 14,5 million shares, was traded through the JSE during the Barclays acquisition. The remainder of the shares were tendered directly to Barclays by Absa shareholders.*

as at 31 December 2005

Ordinary shareholders

	Number of shares held	%
Major ordinary shareholders		
Barclays Bank PLC	377 527 453	56,6
Old Mutual Asset Managers	36 306 682	5,4
Allan Gray Limited	30 142 056	4,5
Investec Asset Management	27 712 769	4,2
Public Investment Corporation	26 680 431	4,0
Coronation Fund Managers	15 131 658	2,3
Sanlam Investment Management	14 238 186	2,1
Bernstein Investment Research Management	11 560 604	1,7
Stanlib Asset Management	6 590 213	1,0
T. Rowe Price Associates Inc.	5 919 424	0,9
Shareholder type		
Principal shareholders (Barclays Bank PLC)	377 527 453	56,6
Private investors	27 149 557	4,1
Other	262 178 064	39,3
Total	666 855 074	100,0

	Number of shareholders	Number of shares held	%
Public and non-public shareholders			
Public shareholders	39 174	284 828 634	42,8
Non-public shareholders	28	382 026 440	57,2
› Barclays Bank PLC	1	377 527 453	56,6
› Trustees of the Absa Share Incentive Trust	1	3 092 770	0,4
› Related holdings	13	1 258 767	0,2
› Directors and associates	13	147 450	0,0
Total	39 202	666 855 074	100,0

Preference shareholders

Batho Bonke Capital (Proprietary) Limited and the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust hold 79 237 500 redeemable cumulative option-holding preference shares.

	Shares held
Batho Bonke Capital (Proprietary) Limited	73 152 300
Absa Group Limited Employee Share Ownership Administrative Trust	6 085 200
Total	79 237 500

Total number of shares

	Ordinary shares	Preference shares	Total shares
Shares in issue at 31 December 2005	666 855 074	79 237 500	746 092 574

Important events

Financial year-end	31 December 2005
Announcement of results for the nine months ended 31 December 2005	21 February 2006
Annual general meeting	10 May 2006
Announcement of interim results	3 August 2006

Dividends

	Declaration date	Last day to trade	Ex dividend date	Record date	Payment date
Final – December 2005	21 February 2006	10 March 2006	13 March 2006	17 March 2006	20 March 2006
Interim – June 2006	3 August 2006	25 August 2006	28 August 2006	1 September 2006	4 September 2006

Controlling company

Absa Group Limited

Reg No 1986/003934/06

Registered office

3rd Floor, Absa Towers East,
170 Main Street, Johannesburg,
2001
Postal address: P O Box 7757,
Johannesburg, 2000
Telephone: (011) 350-4000
Telefax: (011) 350-4009
e-mail: groupsec@absa.co.za

Board of directors

D C Cronjé (chairman)
D C Brink (deputy chairman)
S F Booysen* (Group chief executive)
L N Angel
D C Arnold
D E Baloyi
D Bruynseels*†
B P Connellan
A S du Plessis
G Griffin
M W Hlahla
L N Jonker
N Kheraj†
P du P Kruger
L W Maasdorp
D L Roberts†
J H Schindehütte*
T M G Sexwale
F A Sonn
P E I Swartz
L L von Zeuner*

Transfer secretaries

Computershare Investor Services
2004 (Proprietary) Limited,
70 Marshall Street,
Johannesburg, 2001
Postal address: P O Box 61051,
Marshalltown, 2107
Telephone: (011) 370-5000
Telefax: (011) 370-5271/2

ADR depositary

The Bank of New York
Postal address: 101 Barclay Street,
22W, New York, NY, 10286
Telephone: +1 212 815 2248

Auditors

PricewaterhouseCoopers Inc.
Ernst & Young

Group secretary

W R Somerville
e-mail: williams@absa.co.za

Sponsors

Lead sponsor

Merrill Lynch South Africa (Proprietary) Limited
(Member of the Merrill Lynch Group)
138 West Street, Sandown,
Sandton, 2196
Postal address: P O Box 651987,
Benmore, 2010
Telephone: (011) 305-5555
Telefax: (011) 305-5610

Co-sponsor

Absa Corporate and Merchant Bank
Corporate Finance
3rd Floor, Absa Towers North, 3W2,
180 Commissioner Street,
Johannesburg, 2001
Postal address: P O Box 8054,
Johannesburg, 2000
Telephone: (011) 350-4000
Telefax: (011) 350-7422

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: P O Box 7735,
Johannesburg, 2000
Telephone: (011) 350-4000
Telefax: (011) 350-4009
e-mail: groupsec@absa.co.za

Board of directors

D C Cronjé (chairman)
D C Brink (deputy chairman)
S F Booysen* (chief executive)
L N Angel
D C Arnold
D E Baloyi
D Bruynseels*†
B P Connellan
A S du Plessis
R R Emslie* (alternate)
C Erasmus*
G Griffin
M W Hlahla
L N Jonker
N Kheraj†
P du P Kruger
L W Maasdorp
N P Mageza* (alternate)
D L Roberts†
J H Schindehütte*
T M G Sexwale
F A Sonn
P E I Swartz
J P van der Merwe*
L L von Zeuner*

Absa Personal Bank division

Absa Towers, 160 Main Street,
Johannesburg, 2001
Postal address: P O Box 7735,
Johannesburg, 2000
Telephone: (011) 350-4000
Telefax: (011) 350-4411
e-mail: louisvz@absa.co.za

Absa Private Bank

Ground Floor, Block A,
65 Empire Road, Parktown, 2193
Postal address: P O Box 1133,
Auckland Park, 2006
Telephone: (011) 480-5014
Telefax: (011) 480-3225
e-mail: bassaza@absa.co.za

Absa Commercial Bank division

Absa Towers, 160 Main Street,
Johannesburg, 2001
Postal address: P O Box 7735,
Johannesburg, 2000
Telephone: (011) 350-4000
Telefax: (011) 350-5247
e-mail: oscarg@absa.co.za

Absa Vehicle and Asset Finance division

M de Klerk* (managing executive)
Absa Towers, 160 Main Street,
Johannesburg, 2001
Postal address: P O Box 8842,
Johannesburg, 2000
Telephone: (011) 350-4000
Telefax: (011) 350-5373
e-mail: vehiclefinance@absa.co.za

**Executive in the Absa Group.*
†British.

Absa Corporate and Merchant Bank division

Absa Towers North,
180 Commissioner Street,
Johannesburg, 2001
Postal address: P O Box 2683,
Johannesburg, 2000
Telephone: (011) 350-4000
Telefax: (011) 350-3064
e-mail: acmb@absa.co.za

Dealing department:
Telephone: (011) 647-0892
Telefax: (011) 647-0877

Settlement department:
Telephone: (011) 647-0819
Telefax: (011) 647-0828
e-mail: edwardf@absa.co.za

Overseas offices

London

Absa Bank London
A Martin* (general manager)
75 King William Street, London,
EC4N 7AB
Telephone: (094420) 7 711-6400
Telefax: (094420) 7 711-6550
e-mail: info@absa.co.uk

Hamburg

Bankhaus Wölbern & Co (AG & Co KG)
Reg No HRA 51805
Vacant (chairman)
E R Hirsch* (managing director)
Herrengraben 74, Hamburg, D-20459
Telephone: (094940) 37608-158
Telefax: (094940) 37608-166
e-mail: info@woelbern.de

Absa Bank representative office
Herrengraben 74, Hamburg, D-20459
Telephone: (094940) 36 9730-0
Telefax: (094940) 36 97 3036
e-mail: stephan@absa.de

Stockbroking

Absa Stockbrokers (Proprietary) Limited

(member of the JSE Limited)
Reg No 1973/010798/07
C Erasmus* (chairman)
A J Miller* (managing director)
Park Ridge Office Park, Block A,
65 Empire Road, Parktown, 2193
Postal address: P O Box 61320,
Marshalltown, 2107

Factoring and invoice discounting

Absa Debtor Finance (Proprietary) Limited

Reg No 1990/001207/07
R R Emslie* (chairman)
A Singh* (managing director)
Debtor Finance House, 3 West Street,
Houghton, 2041
Postal address: P O Box 7735,
Johannesburg, 2000
Telephone: (011) 221-6444
Telefax: (011) 333-3884

Delivery channels

Delivery Channel Services

J J Grobler* (managing executive)
Absa Towers, 160 Main Street,
Johannesburg, 2001
Postal address: P O Box 7735,
Johannesburg, 2000
Telephone: (011) 350-4581
Telefax: (011) 356-5143
e-mail: jacog@absa.co.za

Credit card services

Absa Card

C Sweeney* (managing executive)
Volkskas Centre,
230 Van der Walt Street,
Pretoria, 0002
Postal address: P O Box 3915,
Pretoria, 0001
Telephone: (012) 317-0000
Telefax: (012) 317-3400
e-mail: contactcard@absa.co.za

Asset management

Abvest Associates (Proprietary) Limited

Reg No 1997/017903/07
C Erasmus* (chairman)
A J Miller* (managing director)
2nd Floor, Paramount Place,
5 Protea Road, Claremont, 7708
Postal address: P O Box 44952,
Claremont, 7735
Telephone: (021) 657-6000
Telefax: (021) 657-6100
e-mail: sam.houlie@abvest.com

Other banking subsidiaries and interests

Tanzania

National Bank of Commerce Limited
C M Nyirabo (chairman)
C P de Vries* (managing director)
Mezzanine Floor, NBC House,
Sokoine Drive, Dar es Salaam
Postal address: P O Box 1863,
Dar es Salaam, Tanzania
Telephone: (09255) 222-110959
Telefax: (09255) 222-112887
e-mail: cs@nbctz.com

Zimbabwe

CBZ Holdings Limited
R V Wilde (chairman)
N J Makuvise (managing director)
60 Kwame Nkrumah Avenue, Harare
Postal address: P O Box 3313,
Harare, Zimbabwe
Telephone: (092634) 749714
Telefax: (092634) 758077
e-mail: cbzinfo@africaonline.co.zw

Mozambique

Banco Austral, Sarl
C Francesco (chairman)
G Jordaan* (managing director)
Avenida 25 de Setembro No 1184,
Maputo, Mozambique
Telephone: (09258) 1 427685
Telefax: (09258) 1 301094
e-mail: jane.grob@teledata.mz

**Executive in the Absa Group.*

Namibia

Capricorn Investment Holdings Limited
(formerly Bank Windhoek Holdings Limited)
J C Brandt (chairman)
J J Swanepoel (Group managing director)
Bank Windhoek Building,
262 Independence Avenue,
Windhoek
Postal address: P O Box 15,
Windhoek, Namibia
Telephone: (0926461) 299-1228
Telefax: (0926461) 299-1309
e-mail: vonludwigerh@bankwindhoek.com.na

Angola

Banco Comercial Angolano
A da Silva Tomas (chairman)
S Matosa (acting managing director)
79 A – Avenida Comandante Valodia,
Luanda
Postal address: Caixa Postal 6900,
Luanda
Telephone: (+244) 2-448842/8/9
Telefax: (+244) 2-449516
e-mail: bca@bca.co.ao

South Africa

Meeg Bank Limited
Reg No 1976/060115/06
W L Nkuhlu (chairman)
D Z Nkonki (acting managing director)
5th Floor, Absa Building,
cnr Oxford and Gladstone Streets,
85 Oxford Street, East London,
Eastern Cape, 5201
Postal address: P O Box 429,
East London, 5200
Telephone: (043) 742-4949
Telefax: (043) 742-4955
e-mail: dz@meegbank.co.za

Financial services and insurance

Absa Financial Services Limited and its major subsidiaries

Absa Financial Services Limited

Reg No 1969/009007/06
S F Booysen* (chairman)
C Erasmus* (managing director)
Absa Towers East, 170 Main Street,
Johannesburg, 2001
Postal address: P O Box 7735,
Johannesburg, 2000
Telephone: (011) 350-4227
Telefax: (011) 350-3946
e-mail: charlese@absa.co.za

Absa Consultants and Actuaries (Proprietary) Limited

Reg No 1961/001434/07
C Erasmus* (chairman)
M J Grobler* (managing director)
Fourways Golf Park Mowbray
Building, Roos Street, Fourways
Postal address: P O Box 928,
Johannesburg, 2000
Telephone: (011) 224-9000
Telefax: (011) 467-8442
e-mail: jgrobler@absa.co.za

Absa Health Care Consultants (Proprietary) Limited

Reg No 1983/008344/07
C Erasmus* (chairman)
L J Botha* (managing director)
Absa Building, 2nd Floor,
1263 Heuwel Avenue, Centurion,
Pretoria, 0157
Postal address: P O Box 10285,
Centurion, 0046
Telephone: (012) 674-8800
Telefax: (012) 663-8673
e-mail: louisjb@absa.co.za

Absa Fund Managers Limited

Reg No 1991/000881/06
C Erasmus* (chairman)
A J Miller* (managing director)
65 Empire Road, Parktown, 2193
Postal address: P O Box 6115,
Johannesburg, 2000
Telephone: (011) 480-5000
Telefax: (011) 480-5440
e-mail: giliam@absa.co.za

Absa Trust Limited

Reg No 1915/004665/06
C Erasmus* (chairman)
M J Grobler* (managing director)
65 Empire Road, Parktown, 2193
Postal address: P O Box 223,
Auckland Park, 2006
Telephone: (011) 480-5000
Telefax: (011) 480-5193
e-mail: willieg@absa.co.za

Absa Brokers (Proprietary) Limited

Reg No 1970/002732/07
C Erasmus* (chairman)
Vacant (managing director)

Life broking

267 Kent Avenue, Randburg, 2194
Postal address: P O Box 3540,
Randburg, 2125
Telephone: (011) 289-0600
Telefax: (011) 289-0740
e-mail: dolkers@absa-ib.co.za

Short-term broking

267 Kent Avenue, Randburg, 2194
Postal address: P O Box 3992,
Randburg, 2125
Telephone: (011) 289-0600
Telefax: (011) 289-0740
e-mail: dolkers@absa-ib.co.za

Absa Insurance Company Limited

Reg No 1992/001737/06
C Erasmus* (chairman)
C F de Jager* (managing director)
21 Kruis Street, Johannesburg, 2001
Postal address: P O Box 421,
Johannesburg, 2000
Telephone: (011) 330-2111
Telefax: (011) 331-7414
e-mail: coenraad@absa.co.za

Executive in the Absa Group.

Absa Life Limited
Reg No 1992/001738/06
C Erasmus* (chairman)
C F de Jager* (managing director)
21 Kruis Street, Johannesburg, 2001
Postal address: P O Box 421, Johannesburg, 2000
Telephone: (011) 330-2265
Telefax: (011) 331-1312
e-mail: coenraad@absa.co.za

Absa Investment Management Services (Proprietary) Limited
Reg No 1980/002425/07
C Erasmus* (chairman)
G M Smit* (managing director)
1 Woodmead Drive, Block 6, Woodmead Estate, 2128
Postal address: P O Box 974, Johannesburg, 2000
Telephone: (011) 259-0111
Telefax: (011) 259-0051/2
e-mail: aims@absa.co.za

Property development

Absa Development Company Holdings (Proprietary) Limited
Reg No 1968/001326/07
Vacant (chairman)
S Mashinini* (managing director)
Block E, Flora Park Office Park, cnr Ontdekkers and Conrad Roads, Florida, 1710
Postal address: P O Box 1132, Johannesburg, 2000
Telephone: (011) 671-7300
Telefax: (011) 350-4769
e-mail: siphomas@absa.co.za

Real Estate Asset Management (REAM)
Block E, Flora Park Office Park, cnr Ontdekkers and Conrad Roads, Florida, 1710
Postal address: P O Box 1132, Johannesburg, 2000
Telephone: (011) 671-7300
Telefax: (011) 350-4769
e-mail: siphomas@absa.co.za

**Executive in the Absa Group.*

Provincial advisory boards

Eastern and Southern Cape
A A da Costa (chairman)
D D Tabata (vice-chairman)
D R Bruce
B P Erasmus
B C Qupe
J Schewitz

Free State
E M Makotoko (chairman)
W F Relling (vice-chairman)
N Bagarette
R G Burls
K M Charlwood
P C Luttig
M Makhubalo
O A Themba

Gauteng
L I Weil (chairman)
P J Muller (vice-chairman)
H P Africa
S Dakile-Hlongwane
T Matshazi
B Mogale
A Mokadi
Y A Moti
J J Sauer

Gauteng North
D J de Villiers (chairman)
S Adendorff
F B de Vos
D Motlatla
N R Mistry
D M Sewela
S Vil-Nkomo

KwaZulu-Natal
N A Gasa (chairman)
D G Barrett
W D Howie
K Makan
L Moloi
D Myeni
N T Oosthuizen
S J Sibeko

Mpumalanga
N M Phosa (chairman)
J J Claassen
J J Maritz
N P Mazibuko
H van der Merwe

Northern Cape
P Crouse (chairman)
J S Marais
N A Mazibuko
R E Modise
C P van den Heever
M S Wookey

Limpopo
S N Mahomed (chairman)
I I Bower (vice-chairman)
L R Phathela
T F Pretorius
H Ramaphosa
L Thembe
P G A Vorster

North West
I Klynsmith (chairman)
M Kropman (vice-chairman)
J P du Preez
R K Mokitime
S Roopa
G van der Merwe

Western Cape
P E I Swartz (chairman)
Z Combi
C du Toit
A Floris
M Isaacs
P Krawitz
G Mallinick
S Young

Absa Group Limited

(Incorporated in the Republic of South Africa)

Registration number 1986/003934/06

("the Company" or "the Group")

JSE share code: ASA

Issuer code: AMAGB

ISIN: ZAE 000067237

Notice is hereby given that the twentieth annual general meeting of ordinary shareholders will be held in the PW Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg, on Wednesday, 10 May 2006 at 10:00.

In terms of the Company's articles of association, redeemable cumulative option-holding preference shareholders have the same rights as ordinary shareholders to attend, speak and vote at general meetings of the Company and will thus be entitled to attend the annual general meeting and speak and vote thereat.

Agenda

1. To consider the Group and Company audited financial statements for the nine months ended 31 December 2005.
2. To sanction the proposed remuneration payable to non-executive directors from 1 May 2006, as set out in the table contained in the explanatory notes to the resolutions to be considered at the annual general meeting.
3. To re-elect the following directors, who retire by rotation, but being eligible, offer themselves for re-election: L N Angel, B P Connellan, A S du Plessis, G Griffin, P du P Kruger, L W Maasdorp and T M G Sexwale.
4. To confirm the appointment of Ms M W Hlahla as a director of the Company.
5. To consider and, if deemed fit, to pass, with or without modification, the following as an ordinary resolution in order to provide the directors with flexibility to issue the unissued ordinary shares as and when suitable situations arise:

   "Resolved that the authorised but unissued ordinary shares of the Company (other than those specifically identified and authorised for issue in terms of any other authority by shareholders) are hereby placed under the control of the directors, who be and are hereby authorised, subject to any applicable legislation and the Listings Requirements from time to time of the JSE Limited (JSE) and any other stock exchange upon which ordinary shares in the capital of the Company may be quoted or listed from time to time, to allot and issue those ordinary shares on any such terms and conditions as they deem fit, subject to the proviso that the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution shall be limited to 5% (five percent) of the number of ordinary shares in issue at 31 December 2005."
6. To consider and, if deemed fit, to pass, with or without modification, the following resolution as a **special resolution** in order to provide the directors with flexibility to repurchase shares as and when suitable situations arise:

   "Resolved that the Company or any subsidiary of the Company may, subject to the Companies Act, the Company's articles of association and the Listings Requirements from time to time of the JSE Limited (JSE) and any other stock exchange upon which the securities in the capital of the Company may be quoted or listed from time to time, repurchase securities issued by the Company, provided that this authority shall be valid only until the next annual general meeting of the Company or for 15 months from the date of the resolution, whichever is the shorter, and may be varied by special resolution by any general meeting of the Company at any time prior to the next annual general meeting."

   Pursuant to the above, the following additional information, required in terms of the Listings Requirements of the JSE, is submitted:

   It is recorded that the Company or any subsidiary of the Company may only make a general repurchase of securities if:

   - the repurchase of securities is effected through the order book operated by the JSE trading system and is done without any prior understanding or arrangement between the Company and the counterparty;
   - the Company is authorised thereto by its articles of association;

- the Company is authorised thereto by its shareholders in terms of a special resolution of the Company in general meeting, which authorisation shall be valid only until the next annual general meeting or for 15 (fifteen) months from the date of the resolution, whichever period is the shorter;
- repurchases are made at a price not greater than 10% (ten percent) above the weighted average of the market value for the securities for the 5 (five) business days immediately preceding the date of repurchase;
- at any point in time, the Company only appoints one agent to effect any repurchases on the Company's behalf;
- the Company only undertakes repurchases if, after such repurchase, the Company still complies with shareholder spread requirements in terms of the Listings Requirements of the JSE;
- the Company or its subsidiaries do not repurchase securities during a prohibited period defined in terms of the Listings Requirements of the JSE;
- a paid press announcement containing full details of such repurchases is published as soon as the Company has repurchased securities constituting, on a cumulative basis, 3% (three percent) of the number of securities in issue prior to the repurchases and for each 3% (three percent), on a cumulative basis, thereafter; and
- the general repurchase is limited to a maximum of 20% (twenty percent) of the Company's issued share capital of that class in any one financial year.

The directors of the Company undertake that, for a period of 12 (twelve) months following the date of the annual general meeting or for the period of the general authority, whichever is the longer, they will not undertake such repurchases unless:

- the Company and the Group would be able to repay its debts in the ordinary course of business;
- the assets of the Company and the Group, fairly valued in accordance with International Financial Reporting Standards and the Company's accounting policies used in the latest audited Group financial statements, would be in excess of the liabilities of the Company and the Group for the next year;
- the Company and the Group will have adequate capital and reserves for ordinary business purposes for the next year; and
- the working capital of the Company and the Group will be adequate for the next year's ordinary business purposes.

In terms of the Listings Requirements of the JSE, the maximum number of shares that can be repurchased amounts to 133 371 014 ordinary shares (20% of the 666 855 074 ordinary shares in issue as at 31 December 2005). This authority shall only be valid from the date of this annual general meeting until the following annual general meeting.

The **reason** for passing of the **special resolution** is to enable the Company or any of its subsidiaries, by way of a general authority from shareholders, to repurchase securities issued by the Company. The **effect** of the special resolution, once registered, will be to permit the Company or any of its subsidiaries to repurchase such securities in terms of the Companies Act. This authority will only be used if circumstances are appropriate.

For the purposes of considering the special resolution and in compliance with paragraph 11.26(b) of the Listings Requirements of the JSE, the information listed below has been included in this report, in which this notice of annual general meeting is included, at the places indicated:

- Directors – refer to pages 20 to 27 of this report.
- Major shareholders – refer to page 196 of this report.
- No material changes in the financial or trading position of the Company and its subsidiaries have occurred since 31 December 2005.
- Directors' interests in securities – refer to page 60 of this report.
- Share capital of the Company – refer to page 64 of this report.
- The directors, whose names are set out on pages 20 to 27 of this report, collectively and individually accept full responsibility for the accuracy of the information contained in this special resolution and certify that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable enquiries in this regard; and
- There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Company is aware), which may have or have had a material effect on the Company's financial position over the past nine months.

Proxy and voting procedure

Members who have not dematerialised their shares or who have dematerialised their shares with own name registration are entitled to attend or vote at the meeting and are entitled to appoint a proxy to attend, speak and vote in their stead. The person so appointed need not be a member of the Company.

If certificated members or dematerialised members with own name registration are unable to attend the annual general meeting but wish to be represented thereat, they must complete the proxy form on page 209 of this report.

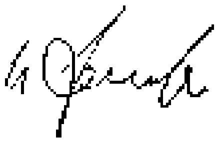
In order to be effective, proxy forms should be delivered or posted to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107), so as to reach this address not later than 10:00 on Monday, 8 May 2006.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, should contact their Central Securities Depositary Participant (CSDP) or stockbroker:

› to furnish their CSDP or stockbroker with their voting instruction; or

› in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

By order of the board



W R Somerville › Group secretary

Johannesburg

17 March 2006

Important notes about the annual general meeting (AGM)

Date: Wednesday, 10 May 2006, at 10:00.

Venue: PW Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg.

Time: The AGM will start promptly at 10:00. Shareholders wishing to attend are advised to be in the auditorium no later than 09:45. Reception staff at the Absa Towers complex will direct shareholders to the AGM venue. Refreshments will be served after the AGM.

Admission: Shareholders, representatives of shareholders and proxies attending the AGM are requested to register at the registration desk in the auditorium reception area at the venue. Shareholders, representatives of shareholders and proxies may be required to provide proof of identity.

Security: Secure parking is provided at the venue by prior arrangement. Attendees are asked not to bring cameras, laptop computers or tape recorders. Cellular telephones should be switched off for the duration of the proceedings.

Other important notes

1. General

Shareholders wishing to attend the annual general meeting have to ensure beforehand with the transfer secretaries of the Company that their shares are in fact registered in their name. Should this not be the case and the shares 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 to be able to attend and vote in their personal capacity. The proxy form contains detailed instructions in this regard.

2. Certificated shareholders and dematerialised shareholders with “own name” registration

If you are the registered holder of certificated Absa ordinary shares or hold dematerialised Absa ordinary shares in your own name and you are unable to attend the AGM and wish to be represented at the AGM, you should complete and return the attached form of proxy in accordance with the instructions contained therein so as to be received by the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107), by no later than 10:00 on Monday, 8 May 2006.

3. Dematerialised shareholders

If you are the holder of dematerialised Absa ordinary shares, but not the holder of dematerialised Absa ordinary shares in your own name, you must timeously provide your Central Securities Depositary Participant (CSDP) or stockbroker with your voting instructions for the AGM in terms of the custody agreement entered into with your CSDP or stockbroker. If, however, you wish to attend the AGM in person, then you will need to request your CSDP or stockbroker timeously to provide you with the necessary authority to attend and vote your shares.

4. Proxies

Shareholders must ensure that their proxy form reaches the transfer secretaries as indicated in note 3 on page 208 not later than 10:00 on Monday, 8 May 2006.

5. Enquiries

Any shareholders having difficulties or queries with regard to the AGM or the above may contact the Group secretary, William Somerville, on (+27 11) 350-4828.

Consideration of Group and Company financial statements for the nine months ended 31 December 2005

The directors must present to members at the annual general meeting the financial statements of the Group and the Company, incorporating the report of the directors, for the nine months ended 31 December 2005, together with the report of the auditors contained in this report.

Sanction of proposed remuneration payable to non-executive directors from 1 May 2006

Shareholders are requested to consider and, if deemed appropriate, sanction the proposed remuneration payable to non-executive directors with effect from 1 May 2006, as set out below. The proposed fee increases are retrospective to 1 May 2006 and will only be implemented and paid following approval thereof by shareholders at the annual general meeting. Full particulars of all fees and remuneration for the past nine months as well as the process followed by the Group Remuneration Committee in recommending board fees and remuneration are contained on pages 28 to 40 of this report.

Category	**Current annual remuneration R**	**Proposed annual remuneration payable with effect from 1 May 2006 R**	**Note**
Chairman	2 500 000	3 154 200	(1)
Board member	112 000	123 200	(2), (3) and (10)
Group Audit and Compliance Committee (GACC) member	87 000	104 400	(4) and (10)
Group Risk Committee (GRC) member	63 000	68 000	(5) and (10)
Group Remuneration Committee (Rem Com) member	52 000	54 600	(6) and (10)
Directors' Affairs Committee (DAC) member	39 000	41 000	(7) and (10)
Credit Committee: Large Exposures member	39 000	41 000	(8) and (10)
Implementation Committee member	39 000	41 000	(9) and (10)
Board Lending Committee member	Pool of R300 000 per annum payable to Board Lending Committee members *pro rata* to the number of facilities reviewed	350 000	
Special board meeting (per meeting)	15 000	16 500	
Special board committee meeting (per meeting)	9 700	10 600	
Ad hoc board fees: – per meeting of *ad hoc* board committees attended – consultancy work	 9 700 R2 500 per hour	 10 600 R2 750 per hour	

Notes

(1) *From 1 May 2006, the chairman's remuneration has been changed to an all-in basis. Previously, he received fees as Absa Group Limited and Absa Bank Limited board chairman equal to twice the fee payable to a board member, over and above his annual remuneration as chairman. This was a total of R3 004 200 per annum. In addition, at the annual general meeting on 19 August 2005, Absa's shareholders ratified the payment of a one-off additional remuneration of R1,5 million to the chairman as a result of the additional time spent on Absa matters during the period from August 2004 to May 2005 over and above his contractual arrangement with Absa.*

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

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

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

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

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

(7) *As the Group chairman is chairman of the DAC, this fee is covered by his Group chairman's fee.*

(8) *As the Group chairman is also the chairman of the Credit Committee: Large Exposures, his fee is covered by his Group chairman's fee.*

(9) *The Implementation Committee chairman receives fees equal to twice the fee payable to an Implementation Committee member.*

(10) *The fees payable to non-executive directors of Absa Group Limited in respect of subsidiary companies are not included as these fees are approved by the shareholders of the respective subsidiaries. Amounts received by Absa Group Limited directors from subsidiaries are disclosed in the directors' remuneration report.*

Re-election of retiring directors

In terms of the Company's articles of association, one-third of the directors are required to retire at each annual general meeting and may offer themselves for re-election. The directors who retire by rotation at the 2006 annual general meeting are: L N Angel, B P Connellan, A S du Plessis, G Griffin, P du P Kruger, L W Maasdorp and T M G Sexwale. Biographical details of these directors are set out on pages 20 and 27 of this report.

The Absa board recommends to shareholders the re-election of the retiring directors.

Confirmation of appointment of new director

The appointment, by the board of directors, of any person as a director of the Company during the year requires confirmation by shareholders at the first annual general meeting of the Company after the appointment of such person as a director. Biographical details of the new director (Ms M W Hlahla) are set out on page 24 of this report.

Placing of unissued ordinary shares under the control of the directors

In terms of sections 221 and 222 of the Companies Act, the members of the Company have to approve the placement of the unissued ordinary shares under the control of the directors.

The existing authority granted by the members at the previous annual general meeting on 19 August 2005 expires at the forthcoming annual general meeting, unless renewed. The authority will be subject to the Companies Act, the Banks Act and the Listing Requirements of the JSE Limited (JSE). The aggregate number of ordinary shares able to be allotted and issued in terms of this resolution shall be limited to 5% (five percent) of the number of ordinary shares in issue at 31 December 2005.

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.

Repurchase by the Company or any subsidiary of the Company of securities issued by the Company (special resolution)

The Company's articles of association contain a provision allowing the Company or any subsidiary of the Company to repurchase securities issued by the Company. This is subject to the approval of the members in terms of the Company's articles of association, the Companies Act, the Banks Act and the Listings Requirements of the JSE. The existing general authority, granted by the members at the previous annual general meeting on 19 August 2005, is due to expire, unless renewed.

The directors are of the opinion that it would be in the best interests of the Company to extend such general authority and thereby allow the Company or any subsidiary of the Company to be in a position to repurchase the securities issued by the Company through the order book of the JSE, should the market conditions and price justify such an action.

The proposed authority would enable the Company or any subsidiary of the Company to purchase up to a maximum of 133 371 014 ordinary securities in the ordinary issued share capital of the Company (20% of the issued ordinary share capital as at 31 December 2005) with a stated upper limit on the price payable, which reflects the Listings Requirements of the JSE. Repurchases will be made only after the most careful consideration, where the directors believe that an increase in earnings per share will result and where repurchases are, in the opinion of the directors, in the best interests of the Company and its members.

Explanatory notes regarding proxies

1. If two or more proxies attend the annual general meeting, then that person attending the annual general meeting whose name appears first on the proxy form and whose name is not deleted shall be regarded as the validly appointed proxy.
2. The authority of a person signing a proxy in a representative capacity must be attached to the proxy form unless the authority has already been recorded by the Company or the transfer secretaries or waived by the chairman of the annual general meeting.
3. In order to be effective, proxy forms must be delivered or posted to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107), so as to reach this address by no later than 10:00 on Monday, 8 May 2006.
4. The delivery of a duly completed proxy form shall not preclude any member or his/her duly authorised representative from attending the annual general meeting and speaking and voting thereat instead of the proxy.
5. Dematerialised shareholders who wish to attend the annual general meeting must contact their Central Securities Depositary Participant (CSDP) or stockbroker, who will furnish them with the necessary authority to attend the annual general meeting. Alternatively, they must instruct their CSDP or stockbroker as to how they wish to vote in this regard. This has to be done in terms of the agreement entered into between such shareholders and their CSDP or stockbroker.

Annual general meeting

Absa Group Limited

Registration number: 1986/003934/06

JSE share code: ASA

Issuer code: AMAGB

ISIN: ZAE 000067237

("the Company" or "the Group")

TO BE COMPLETED BY CERTIFICATED SHAREHOLDERS AND DEMATERIALISED SHAREHOLDERS WITH OWN NAME REGISTRATION ONLY AND REDEEMABLE CUMULATIVE OPTION-HOLDING PREFERENCE SHAREHOLDERS

I/We ______________________________

(name(s) in block letters)

of ______________________________

(address in block letters)

being (a) member(s) of the Company, entitled to vote and holding ______________ shares do hereby appoint

or, failing him/her, ______________________________

or, failing him/her, the chairman of the annual general meeting as my/our proxy to attend and speak and vote for me/us and on my/our behalf at the annual general meeting of members of the Company to be held in the PW Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg, on Wednesday, 10 May 2006 at 10:00 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 2006.			
3. Resolution to re-elect retiring directors: Ms L N Angel			
Mr B P Connellan			
Mr A S du Plessis			
Mr G Griffin			
Mr P du P Kruger			
Mr L W Maasdorp			
Mr T M G Sexwale			
4. Resolution to confirm the appointment of Ms M W Hlahla as a director.			
5. Resolution regarding the placing of the unissued shares under the control of the directors.			
6. Special resolution regarding the authority for a general repurchase of securities.			

**Please indicate with an "X" in the appropriate spaces provided above how you wish your vote to be cast. If no indication is given, the proxy may vote or abstain as he/she thinks fit.*

A member of the Company entitled to attend and vote at the abovementioned meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

Signed at ______________ on ______________ 2006

Full name(s) ______________________________

(in block letters)

Signature(s) ______________________________

Assisted by (guardian) ______________ Date ______________ 2006

If signing in a representative capacity, see note 4 on page 210.

Notes to form of proxy

1. If two or more proxies attend the annual general meeting, then that person attending the annual general meeting whose name appears first on the proxy form and whose name is not deleted shall be regarded as the validly appointed proxy.
2. The chairman of the annual general meeting may reject or accept a form of proxy which is completed and/or received other than in accordance with these notes.
3. Any alteration to this proxy form, other than a deletion of alternatives, must be initialled by the signatory(ies).
4. Documentary evidence establishing the authority of a person signing the proxy form in a representative or other legal capacity must be attached to this form of proxy unless previously recorded by the Company or the transfer secretaries or waived by the chairman of the annual general meeting.
5. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
6. In order to be effective, proxy forms must be delivered or posted to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107), so as to reach this address not later than 10:00 on Monday, 8 May 2006.
7. The delivery of a duly completed proxy form shall not preclude any member or his/her duly authorised representative from attending the annual general meeting and speaking and voting thereat instead of the proxy.
8. Where there are joint holders of shares:
   - 8.1 any one holder may sign the form of proxy; and
   - 8.2 the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders appear in the Company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
9. Shareholders holding dematerialised shares, who wish to attend the annual general meeting, must contact their Central Securities Depositary Participant (CSDP) or stockbroker, who will furnish them with the necessary authority to attend the annual general meeting. Alternatively, such shareholders must instruct their CSDP or stockbroker as to how they wish to vote in this regard. This has to be done in terms of the agreement entered into between such shareholders and their CSDP or stockbroker.

Shareholder contact information

Shareholder and investment queries about the Absa Group should be directed to the following areas:

Absa Group Investor Relations

Telephone: (+27) 11 350-4061/4394/5785

Telefax: (+27) 11 350-6487

e-mail: ir@absa.co.za

Absa Group Secretariat

Telephone: (+27) 11 350-6062

Telefax: (+27) 11 350-4009

e-mail: groupsec@absa.co.za

Other contacts

Group Media Relations

Telephone: (+27) 11 350-5768

Group Legal Services

Telephone: (+27) 11 350-6390

Head office switchboard

Telephone: (+27) 11 350-4000

Customer support

Although the Absa Group aims to maintain a high standard of customer service, disputes may arise. If one does, the matter can be raised by any of the following means:

Actionline: 0800-414-141

Absa call centre: 0860-008-600 or (+27) 11 276-4000

Customer relationship e-mail: actionline@absa.co.za

General e-mail enquiries: absa@absa.co.za

However, 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. It 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 number from which the caller is calling. The number is 0860-557-557.