Mercantile Bank
Member of CGD Group

Mercantile Bank Limited Reg. No. 1965/006706/06
An Authorised Financial Services Provider NCRCP19

2009 Annual Financial Statements

your bank, your partner, our focus

Mercantile Bank Limited

Member of CGD Group

Reg No: 1965/006706/06

An Authorised Financial Services Provider and Credit Provider NCRCP19

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Glossary of terms

Abbreviation	Definition/Description
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
Banks Act	Banks Act, No. 94 of 1990, as amended
Bank Regulations	Regulations relating to banks issued under section 90 of the Banks Act, No. 94 of 1990, as amended
BCM	Business Continuity Management
CGD	Caixa Geral de Depósitos S.A., a company registered in Portugal
Companies Act	Companies Act, No. 61 of 1973, as amended
CREDCOM	Credit Committee
MBHL	Mercantile Bank Holdings Limited
IFRS	International Financial Reporting Standards and Interpretations
RMC	Risk and Capital Management Committee
SARB	South African Reserve Bank
the Bank	Mercantile Bank Limited
the Board	The Board of Directors
the Company	Mercantile Bank Limited

Directors' responsibility

In terms of the Companies Act, the Directors are required to maintain adequate accounting records and to prepare annual financial statements that fairly present the financial position at year-end and the results and cash flows for the year ended 31 December 2009 of the Company.

To enable the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal controls. The Board has ultimate responsibility for this system of internal controls and reviews the effectiveness of its operations, primarily through the Audit Committee and other risk monitoring committees and functions.

The internal controls include risk-based systems of accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with sound business practices and the Company's written policies and procedures. These controls are implemented by trained and skilled staff, with clearly defined lines of accountability and appropriate segregation of duties. The controls are monitored by management and include a budgeting and reporting system operating within strict deadlines and an appropriate control framework. As part of the system of internal controls the Company's internal audit function conducts inspections, financial and specific audits and co-ordinates audit coverage with the external auditors.

The external auditors are responsible for reporting on the Company's annual financial statements.

The Company's annual financial statements are prepared in accordance with IFRS and incorporate responsible disclosures in line with the accounting policies of the Company. The Company's annual financial statements are based on appropriate accounting policies consistently applied, except as otherwise stated and are supported by reasonable and prudent judgements and estimates. The Board believes that the Company will be a going concern in the year ahead. For this reason they continue to adopt the going concern basis in preparing the annual financial statements.

These annual financial statements, set out on pages 5 to 58, have been approved by the Board and are signed on their behalf by:

J A S de ANDRADE CAMPOS
Chairman

25 March 2010

D J BROWN
Chief Executive Officer

25 March 2010

Certificate from the Company Secretary

In terms of section 268G (d) of the Companies Act, I certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies for the financial year ended 31 December 2009 all such returns as are required of a public company in terms of the Act, and that all such returns are true, correct and up to date.

A de Villiers
Company Secretary

25 March 2010

Independent auditor's report

to the member of Mercantile Bank Limited

Report on the financial statements

We have audited the annual financial statements of the Company, which comprise the Directors' report, statement of financial position as at 31 December 2009, the statement of comprehensive income, the statement of changes in equity and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes as set out on pages 5 to 58.

Directors' responsibility for the financial statements

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with IFRS, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with IFRS, and in the manner required by the Companies Act.

Deloitte & Touche.

Per Riaan Eksteen
Partner

25 March 2010

Building 8, Deloitte Place, The Woodlands, Woodmead Drive, Sandton, 2196

National Executive:

G G Gelink Chief Executive, A E Swiegers Chief Operating Officer, G M Pinnock Audit, D L Kennedy Tax & Legal and Risk Advisory, L Geeringh Consulting, L Bam Corporate Finance, C R Beukman Finance, T J Brown Clients & Markets, N T Mtoba Chairman of the Board, C R Qually Deputy Chairman of the Board

A full list of partners and directors is available on request.

B-BBEE rating: Level 3 contributor/AA (certified by Empowerdex)

Directors' report

for the year ended 31 December 2009

The Directors have pleasure in presenting their report, which forms part of the audited annual financial statements of the Company for the year ended 31 December 2009.

1. Nature of business

The Company is a registered bank, incorporated in the Republic of South Africa, and provides its clients with a full range of domestic and international banking services. In addition, it provides a full range of specialised financing, savings and investment facilities to the retail, commercial, corporate and alliance banking niche markets.

2. Holding company

MBHL, a company incorporated in the Republic of South Africa, wholly owns the Company. The ultimate holding company is CGD, a company registered in Portugal.

3. Financial results

Details of the financial results are set out on pages 6 to 58 and in the opinion of the Directors require no further comment.

4. Share capital

There were no changes to the authorised and issued share capital of the Company during the year (2008: nil). The authorised and issued share capital of the Company is detailed in note 14 to the annual financial statements.

5. Dividends

No dividend was declared during the year under review (2008: nil).

6. Directors, Company Secretary and registered addresses

The Directors of the Company during the year and at the date of this report were as follows:

J A S de Andrade Campos *° (Chairman)
D J Brown # (Chief Executive Officer)
G P De Kock °
L Hyne °
A T Ikalafeng °
J P M Lopes *#
T H Njikizana ^°
S Rapeti °

* Portuguese, ^Zimbabwean, # Executive, °Independent Non-Executive

The Company Secretary is Ms A de Villiers and the registered addresses of the Company are:

Postal:	Physical:
P O Box 782699	1st Floor
Sandton	Mercantile Bank
2146	142 West Street
	Sandown
	2196

7. Consolidated annual financial statements

In terms of section 288 of the Companies Act, consolidated annual financial statements have not been presented as the Company is wholly owned by MBHL, which is a company incorporated in the Republic of South Africa.

8. Going concern

The Company's annual financial statements have been prepared on the going concern basis.

9. Special resolutions

There were no special resolutions during the year under review.

10. Events after the reporting period

No material events have occurred between the accounting date and the date of this report that require adjustment to or disclosure in the annual financial statements.

Accounting policies

for the year ended 31 December 2009

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

1. Basis of presentation

The Company's annual financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board, using the historical cost convention as modified by the revaluation of certain financial assets, liabilities and properties.

In the current reporting period, the Company adopted the following standards and interpretations:

- IAS 1 (revised 2007): Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) has introduced a number of terminology changes and has resulted in a number of changes in presentation and disclosure. However, the revised standard has had no impact on the reported results or financial position of the Company;
- IFRS 7 Financial instruments: Disclosures (effective for annual periods beginning on or after 1 January 2009) which is a disclosure standard, was amended with enhancements to disclosures about fair value and liquidity risk. These amendments have had no material impact on the disclosure of fair value and liquidity risk. Fair value is disclosed in note 1 of the financial statements and liquidity risk is disclosed on pages 55 to 57; and
- Improvements to IFRS (issued in May 2008) include 35 amendments across 20 different standards that largely clarify the required accounting treatment where previous practice had varied, and have resulted in a number of changes in the detail of the Company's accounting policies. These amendments have had no material impact on the Company's accounting policies.

All other standards and interpretations that were effective for periods commencing on or after 1 January 2009 have had no impact on the Company.

2. Recognition of assets and liabilities

2.1 Assets

The Company recognises assets when it obtains control of a resource as a result of past events and from which future economic benefits are expected to flow to the Company.

2.2 Liabilities

The Company recognises liabilities when it has a present 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.

2.3 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation, as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

2.4 Contingent liabilities

The Company discloses a contingent liability where it has a possible obligation as a result of past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or it is possible that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

3. Financial instruments

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company has become a party to the contractual provisions of that instrument. Regular purchases or sales of financial assets are recognised using settlement date accounting. On initial recognition, financial instruments are recognised at their fair value and in the case of a financial instrument not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are included.

The Company derecognises a financial asset when:

- the contractual rights to the cash flows arising from the financial assets have expired or been forfeited by the Company; or
- it transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
- it transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired.

The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to another party and consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in income.

Accounting policies

for the year ended 31 December 2009 (continued)

3. Financial instruments (continued)

3.1 Derivative financial instruments

Derivative financial assets and liabilities are classified as held-for-trading.

The Company uses the following derivative financial instruments to reduce its underlying financial risks and/or to enhance yields:

- forward exchange contracts;
- foreign currency swaps;
- interest rate swaps; and
- unlisted equity options.

Derivative financial instruments ("derivatives") are not entered into for trading or speculative purposes. All derivatives are recognised on the statement of financial position. Derivative financial instruments are initially recorded at cost and are remeasured to fair value at each subsequent reporting date. Changes in the fair value of derivatives are recognised in income.

Derivatives in unlisted equity options where the underlying asset does not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost.

Embedded derivatives are separated from the host contract and accounted for as a separate derivative when:

- the embedded derivative's economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined instrument is not measured at fair value with changes in fair value reported in income.

A derivative's notional principal reflects the value of the Company's investment in derivative financial instruments and represents the amount to which a rate or price is applied to calculate the exchange of cash flows.

3.2 Financial assets

The Company's principal financial assets are cash and cash equivalents, bank term deposits, other investments, negotiable securities, loans and advances and other accounts receivable.

Financial assets at fair value through profit and loss

Loans and receivables with fixed interest rates and corporate bonds are classified as financial assets at fair value through profit and loss. Financial assets are designated at fair value through profit and loss, primarily to eliminate or significantly reduce the accounting mismatch. The Company seeks to demonstrate that by applying the fair value option, it significantly reduces measurement inconsistency that would otherwise arise from measuring derivatives at fair value with gains and losses in profit and loss, and the loans and receivables and corporate bonds at amortised cost.

Available-for-sale

Available-for-sale financial assets are those non-derivatives that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit and loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held by the Company with the SARB, domestic banks, foreign banks and Money Market funds. These financial assets have been designated as loans and receivables and are measured at amortised cost.

Bank term deposits

Bank term deposits comprise deposits held by the Company with domestic and foreign banks with a residual maturity of greater than three months. These financial assets have been designated as loans and receivables and are measured at amortised cost.

Other investments

Investments consist of unlisted and listed equity investments. Other investments, which are an integral part of the Company's structured loan portfolio are designated at fair value through profit and loss. All other investments have been designated as available-for-sale. These assets are measured at fair value at each reporting date with the resultant gains or losses being recognised in equity until the financial asset is sold, otherwise disposed of, or found to be impaired. At that time the cumulative gains or losses previously recognised in equity are included in income.

Negotiable securities

Negotiable securities consist of government stock, Treasury bills, corporate bonds, debentures and promissory notes.

Accounting policies

for the year ended 31 December 2009 (continued)

3. Financial instruments (continued)

3.2 Financial assets (continued)

Negotiable securities (continued)

Government stock has been designated as available-for-sale. These assets are measured at fair value at each reporting date with the resultant gains or losses being recognised in equity until the financial asset is sold, otherwise disposed of, or found to be impaired. At that time the cumulative gains or losses previously recognised in equity are included in income.

Corporate bonds are designated at fair value through profit and loss.

All other negotiable securities are classified as loans and receivables and are carried at amortised cost subject to impairment.

Loans and advances

Loans and advances principally comprise amounts advanced to third parties in terms of certain products. Fixed rate loans and advances are designated at fair value through profit and loss with resultant gains and losses being included in income. Variable rate loans and advances are designated as loans and receivables and are measured at amortised cost.

Other accounts receivable

Other accounts receivable comprise items in transit, pre-payments and deposits and other receivables. These assets have been designated as loans and receivables and are measured at amortised cost.

3.3 Financial liabilities

The Company's financial liabilities include deposits, tax payable and other accounts payable consisting of accruals, product related credits and sundry creditors. All financial liabilities, other than liabilities designated at fair value through profit and loss and derivative instruments, are measured at amortised cost. For financial liabilities designated at fair value through profit and loss and derivative instruments which are measured at fair value through profit and loss, the resultant gains and losses are included in income.

3.4 Fair value estimation

The fair value of publicly traded derivatives, securities and investments is based on quoted market values at the reporting date. In the case of an asset held by the Company, the current bid price is used as a measure of fair value. In the case of a liability held, the current offer or asking price is used as a measure of fair value. Mid-market prices are used as a measure of fair value where there are matching asset and liability positions.

In assessing the fair value of non-traded derivatives and other financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date. Quoted market prices or dealer quotes for the same or similar instruments are used for the majority of securities, long-term investments and long-term debt. Other techniques, such as option pricing models, estimated discounted value of future cash flows, replacement cost, termination cost and net asset values of underlying investee entities are used to determine fair value for all remaining financial instruments.

3.5 Amortised cost

Amortised cost is determined using the effective interest rate method. The effective interest rate method is a way of calculating amortisation using the effective interest rate of a financial asset or financial liability. It is the rate that discounts the expected stream of future cash flows to maturity or the next market-based revaluation date to the current net carrying amount of the financial asset or financial liability.

3.6 Impairments

Specific impairments are made against identified doubtful advances. Portfolio impairments are maintained to cover potential losses, which although not specifically identified, may be present in the advances portfolio.

Advances which are deemed uncollectible are written-off against the specific impairments. A direct reduction of an impaired financial asset occurs when the Company writes off an impaired account. The Company's write-off policy sets out the criteria for write-offs, which involves an assessment of the likelihood of commercially viable recovery of the carrying amount of an impaired financial asset. Both the specific and portfolio impairments raised during the year less the recoveries of advances previously written off, are charged to income.

Interest on non-performing loans and advances is not recognised to income but is suspended. In certain instances, interest is also suspended where portfolio impairments are raised.

The recoverable amount is the sum of the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects the portfolio of advances' original effective interest rate.

If the recoverable amount of the advance is estimated to be less than the carrying amount, the carrying amount of the advance is reduced to its recoverable amount by raising a specific impairment, which is recognised as an expense.

Accounting policies

for the year ended 31 December 2009 (continued)

3. Financial instruments (continued)

3.6 Impairments (continued)

Where the impairment loss subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, subject to the increased carrying amount not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the advance in prior years. A reversal of an impairment loss is recognised as income immediately.

4. Foreign currency transactions

Transactions in foreign currencies are converted into the functional currency at prevailing exchange rates on the transaction date. Monetary assets, liabilities and commitments in foreign currencies are translated into the functional currency using the rates of exchange ruling at each reporting date. Gains and losses on foreign exchange are included in income.

5. Subsidiaries

Investments in subsidiaries in the Company's annual financial statements are designated as available-for-sale assets and are recognised at fair value. Fair value is estimated as the net asset value of the investee entities. All gains and losses on the sale of subsidiaries are recognised in income.

6. Associated companies

Associated companies are those companies in which the Company exercises significant influence, but have no control or joint control, over their financial and operating policies and holds between 20% and 50% interest therein. These investments are designated as available-for-sale assets and are recognised at fair value. This method is applied from the effective date on which the enterprise became an associated company up to the date on which it ceases to be an associated company.

The results and assets and liabilities of associated companies are incorporated in the financial statements as available-for-sale assets except when the investment is classified as non-current asset held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

7. Property and equipment

7.1 Owner-occupied properties

Owner-occupied properties are held for use in the supply of services or for administrative purposes and are stated in the statement of financial position at open-market fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation calculated using the straight-line method and subsequent accumulated impairment losses.

The open-market fair value is based on capitalisation rates for open market net rentals for each property. Revaluations are performed annually by independent registered professional valuators.

Any revaluation increase, arising on the revaluation of owner-occupied properties, is credited to the non-distributable reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense. The increase is credited to income to the extent that an expense was previously charged to income. A decrease in the carrying amount arising on the revaluation of owner-occupied properties is charged as an expense to the extent that it exceeds the balance, if any, held in the non-distributable reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property the revaluation surplus relating to that property, in the non-distributable reserve is transferred to distributable reserves. The properties' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

7.2 Equipment

All equipment is stated at historical cost less accumulated depreciation and subsequent accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs 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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to income as they are incurred.

Depreciation on equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Leasehold improvements are depreciated over the period of the lease or over such lesser period as is considered appropriate. The equipments' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Assets are reviewed annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Accounting policies

for the year ended 31 December 2009 (continued)

7. Property and equipment (continued)

7.2 Equipment (continued)

The estimated useful lives of property and equipment are as follows:

Leasehold improvements	5 - 10 years
Computer equipment	3 - 5 years
Furniture and fittings	10 years
Office equipment	5 - 10 years
Motor vehicles	5 years
Owner-occupied properties	50 years
Land	Not depreciated

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount and are recognised in income. Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale or the date the asset is derecognised.

8. Intangible assets

Computer software

Direct costs associated with purchasing, developing and maintaining computer software programmes and the acquisition of software licenses are recognised as intangible assets if they are expected to generate future economic benefits that exceed related costs beyond one year.

Computer software and licenses that are recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets, which is usually between three and five years, but where appropriate over a maximum of ten years and are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying amount of capitalised computer software and licenses is reviewed annually for any indication of impairment and is written down when the carrying amount exceeds the recoverable amount.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognised in income.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually or whenever there is an indication that the asset may be impaired.

9. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

10. Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

10.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are neither taxable nor deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

10.2 Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Accounting policies

for the year ended 31 December 2009 (continued)

10. Tax (continued)

10.2 Deferred tax (continued)

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

10.3 Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is recognised directly in equity.

11. Instalment sales and leases

11.1 The Company as the lessee

The leases entered into by the Company are primarily operating leases. The total payments made under operating leases are charged to income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

11.2 The Company as the lessor

Leases and instalment sale agreements are regarded as financing transactions with rentals and instalments receivable, less unearned finance charges, being included in advances. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

12. Interest income and interest expense

Except where interest is suspended, interest income and expense are recognised in income for all interest-bearing instruments measured at amortised cost using the effective interest method. 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, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

13. Fee, commission and dividend income

Fees and commissions are recognised on an accrual basis unless included in the effective interest rate. Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

14. Retirement funds

The Company operates defined contribution funds, the assets of which are held in separate trustee-administered funds. The retirement funds are funded by payments from employees and by the Company. The Company contributions to the retirement funds are based on a percentage of the payroll and are charged to income as accrued.

15. Post-retirement medical benefits

The Company provides for post-retirement medical benefits to certain retired employees. These benefits are only applicable to employees who were members of the Company's medical aid scheme prior to May 2000 and who elected to retain the benefits in 2005 and are based on these employees remaining in service up to retirement age. The Company provides for the present value of the obligations in excess of the fair value of the plan assets which are intended to offset the expected costs relating to the post-retirement medical benefits. The costs of the defined benefit plan are assessed using the projected unit credit method. Under this method, the cost of providing post-retirement medical benefits is charged to income so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who value the plans annually.

Accounting policies

for the year ended 31 December 2009 (continued)

15. Post-retirement medical benefits (continued)

Actuarial gains and losses, the effect of settlements on the liability and plan assets and the curtailment gain due to the change in the post-retirement subsidy of in-service members are recognised in income immediately.

16. Equity compensation plans

Share options and/or conditional awards in MBHL are awarded to employees of the Company at the discretion of the Remuneration Committee and are approved by the Board. The Company has applied the requirements of IFRS 2 to share-based payments.

These share-based payments are equity-settled and measured at fair value at the grant date and expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value of share options is measured by use of a Black-Scholes model. The fair value has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

17. General credit-risk reserve

Banks Act circular 21/2004 requires that a general credit-risk reserve be recognised within shareholders' equity for any shortfall between total impairments raised in terms of IAS 39 and the provisions required in terms of regulation 28 of the Bank Regulations. Such reserve was maintained through an appropriation of distributable reserves to a general credit-risk reserve. The new Bank Regulations, which were effective 1 January 2008 no longer require general credit-risk reserves, which resulted in the balance of this reserve being transferred to distributable reserves.

18. Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

18.1 Impairment losses on loans and advances

The Company reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the Company, or national or local economic conditions that correlate with defaults on assets in the Company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

18.2 Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

18.3 Impairment of available-for-sale equity investments

The Company determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Company evaluates among other factors, the normal volatility in share price. In addition impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, operational and financing cash flows.

18.4 Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Accounting policies

for the year ended 31 December 2009 (continued)

19. Recent accounting developments

There are new and revised standards and interpretations in issue that are not yet effective and there are no plans to early adopt. These include the following standards and interpretations that could be applicable to the business of the Company and may have an impact on future financial statements. The impact of initial application has not been assessed as at the date of authorisation of the annual financial statements.

- IFRS 2 (Share-based payments - Amendments relating to group cash-settled share-based payment transactions) was issued during June 2009 but is only effective for annual periods beginning on or after 1 January 2010. The Company will comply with the applicable standard from the year ending 31 December 2010.
- IFRS 9 (Financial instruments: Classification and measurement) was issued during November 2009 but is only effective for annual periods beginning on or after 1 January 2013. The Company will comply with the applicable standard from the year ending 31 December 2013.
- IAS 24 (Related-party disclosures) was issued during November 2009 but is only effective for annual periods beginning on or after 1 January 2011. The Company will comply with the applicable standard from the year ending 31 December 2011.
- IAS 27 (Consolidated and separate financial statements) was issued during 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Company will comply with the applicable standard from the year ending 31 December 2010.
- IAS 28 (Investments in associates) was issued during 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Company will comply with the applicable standard from the year ending 31 December 2010.
- IAS 31 (Interest in joint ventures) was issued during 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Company will comply with the applicable standard from the year ending 31 December 2010.
- IAS 32 (Financial instruments: Presentation) was issued during 2009 but is only effective for annual periods beginning on or after 1 February 2010. The Company will comply with the applicable standard from the year ending 31 December 2011.
- IAS 39 (Financial Instruments: Recognition and measurement) was issued during July 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Company will comply with the applicable standard from the year ending 31 December 2010.
- IFRIC 17 (Distributions of non-cash assets to owners) was issued during November 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Company will comply with the applicable standard from the year ending 31 December 2010.
- IFRIC 18 (Transfers of assets from customers) was issued during January 2009 but is only effective for annual periods beginning on or after 1 July 2009. The Company will comply with the applicable standard from the year ending 31 December 2010.
- IFRIC 19 (Extinguishing financial liabilities with equity instruments) was issued during January 2009 but is only effective for annual periods beginning on or after 1 July 2010. The Company will comply with the applicable standard from the year ending 31 December 2011.
- Amendments resulting from the April 2009 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2010 to the following standards, which will be applied from the year ended 31 December 2010:

  IFRS 5 (Non-current assets held for sale and discontinued operations);
  IFRS 8 (Operating segments);
  IAS 1 (Presentation of financial statements);
  IAS 7 (Statement of cash flows);
  IAS 17 (Leases);
  IAS 36 (Impairment of assets);
  IAS 38 (Intangible assets); and
  IAS 39 (Financial instruments: Recognition and Measurement).

The following revised standards will have no effect on the Company:

- IFRS 1 (First-time adoption of IFRS: Revised and restructured) issued during November 2008 and effective for annual periods beginning on or after 1 July 2009.
- IFRS 1 (First-time adoption of IFRS: Amendments relating to oil and gas assets and determining whether an arrangement contains a lease) was issued during July 2009 and is effective for annual periods beginning on or after 1 January 2010.
- IFRS 1 (First-time adoption of IFRS: Limited exemption from comparative IFRS disclosures for first-time adopters) was issued during July 2009 and is effective for annual periods beginning on or after 1 January 2010.

Statement of financial position

at 31 December 2009

	Note	2009 R'000	2008 R'000
ASSETS			
Intangible assets	2	**170 325**	76 894
Property and equipment	3	**31 955**	35 995
Other accounts receivable	4	**41 742**	50 501
Interest in subsidiaries	5	**95 729**	91 033
Other investments	6	**29 957**	20 070
Deferred tax assets	7	**98 381**	153 531
Non-current assets held for sale	8	**5 510**	5 289
Loans and advances	9	**3 629 574**	3 403 789
Derivative financial instruments	10	**21 406**	56 873
Negotiable securities	11	**267 902**	247 141
Bank term deposits	12	**35 276**	324 295
Cash and cash equivalents	13	**1 400 937**	1 464 959
Total assets		**5 828 694**	5 930 370
EQUITY AND LIABILITIES			
Shareholders' equity		**1 465 234**	1 296 760
Share capital and share premium	14	**1 483 300**	1 483 300
Share-based payments reserve		**1 894**	4 650
General reserve		**12 231**	12 231
Property revaluation reserve		**69**	69
Available-for-sale reserve		**60 050**	52 436
General credit-risk reserve		**–**	–
Accumulated loss		**(92 310)**	(255 926)
Liabilities		**4 363 460**	4 633 610
Deposits	15	**4 248 734**	4 391 543
Derivative financial instruments	10	**16 230**	95 091
Provisions	16	**38 142**	48 560
Other accounts payable	18	**60 354**	98 110
Tax	19	**–**	306
Total equity and liabilities		**5 828 694**	5 930 370

Statement of comprehensive income

for the year ended 31 December 2009

	Note	2009 R'000	2008 R'000
Interest income	21	**535 465**	669 221
Interest expenditure	22	**(261 412)**	(337 913)
Net interest income		**274 053**	331 308
Net charge for credit losses	9.4	**(9 323)**	(6 618)
Net interest income after credit losses		**264 730**	324 690
Net gains on disposal of available-for-sale investments		**1 583**	9 839
Net non-interest income		**203 062**	183 836
Non-interest income	23	**290 060**	259 955
Fee and commission expenditure	24	**(86 998)**	(76 119)
Net interest and non-interest income		**469 375**	518 365
Operating expenditure	25	**(253 778)**	(259 166)
Profit before tax		**215 597**	259 199
Tax	26	**(53 985)**	159 028
Profit after tax		**161 612**	418 227
Other comprehensive income			
Gains on remeasurement to fair value		**10 096**	32 241
Release to income on disposal of available-for-sale financial assets		**(1 583)**	(9 839)
Tax relating to other comprehensive income		**(899)**	(5 497)
Other comprehensive income net of tax		**7 614**	16 905
Total comprehensive income		**169 226**	435 132
Profit after tax attributable to:			
Equity holder of the parent		**161 612**	418 227
Total comprehensive income attributable to:			
Equity holder of the parent		**169 226**	435 132

Statement of changes in equity

for the year ended 31 December 2009

	Share capital R'000	Share premium R'000	Share-based payments reserve R'000	General reserve R'000	Property revaluation reserve R'000	Available for-sale reserve R'000	General credit-risk reserve R'000	Accu-mulated loss R'000	Total R'000
Shareholders' equity at 31 December 2007	124 969	1 358 331	–	12 231	69	35 531	19 403	(697 155)	853 379
Net movement for the year	–	–	4 650	–	–	16 905	(19 403)	441 229	443 381
Profit after tax	–	–	–	–	–	–	–	418 227	418 227
Other comprehensive income	–	–	–	–	–	22 402	–	–	22 402
Tax relating to other comprehensive income	–	–	–	–	–	(5 497)	–	–	(5 497)
Decrease in general credit–risk reserve	–	–	–	–	–	–	(19 403)	19 403	–
Share–based payments expense	–	–	4 650	–	–	–	–	3 599	8 249
Shareholders' equity at 31 December 2008	**124 969**	**1 358 331**	**4 650**	**12 231**	**69**	**52 436**	**–**	**(255 926)**	**1 296 760**
Net movement for the year	–	–	**(2 756)**	–	–	**7 614**	–	**163 616**	**168 474**
Profit after tax	–	–	–	–	–	–	–	**161 612**	**161 612**
Other comprehensive income	–	–	–	–	–	**8 513**	–	–	**8 513**
Tax relating to other comprehensive income	–	–	–	–	–	**(899)**	–	–	**(899)**
Decrease in general credit–risk reserve	–	–	–	–	–	–	–	–	–
Share–based payments expense	–	–	**(2 756)**	–	–	–	–	**2 004**	**(752)**
Shareholders' equity at 31 December 2009	**124 969**	**1 358 331**	**1 894**	**12 231**	**69**	**60 050**	**–**	**(92 310)**	**1 465 234**

Statement of cash flows

for the year ended 31 December 2009

	Note	2009 R'000	2008 R'000
Operating activities			
Cash receipts from customers	27.1	**771 359**	999 621
Cash paid to customers, suppliers and employees	27.2	**(599 095)**	(644 968)
Cash generated from operations	27.3	**172 264**	354 653
Dividends received		**4 441**	2 614
Tax (paid)/recovered	27.4	**(40)**	306
Net decrease/(increase) in income earning assets	27.5	**35 506**	(725 743)
Net (decrease)/increase in deposits and other accounts	27.6	**(171 806)**	659 058
Net cash inflow from operating activities		**40 365**	290 888
Investing activities			
Purchase of intangible assets		**(100 861)**	(59 412)
Purchase of property and equipment		**(2 795)**	(27 124)
Acquisition of investments		**(7 000)**	(470)
Proceeds on sale of property and equipment		**2**	43
Proceeds on disposal of other investments		**2 054**	9 839
Decrease/(Increase) in interest in subsidiaries		**4 213**	(1 181)
Net cash (outflow) from investing activities		**(104 387)**	(78 305)
Net cash (outflow)/inflow for the year		**(64 022)**	212 583
Cash and cash equivalents at the beginning of the year		**1 464 959**	1 252 376
Cash and cash equivalents at the end of year	13	**1 400 937**	1 464 959

Notes to the annual financial statements

for the year ended 31 December 2009

	2009 Fair value R'000	2009 Carrying amount R'000	2008 Fair value R'000	2008 Carrying amount R'000
1. Fair values of financial instruments				
1.1 Categories and fair values of financial instruments				
Assets				
Available-for-sale	**137 019**	**137 019**	131 641	131 641
Other investments	**22 275**	**22 275**	20 070	20 070
Interest in subsidiaries	**95 729**	**95 729**	91 033	91 033
Negotiable securities – Government stock	**19 015**	**19 015**	20 538	20 538
Loans and receivables	**5 227 456**	**5 227 667**	5 315 783	5 316 236
Current accounts	**593 688**	**593 688**	503 622	503 622
Credit card	**15 193**	**15 193**	14 920	14 920
Mortgage loans	**1 705 368**	**1 705 368**	1 560 921	1 560 921
Instalment sales and leases	**317 612**	**317 612**	349 480	349 480
Structured loans	**247 715**	**247 715**	254 795	254 795
Other advances	**621 249**	**621 249**	566 140	566 140
Negotiable securities – Treasury bills	**197 367**	**197 578**	226 150	226 603
Negotiable securities – Land Bank promissory notes	**51 309**	**51 309**	–	–
Bank term deposits	**35 276**	**35 276**	324 295	324 295
Cash and cash equivalents	**1 400 937**	**1 400 937**	1 464 959	1 464 959
Other accounts receivable	**41 742**	**41 742**	50 501	50 501
Designated at fair value through profit and loss	**136 431**	**136 431**	153 911	153 911
Mortgage loans	**40 130**	**40 130**	53 946	53 946
Instalment sales and leases	**24 182**	**24 182**	21 300	21 300
Other advances	**64 437**	**64 437**	78 665	78 665
Other investments	**7 682**	**7 682**	–	–
Held-for-trading				
Derivative financial instruments	**21 406**	**21 406**	56 873	56 873
	5 522 312	**5 522 523**	5 658 208	5 658 661
Liabilities				
Held-for-trading				
Derivative financial instruments	**16 230**	**16 230**	95 091	95 091
Other financial liabilities	**4 309 088**	**4 309 088**	4 489 959	4 489 959
Deposits	**4 248 734**	**4 248 734**	4 391 543	4 391 543
Tax	–	–	306	306
Other accounts payable	**60 354**	**60 354**	98 110	98 110
	4 325 318	**4 325 318**	4 585 050	4 585 050

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

1. Fair values of financial instruments (continued)

1.2 Valuation techniques and assumptions applied for the purpose of measuring fair value

- Cash and cash equivalents have short terms to maturity. For this reason, the carrying amounts at the reporting date approximate the fair values.
- Treasury bills and Land Bank promissory notes have short terms to maturity and are carried at amortised cost. Fair value is based on quoted market values at the reporting date.
- The fair values of loans and advances that are carried at amortised cost approximate the fair values reported as they bear variable rates of interest. In addition, fair value is approximated through the credit impairment models.
- Deposits generally have short terms to maturity, thus the values reported approximate the fair value.
- The fair value of publicly traded derivatives, securities and investments is based on quoted market values at the reporting date.
- The fair value of other financial assets and financial liabilities, excluding derivatives, is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and adjusted by relevant market pricing.
- The fair value of other unlisted investments which are an integral part of the Company's structured loan portfolio are valued in terms of the shareholders agreement conditions. The fair value of other investments and interest in subsidiaries which are unlisted, is determined by reference to the net asset value of the entity.
- The fair value of loans and advances designated at fair valued through profit and loss is calculated using the credit spread observed at origination. The fair values are adjusted for deterioration of credit quality through the application of the credit impairment models.

1.3 Fair value measurements recognised in the statement of financial position

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
1. Fair values of financial instruments (continued)				
1.3 Fair value measurements recognised in the statement of financial position (continued)				
2009				
Assets				
Available-for-sale				
Other investments	**22 032**	**243**	**–**	**22 275**
Interest in subsidiaries	**–**	**95 729**	**–**	**95 729**
Negotiable securities – Government stock	**19 015**	**–**	**–**	**19 015**
Designated at fair value through profit and loss				
Mortgage loans	**–**	**40 130**	**–**	**40 130**
Instalment sales and leases	**–**	**24 182**	**–**	**24 182**
Other advances	**–**	**64 437**	**–**	**64 437**
Other investments	**–**	**–**	**7 682**	**7 682**
Held-for-trading				
Derivative financial instruments	**21 406**	**–**	**–**	**21 406**
	62 453	**224 721**	**7 682**	**294 856**
Liabilities				
Held-for-trading				
Derivative financial instruments	**16 230**	**–**	**–**	**16 230**
	16 230	**–**	**–**	**16 230**
2008				
Assets				
Available-for-sale				
Other investments	19 788	282	–	20 070
Interest in subsidiaries	–	91 033	–	91 033
Negotiable securities – Government stock	20 538	–	–	20 538
Designated at fair value through profit and loss				
Mortgage loans	–	53 946	–	53 946
Instalment sales and leases	–	21 300	–	21 300
Other advances	–	78 665	–	78 665
Held-for-trading				
Derivative financial instruments	56 873	–	–	56 873
	97 199	245 226	–	342 425
Liabilities				
Held-for-trading				
Derivative financial instruments	95 091	–	–	95 091
	95 091	–	–	95 091

There were no transfers between Level 1 and 2 during the year.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	2009 R'000	2008 R'000
1. Fair values of financial instruments (continued)		
1.4 Reconciliation of Level 3 fair value measurements of financial assets		
Designated at fair value through profit and loss		
Other investments – unlisted equities		
Balance at the beginning of the year	–	–
Acquisitions	**7 000**	–
Gains on remeasurement to fair value in comprehensive income	**682**	–
Balance at the end of the year	**7 682**	–
1.5 Loans and receivables designated at fair value through profit and loss		
Cumulative changes in fair value attributable to credit risk	–	–
Changes in fair value attributable to changes in credit risk recognised during the year	–	–

At the reporting date there are no significant concentrations of credit risk.

To confirm the amount of the fair value attributable to changes in credit risk, a review of those loans or receivables designated at fair value through profit and loss was conducted. The Company has no credit derivatives over loans and receivables designated at fair value through profit and loss.

	2009 R'000	2008 R'000
2. Intangible assets		
Computer software		
Cost at the beginning of the year	**120 985**	61 291
Additions	**100 861**	59 412
Net transfer (to)/from property and equipment	**(5)**	282
Write-off of obsolete software	**(38)**	–
Cost at the end of the year	**221 803**	120 985
Accumulated amortisation and impairment losses at the beginning of the year	**(44 091)**	(37 723)
Amortisation	**(7 428)**	(6 086)
Net transfer to/(from) property and equipment	**3**	(282)
Write-off of obsolete software	**38**	–
Accumulated amortisation and impairment losses at the end of the year	**(51 478)**	(44 091)
Net carrying amount at the end of the year	**170 325**	76 894

**Transfer between various categories of property and equipment and intangible assets.*

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Owner-occupied property R'000	Leasehold improve-ments R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
3. Property and equipment							
2009							
Open market value/cost at the beginning the of the year	**164**	**18 917**	**93 896**	**9 273**	**22 429**	**415**	**145 094**
Additions	–	**581**	**428**	**47**	**1 662**	**77**	**2 795**
Transfer*	–	–	**(1 854)**	**583**	**1 276**	–	**5**
Write-off of obsolete assets	–	–	**(648)**	**(4)**	**(248)**	–	**(900)**
Open market value/cost at the end of the year	**164**	**19 498**	**91 822**	**9 899**	**25 119**	**492**	**146 994**
Accumulated depreciation and impairment losses at the beginning of the year	–	**(14 621)**	**(68 523)**	**(8 354)**	**(17 257)**	**(344)**	**(109 099)**
Depreciation	–	**(783)**	**(4 245)**	**(241)**	**(1 510)**	**(46)**	**(6 825)**
Transfer*	–	–	**1 854**	**(568)**	**(1 291)**	–	**(5)**
Write-off of obsolete assets	–	–	**648**	**4**	**238**	–	**890**
Accumulated depreciation and impairment losses at the end of the year	–	**(15 404)**	**(70 266)**	**(9 159)**	**(19 820)**	**(390)**	**(115 039)**
Net carrying amount at the end of the year	**164**	**4 094**	**21 556**	**740**	**5 299**	**102**	**31 955**
2008							
Open market value/cost at the beginning of the year	164	18 325	70 493	8 499	22 185	415	120 081
Additions	–	699	24 900	439	1 086	–	27 124
Transfer*	–	–	(203)	348	(427)	–	(282)
Write-off of obsolete assets	–	–	(29)	(13)	(12)	–	(54)
Disposals	–	(107)	(1 265)	–	(403)	–	(1 775)
Open market value/cost at the end of the year	164	18 917	93 896	9 273	22 429	415	145 094
Accumulated depreciation and impairment losses at the beginning of the year	–	(13 908)	(64 808)	(7 723)	(16 671)	(316)	(103 426)
Depreciation	–	(819)	(5 211)	(330)	(1 382)	(28)	(7 770)
Transfer*	–	–	203	(314)	393	–	282
Write-off of obsolete assets	–	–	28	13	11	–	52
Disposals	–	106	1 265	–	392	–	1 763
Accumulated depreciation and impairment losses at the end of the year	–	(14 621)	(68 523)	(8 354)	(17 257)	(344)	(109 099)
Net carrying amount at the end of the year	164	4 296	25 373	919	5 172	71	35 995

**Transfer between various categories of property and equipment and intangible assets.*

Note:

The owner-occupied property comprises stand 624 Malvern, Johannesburg, with a building thereon. The property is valued at the offer to purchase amount received.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	2009 R'000	2008 R'000
4. Other accounts receivable		
Items in transit	**12 941**	2 626
Loans to fellow subsidiaries and holding company (refer to note 28.2)	**12 236**	11 260
Prepayments and deposits	**6 564**	6 179
Other receivables	**10 001**	30 436
	41 742	50 501
5. Interest in subsidiaries		
Unlisted		
Shares at fair value		
Portion 2 of Lot 8 Sandown (Pty) Limited	**50 605**	41 621
Loans to subsidiaries	**45 124**	49 412
Portion 2 of Lot 8 Sandown (Pty) Limited	**40 390**	44 832
LSM (Troyeville) Properties (Pty) Limited	**6 494**	6 265
Less: Provisions held against loan accounts	**(1 760)**	(1 685)
	95 729	91 033

A register containing details of investments in subsidiaries is available for inspection at the registered office of the Company.

The loans bear interest at the prevailing prime rate and have no fixed terms of maturity.

	2009 R'000	2008 R'000
6. Other investments		
Available-for-sale		
Unlisted equities	**243**	5 571
Interest in associated company*	–	3 234
Other	**243**	2 337
Listed equities	**22 032**	19 788
Mercantile Bank Holdings Limited (shares held by the Bank for the employee share option scheme)	**6 395**	7 785
African Bank Investment Limited	**751**	648
Capitec Bank Holdings Limited	**13**	–
Kap International Limited	**16**	11
Visa Inc.	**14 857**	11 344
Designated at fair value through profit and loss		
Unlisted equities	**7 682**	–
	29 957	25 359
Reclassification of investments as non-current assets held for sale (see note 8)	–	(5 289)
	29 957	20 070
Directors' valuation of unlisted investments	**243**	5 571

**The percentage shareholding of the Bank in this entity is 21.4%. The financial year-end is February.*

A register containing details of other investments is available for inspection at the registered office of the Company.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	2009 R'000	2008 R'000
7. Deferred tax		
Balance at the beginning of the year	**153 531**	–
Current year charge		
Per the statement of comprehensive income	**(54 251)**	159 028
Per the statement of changes in equity	**(899)**	(5 497)
	98 381	153 531
Deferred tax is attributable to the following temporary differences		
Assets		
Property and equipment	**(14 990)**	(9 619)
Intangibles	**3**	3
Short and long-term provisions	**(4 105)**	2 550
Calculated tax losses	**104 339**	157 739
Revaluations	**(6 395)**	(5 497)
Leases	**1 548**	1 376
Interest rate swaps	**2 107**	2 497
Other	**15 874**	4 482
	98 381	153 531

Deferred tax assets have been recognised for the carry forward amount of unused tax losses relating to the Company's operations where, inter alia, tax losses can be carried forward and there is evidence that it is probable that sufficient taxable profits will be available in the future to utilise all tax losses carried forward.

	2009 R'000	2008 R'000
8. Non-current assets held for sale		
Unlisted investment – Bond Exchange of South Africa Limited	–	2 055
Interest in associated company	**3 234**	3 234
Properties in possession	**2 276**	–
	5 510	5 289

Unlisted investment

The Company disposed of its investment in the Bond Exchange of South Africa Limited in 2009.

Interest in associated company

This investment was classified as a non-current asset held for sale in 2008 and although the main underlying investments of this company were disposed of in 2009, Statman Investments (Pty) Limited will only be liquidated during 2010.

The investment has been valued at the estimated liquidation dividend less costs to wind up the company.

No impairment loss was recognised on reclassification of the interest in associated company as a non-current asset held for sale at 31 December 2009.

Properties in possession

The Company has received an offer to purchase for this property and anticipates that the disposal will be concluded by March 2010.

The property has been valued at the sale price less costs to sell.

No impairment loss was recognised on reclassification of the property in possession as a non-current asset held for sale at 31 December 2009.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	2009 R'000	2008 R'000
9. Loans and advances		
9.1 Category analysis		
Amortised cost	**3 585 697**	3 329 515
Current accounts	**600 201**	506 103
Credit card	**21 243**	22 420
Mortgage loans	**1 713 305**	1 568 744
Instalment sales and leases	**322 241**	352 406
Structured loans	**272 831**	285 225
Other advances	**655 876**	594 617
Fair value through profit and loss	**128 928**	154 106
Mortgage loans	**40 150**	53 960
Instalment sales and leases	**24 241**	21 338
Other advances	**64 537**	78 808
	3 714 625	3 483 621
Less: Impairments for credit losses	**(64 828)**	(58 849)
Less: Interest in suspense	**(20 223)**	(20 983)
	3 629 574	3 403 789

All loans and advances are denominated in South African rand.

	2009 R'000	2008 R'000
9.2 Maturity analysis		
Repayable on demand	**688 386**	757 379
Maturing within six months	**5 563**	11 319
Maturing after six months but within 12 months	**53 381**	36 288
Maturing after 12 months	**2 967 295**	2 678 635
	3 714 625	3 483 621

The maturity analysis is based on the remaining period to contractual maturity at year-end.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

9. Loans and advances (continued)

9.3 Detailed category analysis of loans and advances

	Gross amount R'000	Interest in suspense R'000	Total impairments R'000	Net balance R'000
2009				
Current accounts	**600 201**	**1 240**	**5 273**	**593 688**
Credit card	**21 243**	**1 293**	**4 757**	**15 193**
Mortgage loans	**1 753 455**	**4 273**	**3 684**	**1 745 498**
Instalment sales and leases	**346 482**	**1 219**	**3 469**	**341 794**
Structured loans	**272 831**	**6 242**	**18 874**	**247 715**
Other advances	**720 413**	**5 956**	**28 771**	**685 686**
	3 714 625	**20 223**	**64 828**	**3 629 574**
2008				
Current accounts	506 103	409	2 072	503 622
Credit card	22 420	2 254	5 246	14 920
Mortgage loans	1 622 704	3 694	4 143	1 614 867
Instalment sales and leases	373 744	654	2 310	370 780
Structured loans	285 225	–	30 430	254 795
Other advances	673 425	13 972	14 648	644 805
	3 483 621	20 983	58 849	3 403 789

9.4 Impairments for credit losses

	Total R'000	Current accounts R'000	Credit card R'000	Mortgage loans R'000	Instalment sales and leases R'000	Structured loans R'000	Other advances R'000
2009							
Balance at the beginning of the year	**58 849**	**2 072**	**5 246**	**4 143**	**2 310**	**30 430**	**14 648**
Movements for the year:							
Credit losses written-off	**(4 255)**	**(1 786)**	**(597)**	**(381)**	**(159)**	**–**	**(1 332)**
Net impairments raised/(released)	**10 234**	**4 987**	**108**	**(78)**	**1 318**	**(11 556)**	**15 455**
	64 828	**5 273**	**4 757**	**3 684**	**3 469**	**18 874**	**28 771**
2008							
Balance at the beginning of the year	57 187	2 292	4 803	2 366	615	27 395	19 716
Movements for the year:							
Credit losses written-off	(5 858)	(1 288)	(666)	–	(640)	–	(3 264)
Net impairments raised/(released)	7 520	1 068	1 109	1 777	2 335	3 035	(1 804)
	58 849	2 072	5 246	4 143	2 310	30 430	14 648

	2009 R'000	2008 R'000
Impairments for credit losses comprise		
Portfolio impairments	**20 750**	19 768
Specific impairments	**44 078**	39 081
	64 828	58 849
Net charge for credit losses		
Net impairments raised	**(10 234)**	(7 520)
Recoveries in respect of amounts previously written off	**911**	902
	(9 323)	(6 618)

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Gross amount R'000	Portfolio impairment R'000	Net balance R'000
9. Loans and advances (continued)			
9.5 Category analysis of performing loans and advances			
2009			
Current accounts	**585 251**	**1 918**	**583 333**
Credit card	**16 110**	**917**	**15 193**
Mortgage loans	**1 699 485**	**870**	**1 698 615**
Instalment sales and leases	**332 687**	**841**	**331 846**
Structured loans	**213 228**	**15 088**	**198 140**
Other advances	**668 707**	**1 116**	**667 591**
	3 515 468	**20 750**	**3 494 718**
2008			
Current accounts	502 086	966	501 120
Credit cards	15 988	1 068	14 920
Mortgage loans	1 591 909	415	1 591 494
Instalment sales and leases	367 848	671	367 177
Structured loans	232 213	15 430	216 783
Other advances	640 457	1 218	639 239
	3 350 501	19 768	3 330 733

	2009 R'000	2008 R'000
9.6 Category analysis of performing loans and advances excluding loans and advances with renegotiated terms		
Current accounts	**585 251**	502 086
Credit card	**16 110**	15 988
Mortgage loans	**1 661 970**	1 591 067
Instalment sales and leases	**331 231**	367 848
Structured loans	**213 228**	232 213
Other advances	**662 137**	637 500
	3 469 927	3 346 702
9.7 Category analysis of loans and advances with renegotiated terms that would otherwise be past due or impaired		
Current accounts	–	–
Credit card	–	–
Mortgage loans	**37 515**	842
Instalment sales and leases	**1 456**	–
Structured loans	–	–
Other advances	**6 570**	2 957
	45 541	3 799

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Past due for: 1 – 30 days R'000	31 – 60 days R'000	61 – 90 days R'000	Total gross amount R'000	Fair value of collateral and other credit enhancements R'000
9. Loans and advances (continued)					
9.8 Category age analysis of loans that are past due but not individually impaired					
2009					
Current accounts	–	–	–	–	–
Credit card	–	–	–	–	–
Mortgage loans	**18 718**	**20 346**	**1 901**	**40 965**	**37 905**
Instalment sales and leases	**933**	**608**	**159**	**1 700**	**1 136**
Structured loans	–	–	–	–	–
Other advances	**3 353**	**1 340**	**2 962**	**7 655**	**2 963**
	23 004	**22 294**	**5 022**	**50 320**	**42 004**
2008					
Current accounts	703	–	–	–	–
Credit cards	336	254	342	535	–
Mortgage loans	17 740	7 198	–	9 102	20 142
Instalment sales and leases	731	559	–	474	971
Structured loans	–	–	–	–	–
Other advances	268	1 133	–	1 529	1 199
	19 778	9 144	342	11 640	22 312

	Gross amount R'000	Interest in suspense R'000	Specific impairment R'000	Net balance R'000	Fair value of collateral and other credit enhancements R'000
9.9 Category analysis of loans and advances that are individually impaired					
2009					
Current accounts	**14 950**	**1 240**	**3 355**	**10 355**	**5 279**
Credit card	**5 133**	**1 293**	**3 840**	–	–
Mortgage loans	**53 970**	**4 273**	**2 814**	**46 883**	**46 120**
Instalment sales and leases	**13 795**	**1 219**	**2 628**	**9 948**	**8 947**
Structured loans	**59 603**	**6 242**	**3 786**	**49 575**	**27 233**
Other advances	**51 706**	**5 956**	**27 655**	**18 095**	**30 405**
	199 157	**20 223**	**44 078**	**134 856**	**117 984**
2008					
Current accounts	4 017	409	1 106	2 502	2 173
Credit cards	6 432	2 254	4 178	–	–
Mortgage loans	30 795	3 694	3 728	23 373	26 127
Instalment sales and leases	5 896	654	1 639	3 603	3 706
Structured loans	53 012	–	15 000	38 012	28 462
Other advances	32 968	13 972	13 430	5 566	6 510
	133 120	20 983	39 081	73 056	66 978

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

9. Loans and advances (continued)

9.10 Collateral held as security and other credit enhancements

Fair value of collateral and other credit enhancements is determined with reference to the realisable value of security under forced-sale conditions.

All customers of the Bank are accorded a client risk grading. The risk grading of a client reflects, in broad terms, the client's creditworthiness and standing with the Bank. Specific criteria are applicable to the different risk grades. The risk grading of clients calls for judgement and continuing critical appraisal of the client's financial standing and forms an integral part of the Bank's assessment of the risk concerned. Changes in the risk grades are automated based on arrears on an instalment debt account.

Description of collateral held as security and other credit enhancements	Method of valuation
Cession of debtors	15% – 75% of debtors repayable under 90 days and depending on debtor credit quality
Pledge of shares	variable dependent on liquidity and credit quality of the shares pledged
Limited pledge and cession	variable depending on asset type and value
Cession of life and endowment policies	100% of surrender value
Pledge of call and savings accounts, fixed and notice deposits	90% – 100%
Vacant land	50% of professional valuation
Residential properties	75% of professional valuation
Commercial and industrial properties	70% of professional valuation
Catering, industrial and office equipment	variable depending on asset type and depreciated value
Trucks	variable depending on asset type and depreciated value
Earth moving equipment	variable depending on asset type and depreciated value
Motor vehicles	variable depending on asset type and depreciated value
General notarial bond	variable depending on asset type and depreciated value
Special notarial bond	variable depending on asset type and depreciated value

All collateral held by the Bank in respect of an advance will be realised in accordance with the terms of the agreement or facility conditions applicable thereto. Cash collateral and pledged assets that can be allocated in accordance with the terms of the pledge and cession or suretyship are applied in reduction of related exposures. Pledged assets, other than cash or cash equivalent collateral, and tangible security articles are appropriated and disposed of, where necessary, after legal action, in compliance with the applicable Court rules and directives.

A customer in default will be advised of the default and afforded an opportunity to regularise the arrears. Failing normalisation of the account legal action and repossession procedures will be followed and all attached assets disposed of in accordance with the applicable legislation. In the case of insolvent and deceased estates, the duly appointed liquidator/trustee disposes of all assets.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Notional principal of assets R'000	Fair value of assets R'000	Notional principal of liabilities R'000	Fair value of liabilities R'000
10. Derivative financial instruments				
2009				
Held-for-trading				
Foreign exchange contracts	**744 076**	**21 353**	**269 289**	**8 652**
Interest rate swaps	**7 000**	**53**	**116 210**	**7 578**
	751 076	**21 406**	**385 499**	**16 230**
2008				
Held-for-trading				
Foreign exchange contracts	1 015 487	56 689	1 067 003	86 094
Interest rate swaps	16 816	184	130 639	8 997
	1 032 303	56 873	1 197 642	95 091

	2009 R'000	2008 R'000
11. Negotiable securities		
Loans and receivables		
Treasury bills	**197 578**	226 603
Promissory notes – Land Bank	**51 309**	–
Available-for-sale		
Government stock	**19 015**	20 538
	267 902	247 141
Maturity analysis		
Repayable within one month	**19 894**	24 823
Maturing within six months	**228 993**	178 258
Maturing after six months but within 12 months	–	23 522
Maturing after five years	**19 015**	20 538
	267 902	247 141

The maturity analysis is based on the remaining period to contractual maturity at year-end.

	2009 R'000	2008 R'000
12. Bank term deposits		
Foreign bank balances	–	324 295
Domestic bank balances	**35 276**	–
	35 276	324 295
Maturity analysis		
Maturing within three to six months	–	211 379
Maturing after six months but within 12 months	**35 276**	112 916
	35 276	324 295

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	2009 R'000	2008 R'000
13. Cash and cash equivalents		
Cash on hand	**24 003**	26 764
Central Bank balances	**86 249**	79 388
Money Market funds	**493 136**	–
Domestic bank balances	**91 506**	257 251
Foreign bank balances	**706 043**	1 101 556
	1 400 937	1 464 959

	Number of issued ordinary shares	Share capital R'000	Share premium R'000	Total R'000
14. Share capital and share premium				
Opening and closing balance	**62 484 353**	**124 969**	**1 358 331**	**1 483 300**

The total authorised number of ordinary shares is 62 630 000 shares (2008: 62 630 000 shares) with a par value of R2.00 per share.

No shares were issued during the financial years ended 31 December 2008 and 31 December 2009.

The unissued shares are under the control of the shareholders until the next Annual General Meeting.

	2009 R'000	2008 R'000
15. Deposits		
Call deposits and current accounts	**2 218 329**	1 709 895
Savings accounts	**181 826**	166 422
Term and notice deposits	**1 610 863**	2 326 438
Negotiable certificates of deposit	**27 576**	32 361
Foreign deposits	**210 140**	156 427
	4 248 734	4 391 543
Maturity analysis		
Repayable on demand and within one month	**3 283 928**	2 818 034
Maturing after one month but within six months	**562 306**	1 060 030
Maturing after six months but within 12 months	**396 940**	505 318
Maturing after 12 months	**5 560**	8 161
	4 248 734	4 391 543

The maturity analysis is based on the remaining period to contractual maturity at year-end.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Staff incentives R'000	Audit fees R'000	Post-retirement medical benefits R'000	Leave pay R'000	Other risks R'000	Total R'000
16. Provisions						
At 31 December 2007	13 002	3 190	14 343	8 636	3 236	42 407
Additional provision raised	20 788	5 810	188	3 411	308	30 505
Charged to provision	(13 190)	(5 370)	–	(2 958)	(2 834)	(24 352)
At 31 December 2008	**20 600**	**3 630**	**14 531**	**9 089**	**710**	**48 560**
Additional provision raised	**8 615**	**6 200**	**–**	**3 017**	**508**	**18 340**
Charged to provision	**(19 026)**	**(6 130)**	**(668)**	**(2 584)**	**(350)**	**(28 758)**
At 31 December 2009	**10 189**	**3 700**	**13 863**	**9 522**	**868**	**38 142**

Post-retirement medical benefits

Refer to note 17 for detailed disclosure of this provision.

Leave pay

In terms of Company policy, employees are entitled to accumulate leave not taken during the year, within certain limits.

Other risks

Consists of provisions for legal claims and other risks. At any time there are legal or potential claims against the Company, the outcome of which cannot at the present be foreseen. These claims are not regarded as material either on an individual basis or in aggregate. Provisions are raised for all liabilities that are expected to materialise.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

17. Post-retirement medical benefits

The Company operates a partly funded post-retirement medical scheme. The assets of the funded plans are held independently of the Company's assets in a separate trustee-administered fund. Independent actuaries value this scheme annually and the last valuation was carried out at 31 December 2009. The actuary's opinion is that the plan is in a sound financial position.

	2009	2008	2007	2006	2005
	R'000	R'000	R'000	R'000	R'000
The amounts recognised in the statement of financial position are as follows (refer to note 16):					
Present value of total service liabilities	**19 370**	19 664	20 223	18 989	16 651
Fair value of plan assets	**(5 507)**	(5 133)	(5 880)	(6 136)	(6 237)
Provident fund	**(1 674)**	(922)	(838)	(1 457)	(1 624)
Endowment bond	**(2 718)**	(3 118)	(3 446)	(3 729)	(4 104)
Annuities	**(1 115)**	(1 093)	(1 596)	(950)	(509)
Liability in the statement of financial position	**13 863**	14 531	14 343	12 853	10 414
The amounts recognised in the statement of comprehensive income are as follows (refer to note 25):					
Current service cost	**92**	89	116	115	414
Interest costs	**1 785**	1 568	1 539	1 365	1 659
Expected return on plan assets	**(526)**	(529)	(549)	(396)	(575)
Actuarial (loss)/gain	**(660)**	368	936	1 957	1 736
Employer benefit payments	**(1 359)**	(1 308)	(1 202)	(1 168)	(1 085)
Payments from plan assets	**–**	–	650	846	540
Effect on curtailment	**–**	–	–	(280)	(455)
Total included in staff costs	**(668)**	188	1 490	2 439	2 234
Reconciliation of the movement in the present value of total service liabilities:					
At the beginning of the year	**19 664**	20 223	18 989	16 651	22 277
Current service cost	**92**	89	116	115	414
Interest costs	**1 785**	1 568	1 539	1 365	1 659
Actuarial (loss)/gain	**(812)**	(908)	781	2 306	1 610
Employer benefit payments	**(1 359)**	(1 308)	(1 202)	(1 168)	(1 085)
Net effect of settlements	**–**	–	–	–	(7 769)
Effect of curtailment	**–**	–	–	(280)	(455)
At the end of the year	**19 370**	19 664	20 223	18 989	16 651
Reconciliation of the movement in the fair value of plan assets:					
At the beginning of the year	**5 133**	5 880	6 136	6 237	6 328
Expected return on plan assets	**526**	529	549	396	575
Actuarial (loss)/gain	**(152)**	(1 276)	(155)	349	(126)
Payments from plan assets	**–**	–	(650)	(846)	(540)
At the end of the year	**5 507**	5 133	5 880	6 136	6 237

The principal actuarial assumptions used were as follows:

Discount rate	9.50%	(2008: 9.25%) compounded annually
Investment return	10.50%	(2008: 10.25%) compounded annually
Rate of medical inflation	8.00%	(2008: 8.50%) compounded annually
Salary inflation	7.50%	(2008: 8.00%) compounded annually

The effect of a 1% increase/decrease on the assumed rate of medical inflation would be an increase in the liability in an amount of R2.047 million (2008: R1.827 million) and a decrease of R1.730 million (2008: R1.516 million), respectively.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	2009 R'000	2008 R'000
18. Other accounts payable		
Accruals	**16 528**	22 641
Product-related credits	**18 577**	21 054
Sundry creditors	**25 249**	54 415
	60 354	98 110
19. Tax		
South African Revenue Services		
Tax owing	–	306
20. Contingent liabilities and commitments		
20.1 Guarantees and letters of credit and committed undrawn facilities		
Guarantees	**303 514**	331 494
Lending related	**15 983**	16 022
Mortgage	**27 925**	74 051
Performance	**259 606**	241 421
Letters of credit	**12 330**	6 886
Committed undrawn facilities	**190 834**	331 720
	506 678	670 100
20.2 Commitments under operating leases		
The total minimum future lease payments under operating leases are as follows:		
Property rentals:		
Due within one year	**4 254**	16 244
Due between one and five years	**7 011**	7 824
	11 265	24 068
After tax effect on operating leases	**8 111**	17 329
A register containing details of the existence and terms of renewal and escalation clauses is available for inspection at the registered office of the Company.		
20.3 Capital commitments		
Contracted for	**51 628**	79 383
Authorised but not yet contracted for	–	13 635
	51 628	93 018

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	2009 R'000	2008 R'000
21. Interest income		
Loans to subsidiaries	**5 880**	7 445
Loans and receivables	**511 272**	631 982
Cash and cash equivalents and bank term deposits	**84 747**	154 375
Negotiable securities	**24 212**	23 166
Loans and advances	**402 313**	454 441
Loans and receivables designated at fair value through profit and loss	**17 689**	26 680
Negotiable securities	–	5 384
Loans and advances	**17 689**	21 296
Held-for-trading		
Interest rate swaps	**624**	3 114
	535 465	669 221
22. Interest expenditure		
Deposits	**257 429**	335 939
Held-for-trading		
Interest rate swaps	**3 983**	1 974
	261 412	337 913
23. Non-interest income		
Fee and commission income	**212 962**	175 900
Loans and receivables at fair value through profit and loss	–	273
Loans and receivables	**212 962**	175 627
Trading income	**72 657**	81 441
Held-for-trading	**72 619**	75 960
Foreign currency	**61 991**	71 138
Foreign currency commissions	**10 156**	10 007
Derivative assets	**(48)**	(4 063)
Derivative liabilities	**520**	(1 122)
Designated at fair value through profit and loss	**38**	5 481
Loans and advances	**(644)**	5 030
Other investments	**682**	–
Corporate bonds	–	451
Investment income		
Dividends	**4 441**	2 614
	290 060	259 955
24. Fee and commission expenditure		
Foreign currency	**19 766**	24 214
Commissions and transactions	**67 232**	51 905
	86 998	76 119

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	2009 R'000	2008 R'000
25. Operating expenditure		
Amortisation (refer to note 2)	**7 428**	6 086
Auditors' remuneration		
Audit fees – Current year	**6 200**	6 030
– Prior year	**20**	(240)
Fees for other services – Tax advisory fees	**–**	102
– Review of regulatory returns	**–**	575
– Secondment of administrative staff	**403**	–
– Quality assessment review of internal audit	**203**	–
– Other	**–**	20
	6 826	6 487
Depreciation (refer to note 3)	**6 825**	7 770
Directors' emoluments (refer to note 28.3)		
Executive directors	**7 365**	8 738
Non-executive directors fees	**3 758**	3 134
	11 123	11 872
Indirect tax		
Non-claimable Value-Added Tax	**4 600**	8 067
Skills development levy	**716**	563
	5 316	8 630
Lease charges – Equipment	**3**	14
Loss/(Profit) on sale of property and equipment	**10**	(29)
Marketing and communication	**6 555**	7 051
Operating leases – premises	**18 416**	16 713
Other operating costs	**27 572**	30 793
Professional fees		
Collections	**–**	88
Consulting	**3 925**	2 189
Legal	**325**	1 049
Computer consulting and services	**34 405**	27 015
	38 655	30 341
Staff costs		
Salaries wages and incentives	**114 734**	108 972
Post-retirement medical benefits (refer to note 17)	**(668)**	188
Contributions to retirement funds	**7 975**	7 052
Share-based payments expense including directors	**(752)**	8 253
Other	**3 760**	8 973
	125 049	133 438
Total operating expenditure	**253 778**	259 166
Number of persons employed by the Company at year-end	**435**	442

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	2009 R'000	2008 R'000
26. Tax		
South African normal tax	**266**	–
Current year	–	–
Prior year	**266**	–
Deferred tax	**(54 251)**	159 028
Current year	**(59 001)**	(71 489)
Prior year	**4 750**	230 517
	(53 985)	159 028
Direct tax		
South African normal tax	**266**	–
South African tax rate reconciliation		
South African standard tax rate (%)	**28.00**	28.00
Exempt income (%)	**(0.93)**	(0.28)
Expenses not deductible for tax purposes (%)	**0.55**	0.39
Additional allowances for tax purposes (%)	**(0.15)**	–
Capital gain – 50% portion not taxable (%)	**(0.10)**	(0.53)
Underprovision prior year (%)	**(2.33)**	–
Other timing differences recognised for the first time (%)	–	(5.99)
Tax losses recognised for the first time (%)	–	(82.94)
Effective tax rate (%)	**25.04**	(61.35)
Estimated tax losses available for set-off against future taxable income	**372 639**	563 355
27. Cash flow notes		
27.1 Cash receipts from customers		
Interest income	**535 465**	669 221
Non-interest income and net gain on disposal of available-for-sale investments	**291 643**	269 794
Adjusted for: Dividends received	**(4 441)**	(2 614)
Net (gain) on disposal of available-for-sale investments	**(1 583)**	(9 839)
Revaluation of fair value financial instruments	**(50 636)**	72 157
Recoveries in respect of amounts previously written off	**911**	902
	771 359	999 621
27.2 Cash paid to customers, suppliers and employees		
Interest expenditure	**(261 412)**	(337 913)
Operating expenditure and fee and commission expenditure	**(340 776)**	(335 285)
Adjusted for: Amortisation	**7 428**	6 086
Depreciation	**6 825**	7 770
Loss/(Profit) on sale of property and equipment	**10**	(29)
Share-based payments expense	**(752)**	8 250
(Decrease)/Increase in provisions	**(10 418)**	6 153
	(599 095)	(644 968)

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	2009 R'000	2008 R'000
27. Cash flow notes (continued)		
27.3 Reconciliation of profit before tax to cash generated from operations		
Profit before tax	**215 597**	259 199
Profit before tax adjusted for:		
Dividends received	**(4 441)**	(2 614)
Net (gain) on disposal of available-for-sale investments	**(1 583)**	(9 839)
Revaluation of fair value financial instruments	**(50 636)**	72 157
Net impairments raised	**10 234**	7 520
Amortisation	**7 428**	6 086
Depreciation	**6 825**	7 770
Loss/(Profit) on sale of property and equipment	**10**	(29)
Share-based payments expense	**(752)**	8 250
(Decrease)/Increase in provisions	**(10 418)**	6 153
Cash generated from operations	**172 264**	354 653
27.4 Tax		
Amounts at beginning of the year	**(306)**	–
Income statement charge	**266**	–
Less: Amounts unpaid at the end of the year	–	306
Total tax (paid)/recovered	**(40)**	306
27.5 Net movement in income earning assets		
(Increase)/Decrease in negotiable securities	**(21 778)**	30 432
(Increase) in loans and advances	**(231 735)**	(602 498)
Decrease/(Increase) in bank term deposits	**289 019**	(153 677)
Net decrease/(increase) in income earning assets	**35 506**	(725 743)
27.6 Net movement in deposits and other accounts		
(Decrease)/Increase in deposits	**(142 809)**	620 743
Decrease/(Increase) in other accounts receivable	**8 759**	(16 908)
(Decrease)/Increase in other accounts payable	**(37 756)**	60 074
(Increase) of treasury shares	–	(4 851)
Net (decrease)/increase in deposits and other accounts	**(171 806)**	659 058

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

28. Related-party information

28.1 Identity of related parties with whom transactions have occurred

The holding company and ultimate holding company is identified on page 5 in the Directors' report. Subsidiaries of the Company are identified below. All of these entities and the Directors are related parties. There are no other related parties with whom transactions have taken place, other than as listed below.

28.2 Related-party balances and transactions

The Company, in the ordinary course of business, enters into various financial services transactions with the ultimate holding company and its subsidiaries, the holding company, fellow subsidiaries, the share incentive trust and the Company's subsidiaries. These transactions are governed by terms no less favourable than those arranged with third parties. Loans to and from fellow subsidiaries and other transactions are detailed hereafter.

	% Held	2009 R'000	2008 R'000
Balances with the holding company, subsidiaries, fellow subsidiaries and associated company:			
Loans to subsidiaries			
Portion 2 of Lot 8 Sandown (Pty) Limited	100	**40 390**	44 832
LSM (Troyeville) Properties (Pty) Limited	100	**6 494**	6 265
Less: Provisions held against loan accounts		**(1 760)**	(1 685)
		45 124	49 412
Loans to fellow subsidiaries and holding company			
Mercantile Bank Holdings Limited		**11 946**	10 793
Mercantile Insurance Brokers (Pty) Limited		**290**	467
Mercantile Registrars Limited		–	3 042
Less: Provisions held against loan accounts		–	(3 042)
		12 236	11 260
Loan to associated company (Instalment sale agreements)			
Statman Investments (Pty) Limited		–	544
Deposits from holding company and fellow subsidiaries			
Mercantile Bank Holdings Limited		**224**	224
Mercantile Insurance Brokers (Pty) Limited		**1 912**	1 973
		2 136	2 197
Deposit from associated company			
Statman Investments (Pty) Limited		**3 636**	75

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	2009 R'000	2008 R'000
28. Related-party information (continued)		
28.2 Related-party balances and transactions (continued)		
Transactions with the holding company, subsidiaries, fellow subsidiaries and associated company:		
Interest received from:		
Portion 2 of Lot 8 Sandown (Pty) Limited	**5 121**	6 527
LSM (Troyeville) Properties (Pty) Limited	**759**	918
Statman Investments (Pty) Limited	**25**	81
Interest paid to:		
Mercantile Insurance Brokers (Pty) Limited	**96**	100
Statman Investments (Pty) Limited	**86**	–
Non-interest income earned from:		
Mercantile Insurance Brokers (Pty) Limited	**190**	164
Dividends earned from:		
Statman Investments (Pty) Limited	**4 059**	1 752
Operating expenditure with:		
Portion 2 of Lot 8 Sandown (Pty) Limited	**11 813**	10 680
LSM (Troyeville) Properties (Pty) Limited	**1 072**	1 018
Balances and transactions with the ultimate holding company (CGD) and its subsidiary:		
CGD – Lisbon (Branch of CGD)	**614 171**	1 348 916
Nostro accounts	**3 698**	4 316
Vostro accounts	**(1 568)**	(2 142)
Deposit accounts	**612 041**	1 346 742
CGD – Paris (Branch of CGD)	**68**	(3 191)
Nostro accounts	**92**	84
Vostro accounts	**(24)**	(3 275)
CGD – London (Branch of CGD)		
Vostro accounts	**(17)**	(18)
CGD	**614 222**	1 345 707
Banco Comercial e de Investimentos (BCI) – Mozambique (Subsidiary of CGD)	**(37 215)**	(63 781)
Vostro accounts	**(4)**	(4 032)
Fixed deposits	**(37 100)**	(59 730)
Call and notice deposits	**(111)**	(19)
	577 007	1 281 926
Transactions between the ultimate holding company (CGD) and the Bank:		
Interest paid by CGD to the Bank	**10 518**	41 063
Interest paid by BCI to the Bank	**268**	–
Interest paid by the Bank to BCI	**3 084**	3 424

Post-retirement medical plan

Details of the post-retirement medical plan are disclosed in note 17.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

28. Related-party information (continued)

28.3 Director and director-related activities

No loans were made to Directors during the year under review. There were no material transactions with Directors, other than the following:

	Directors' fees R'000	Salary R'000	Fringe benefits R'000	Retirement funds and medical aid contributions R'000	Performance bonus R'000	Total R'000
2009						
Non-executive directors						
J A S de Andrade Campos	**1 343**	–	–	–	–	**1 343**
G P de Kock	**560**	–	–	–	–	**560**
L Hyne	**525**	–	–	–	–	**525**
A T Ikalafeng	**445**	–	–	–	–	**445**
T H Njikizana	**382**	–	–	–	–	**382**
S Rapeti	**503**	–	–	–	–	**503**
Executive directors						
D J Brown	–	**2 609**	–	**273**	**2 000**	**4 882**
J P M Lopes	–	**1 662**	**516**	**55**	**250**	**2 483**
	3 758	**4 271**	**516**	**328**	**2 250**	**11 123**
2008						
Non-executive directors						
J A S de Andrade Campos	1 199	–	–	–	–	1 199
G P de Kock	519	–	–	–	–	519
L Hyne	480	–	–	–	–	480
A T Ikalafeng	420	–	–	–	–	420
T H Njikizana (appointed 6 November 2008)	50	–	–	–	–	50
S Rapeti	466	–	–	–	–	466
Executive directors						
D J Brown	–	2 368	–	251	3 500	6 119
J P M Lopes	–	1 541	479	49	550	2 619
	3 134	3 909	479	300	4 050	11 872

	2009 R'000	2008 R'000
Share-based payments expense relating to executive directors		
D J Brown	**94**	1 458
Amounts paid by CGD to executive directors		
J P M Lopes	**585**	666

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

28. Related-party information (continued)

28.3 Director and director-related activities (continued)

Service agreements

D J Brown, Chief Executive Officer

Mr Brown's employment as Chief Executive Officer was renewed for a period of three years 29 March 2009. The re-appointment of Mr Brown as an executive director was approved by resolution in terms of section 179(7) of the Companies Act on 23 April 2009.

In consideration for the rendering of his services under the service agreement, Mr Brown is also entitled to payment of an annual incentive bonus calculated in accordance with a performance plan as agreed with the Board from time to time.

J P M Lopes, Executive Director

Mr Lopes has been seconded to the Bank by CGD.

Mr Lopes's employment contract was renewed by the Board for a further three years from 9 November 2008. In terms of his service agreement Mr Lopes agreed to perform such duties, functions and services as are assigned to him from time to time by the Board of Directors and which are consistent and commensurate with his position as Executive Director.

Mr Lopes was re-elected as a director of the Board by resolution in terms of section 179(7) of the Companies Act on 23 April 2009.

Share options

In terms of the share option scheme the following share options in MBHL have been granted to Mr Brown (refer to note 29):

- on 5 October 2004, 5 000 000 at an exercise price of 18 cents each;
- on 22 March 2006, 7 000 000 at an exercise price of 40 cents each; and
- on 26 February 2007, 8 000 000 at an exercise price of 34 cents each.

In terms of the Conditional Share Plan, the following conditional share awards were granted to Mr Brown (refer to note 29):

- on 22 February 2008, 7 600 000 with a market value on the date of grant of 32 cents each; and
- on 18 May 2009, 5 000 000 with a market value on the date of grant of 26 cents each.

Directors' interests

No Directors held beneficial and/or non-beneficial interests, directly or indirectly, in shares issued by MBHL (2008: nil).

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

29. Share incentive schemes

The options and awards granted are in respect of the holding company, MBHL, to the employees of the Bank.

The number of shares, which could be utilised for the purposes of the share incentive schemes are 393 891 852 (2008: 393 891 852), which is 10% (2008: 10%) of the issued share capital of MBHL at year-end. At the reporting date, 83 128 400 (2008: 73 410 400) share options and Conditional Share Plan awards were outstanding under these schemes. The balance available to be utilised under these schemes is 310 763 452 (2008: 320 481 452). The number of scheme shares that may be issued to a single participant is 59 083 778 (2008: 59 083 778) or 1.5% (2008: 1.5%) of the total number of issued shares.

The Company recognised a net write back of expenses of R0.8 million (2008: R8.3 million expense) related to equity-settled share-based payment transactions (refer to note 25).

Share option scheme

Effective 18 July 2007, options can be exercised in respect of 33% of the option shares after the expiration of three years from the offer date, in respect of a further 33% after the expiration of four years from the offer date and the remaining option shares after the expiration of five years from the offer date. Options granted prior to this date, may be exercised in respect of 33% of the option shares after the expiration of two years from the offer date, in respect of a further 33% after the expiration of three years from the offer date and the remaining option shares after the expiration of four years from the offer date. Such percentages are to be carried forward on a cumulative basis. Prior to 2008, should the options not be exercised by the fifth anniversary date of the offer, the option holder was obliged to exercise the option in respect of at least 20% of the options in question by the sixth anniversary date of the offer or else the said 20% of the options would lapse. The same rule applied for the seventh, eighth, ninth and tenth anniversary of the offer date until the options in question either lapsed or were exercised.

The scheme was modified in 2008 whereby the expiry condition from the sixth anniversary date was removed and all unexpired options now lapse after ten years from the date of issue. This modification had no material impact on the expense recognised in terms of share-based payments.

Conditional Share Plan

On 27 May 2008 the shareholders of MBHL approved the Conditional Share Plan incentive scheme which is in line with global best practice and emerging South African practice. The purpose of the scheme is to recognise contributions made by selected employees and to provide for an incentive for their continuing relationship with the Company, by providing them with the opportunity to receive shares in MBHL, thereby providing participants with an incentive to advance the Company's interest and to ensure that the Company attracts and retains the core competencies required for formulating and implementing the Company's business strategies.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

29. Share incentive schemes (continued)

The tables below set out the movement in the options and conditional awards:

	Exercise price (cents)	Options at beginning of year	Forfeited during year	Exercised during year	Options at end of year	Exercisable options at end of year	Relating to directors*
Share option scheme							
Grant date							
2009							
20 November 2001	**32**	**794 400**	**(400 000)**	**–**	**394 400**	**394 400**	**–**
11 February 2002	**32**	**160 000**	**–**	**–**	**160 000**	**160 000**	**–**
5 October 2004	**18**	**5 000 000**	**–**	**–**	**5 000 000**	**5 000 000**	**5 000 000**
7 October 2004	**17**	**750 000**	**–**	**–**	**750 000**	**750 000**	**–**
11 February 2005	**20**	**500 000**	**–**	**–**	**500 000**	**500 000**	**–**
27 July 2005	**32**	**750 000**	**–**	**–**	**750 000**	**750 000**	**–**
9 February 2006	**41**	**750 000**	**–**	**–**	**750 000**	**495 000**	**–**
3 March 2006	**38**	**500 000**	**(500 000)**	**–**	**–**	**–**	**–**
22 March 2006	**40**	**10 600 000**	**–**	**–**	**10 600 000**	**6 996 000**	**7 000 000**
26 February 2007	**34**	**18 100 000**	**(500 000)**	**–**	**17 600 000**	**5 808 000**	**8 000 000**
1 June 2007	**36**	**500 000**	**–**	**–**	**500 000**	**165 000**	**–**
1 December 2007	**36**	**1 000 000**	**(1 000 000)**	**–**	**–**	**–**	**–**
		39 404 400	**(2 400 000)**	**–**	**37 004 400**	**21 018 400**	**20 000 000**
2008							
20 November 2001	32	954 400	(160 000)	–	794 400	794 400	–
11 February 2002	32	200 000	(40 000)	–	160 000	160 000	–
5 October 2004	18	5 000 000	–	–	5 000 000	5 000 000	5 000 000
7 October 2004	17	1 000 000	(85 000)	(165 000)	750 000	750 000	–
3 January 2005	15	700 000	(170 000)	(530 000)	–	–	–
11 February 2005	20	500 000	–	–	500 000	330 000	–
27 July 2005	32	750 000	–	–	750 000	495 000	–
2 December 2005	31	350 000	(350 000)	–	–	–	–
9 February 2006	41	750 000	–	–	750 000	247 500	–
3 March 2006	38	500 000	–	–	500 000	165 000	–
22 March 2006	40	12 500 000	(1 900 000)	–	10 600 000	3 498 000	7 000 000
26 February 2007	34	21 250 000	(3 150 000)	–	18 100 000	–	8 000 000
1 June 2007	36	500 000	–	–	500 000	–	–
1 December 2007	36	1 000 000	–	–	1 000 000	–	–
		45 954 400	(5 855 000)	(695 000)	39 404 400	11 439 900	20 000 000

The Company has not granted employees any further share options since 2007.

**Refer to note 28.3*

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

29. Share incentive schemes (continued)

	Market price at date of grant (cents)	Conditional awards at beginning of year	Granted during year	Forfeited during year	Conditional awards at end of year	Relating to directors*
Conditional Share Plan						
Grant date						
2009						
22 February 2008	**32**	**26 131 000**	**–**	**(3 382 000)**	**22 749 000**	**7 600 000**
26 March 2008	**31**	**4 000 000**	**–**	**–**	**4 000 000**	**–**
24 July 2008	**26**	**375 000**	**–**	**–**	**375 000**	**–**
1 October 2008	**32**	**500 000**	**–**	**(500 000)**	**–**	**–**
1 November 2008	**28**	**2 200 000**	**–**	**–**	**2 200 000**	**–**
1 December 2008	**29**	**800 000**	**–**	**(800 000)**	**–**	**–**
18 March 2009	**26**	**–**	**16 660 000**	**(860 000)**	**15 800 000**	**5 000 000**
1 July 20009	**25**	**–**	**1 000 000**	**–**	**1 000 000**	**–**
		34 006 000	**17 660 000**	**(5 542 000)**	**46 124 000**	**12 600 000**
2008						
22 February 2008	32	–	28 445 000	(2 314 000)	26 131 000	7 600 000
26 March 2008	31	–	4 000 000	–	4 000 000	–
7 May 2008	30	–	1 400 000	(1 400 000)	–	–
24 July 2008	26	–	375 000	–	375 000	–
1 October 2008	32	–	500 000	–	500 000	–
1 November 2008	28	–	2 200 000	–	2 200 000	–
1 December 2008	29	–	800 000	–	800 000	–
		–	37 720 000	(3 714 000)	34 006 000	7 600 000

**Refer to note 28.3*

Risk management and control

Risk management philosophy

The Company recognises that the business of banking and financial services is conducted within an environment of complex inter-related risks that have become all too evident during the global financial crisis. The Company operates in a dynamic environment where the past is not necessarily an acceptable guide to the future. Risk management is a key focus of the Company and addresses a wide spectrum of risks that are continually evaluated and policies and procedures reviewed and stress tested to adapt to changing circumstances. In any economy there are sectors that are more vulnerable to cyclical downturn than others. Economic variables are monitored to assist in managing exposure to such sectors. The concentration of risk in our target market sectors is managed to achieve a balanced portfolio. However, we acknowledge the potential of concentration risk in being a small bank and this is carefully monitored and where appropriate corrective action is taken. Our business development efforts are focused on the stronger companies and individuals within established policy criteria, which eliminate weaker credit or investments from the portfolio. The Company remains well positioned to effectively manage identified threats in such a way that minimises risks to the Company. An independent review of the risk management and control was deferred until 2010 due to pressure emanating from the pending implementation of the new core banking system. An internal review was however conducted by Internal Audit and issues identified have been addressed.

A philosophy of Enterprise-wide Risk Management within a Risk Management Monitoring and Control Framework has been established to ensure that all business and operational risks are managed effectively within acceptable risk profiles, policies and parameters. Risk management policies are essentially conservative, with proper regard to the mix of risk and reward. The Company will take all necessary steps to safeguard its depositors' funds, its own asset base and shareholders' funds.

A number of additional risk initiatives were initiated during the year. These included:

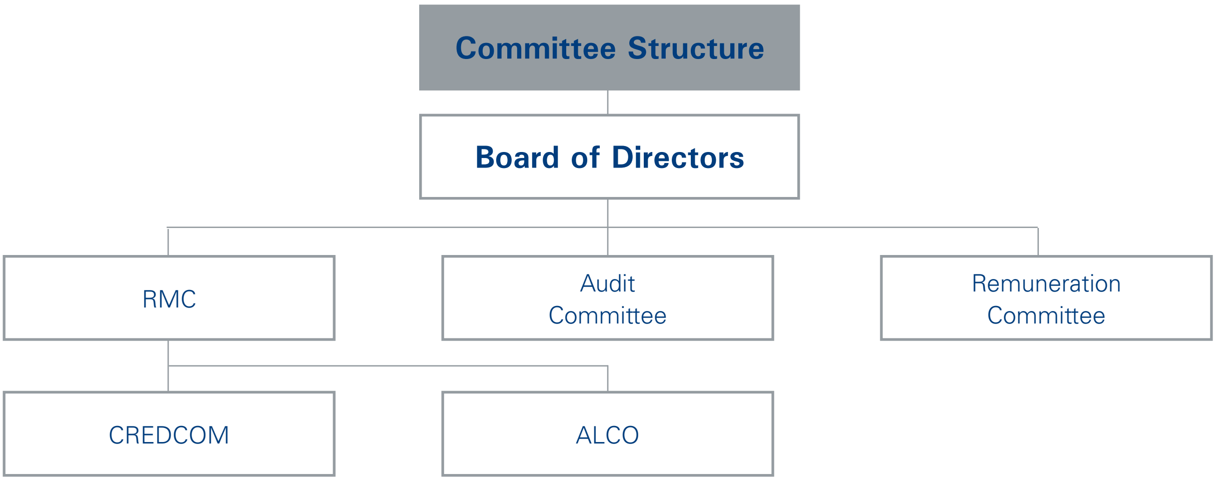
- development and partial implementation of a process of Risk Control Self Assessment across all key areas of the Bank:
- full implementation in all areas is scheduled for completion during the first quarter 2010; and
- establishment of a Treasury Middle Office function for the dedicated management of Treasury-related risks and the establishment of a variety of prudential ratios covering key risks of the Bank to be reported on at each meeting of the RMC. These ratios are subjected to various levels of stress testing.

Enterprise-wide risk management

An Enterprise-wide Risk Management Framework is adopted to ensure appropriate and focused management of all risks. Risk assessment is a dynamic process and is reviewed regularly. Risk dimensions vary in importance depending on the business activities of an organisation and the related risks. The overall objective of enterprise-wide risk management is to ensure an integrated and effective risk management framework where all risks are identified, quantified and managed in order to achieve an optimal risk reward profile. The presence of accurate measures of risk makes risk-adjusted performance possible, creates the potential to generate increased shareholder returns and allows the risk-taking behaviour to be more closely aligned with our strategic objectives.

Risk management is performed on a Company-wide basis involving the Board, credit management, senior management, independent risk management, business line management, finance and control, legal/compliance, treasury and operations, with significant support from internal audit and information technology.

Risk management and control (continued)



Risk management life cycle/process

All of the Company's policies and procedures manuals are subject to ongoing review and are signed off by the relevant divisional heads. These standards are an integral part of the Company's governance infrastructure and risk management profile, reflecting the expectations and requirements of the Board in respect of key areas of control. We have, during the year, developed a system of Risk Control Self Assessment that is being rolled out across the Bank with scheduled finalisation during the first quarter 2010. The standards and implementation of Risk Control Self Assessment ensure alignment and consistency in the way that prevalent risk types are identified, managed and form part of the four phases of the risk management life cycle, defined as:

Risk identification (and comprehension)

Risk identification focuses on recognising and understanding existing risks or risks that may arise from positions taken and future business activity as a continuing practice.

Risk measurement (and evaluation using a range of analytical tools)

Once risks have been identified, they need to be measured. Certain risks will obviously lend themselves more easily to determination and measurability than others, but it is necessary to ascertain the magnitude of each risk whether quantifiable or not and whether direct or indirect.

Risk management (as an independent function)

The Company's principal business focuses on the management of liabilities and assets in the statement of financial position. Major risks are managed and reviewed by an independent risk function. The ALCO, RMC and CREDCOM meet on a regular basis to collaborate on risk control, establish how much risk is acceptable and to decide how the Company will stay within targets and laid down thresholds.

Risk monitoring *(and compliance with documented policies)*

Open, two-way communication between the Company and the SARB is fundamental to the entire risk monitoring and supervisory process. To achieve this, responsible line heads are required to document conclusions and communicate findings to the ALCO, RMC and CREDCOM in the first instance and to the SARB via the Finance Division through BA returns and periodic meetings.

Risk control (stress testing)

The Company follows a policy of ongoing stress testing. Critical variables are sensitive to market changes both domestic and international. These are identified and stress modelled to determine the possible impact of any deterioration of such identified variables on the Company's results. Both internal and external events are considered in formulating appropriate modelling criteria.

Risk management and control (continued)

Management of risk

Principal risk categories have been identified, defined and categorised into direct and indirect risks. This set of risk definitions forms the basis of management and control relative to each division within the Company and also forms a consistent common language for outside examiners and/or regulators to follow.

Direct risks are found in most banking transactions. They are quantifiable and can be clearly defined. These risks are evaluated through examination of our databases, statistics and other records.

Indirect risks are considered to ensure that a complete risk assessment is carried out. They are present in almost every decision made by management and the Board and thus impact on the Company's image and success. These decisions are usually intended to enhance the Company's long-term viability or success and therefore are difficult to quantify at a given point in time.

Board Committees monitor various aspects of the different identified risks within the Enterprise-wide Risk Management Framework which include:

Direct Risks	Indirect Risks
Credit Risk	Strategic Risk
Counterparty Risk	Reputation Risk
Currency Risk	Legal Risk
Liquidity Risk	Fraud Risk
Interest Rate Risk	International Risk
Market (Position) Risk	Political Risk
Solvency Risk	Competitive Risk
Operational Risk	Pricing Risk
Technology Risk	Sensitivity Risk
Compliance Risk	

The responsibility for understanding the risks incurred by the Company and ensuring that they are appropriately managed lies with the Board. The Board approves risk management strategies and delegates the power to take decisions on risks and to implement strategies on risk management and control to the RMC. Discretionary limits and authorities are in turn delegated to line heads and line managers within laid down parameters to enable them to execute the Company's strategic objectives within predefined risk management policies. Major risks are managed, controlled and reviewed by an independent risk function.

The Board fully recognises that they are accountable for the process of risk management and the system of internal control. Management reports regularly to the Board on the effectiveness of internal control systems and significant control weaknesses identified.

A process is in place whereby the Top 10 risks faced by the Company are identified. These risks are assessed and evaluated in terms of a risk score attached to inherent risk and residual risk. Action plans are put in place to reduce the identified inherent risks to within acceptable residual risk parameters. The Top 10 risks are re-evaluated quarterly.

The Company subscribes to the 10 Principles of Sound Practices for the Effective Management and Supervision of Operational Risk as defined by the Basel Committee or Banking Supervision.

Continued focus remains on BCM. BCM ensures the availability of key staff and processes required to support essential activities in the event of an interruption to, or disruption of, business. BCM is an important aspect of risk management and its value has been proven in creating a more resilient operational platform through activities such as business impact assessments, business continuity planning and implementation, testing of business continuity and implementing corrective actions. Comprehensive simulations are conducted on an ongoing basis, with identified gaps addressed and/or plans put in place to resolve the identified issues.

Risk management and control (continued)

Management of risk (continued)

The Capital Management Committee under the auspices of the RMC proactively evaluates and manages the capital requirements of the Company as determined by Basel II requirements. A comprehensive re-evaluation of the capital requirements under the Internal Capital Adequacy Assessment Process was regularly undertaken during the year with consideration given to all risks impacting on the need for capital reserves within the Company. The outcome of these assessments resulted in the Company identifying different levels of risk related to specific characteristics of its business where it was deemed prudent to hold a capital buffer in addition to the regulatory capital requirements.

Under the Enterprise-wide Risk Management Framework we have categorised the direct risks of the Company and report on those deemed to be of the most significance:

Credit risk

Credit parameters and tolerance levels are clearly defined and reflected in governing procedures and policies. The Company offers a spread of banking products common within the banking industry with a specific focus on small and medium sized businesses across a wide variety of industries. Whilst personal market products are also offered, no specific targeting of the broader personal retail-based market is undertaken. The primary risks encountered are associated with the lending of money and the issuing of contingent financial or performance guarantees to third parties on behalf of customers.

Dependent upon the risk profile of the customer, the risk inherent in the product offering and the track record/payment history of the client, varying types and levels of security are taken to mitigate credit-related risks. Clean or unsecured lending will only be considered for financially strong borrowers.

Counterparties to derivatives expose the Company to credit-related losses in the event of non-performance. The counterparties to these contracts are financial institutions. The Company continually monitors its positions and the credit ratings of its counterparties and limits the amount of contracts it enters into with any one party to within pre-approved transactional limits.

At year-end, the Company did not have any significant concentration of risk which had not been adequately provided for. There were no material exposures in advances made to foreign entities at year-end, except for the deposits placed with CGD as disclosed in note 28.2.

A portfolio analysis report is prepared and presented to the RMC analysing the performance and makeup of the book including customer and segment concentration analyses.

The Company has adopted a conservative approach to credit granting within a specifically defined and structured approval process. The granting of credit is managed via a mandated approval process whereby levels of credit approval are determined by the experience of the mandated individual with dual or multiple sign-off on all material values. An ongoing weekly review is also undertaken by the CREDCOM of all new and renewal proposals for lending in excess of R2 million. In addition an early warning system is applied to actively manage all accounts within the risk structure. The system identifies a number of characteristics relating to the performance of the accounts and based on various predefined algorithms, flags issues of concern. Monitoring is done by the Portfolio Management Department and any concerns are raised with the Credit Department and Retail or Commercial banking units. The Company is finalising an enhanced Decision Support tool to assist credit decision makers through the provision of indicative performance criteria and other information necessary to assist in making more informed decisions. Such indicative performance data will be measured against predefined acceptance bands and result in the allocation of an overall acceptability rating.

There have been no material changes in the credit approval structure or overall make-up of the book from the prior reporting period.

Risk management and control (continued)

Management of risk (continued)

Credit risk (continued)

The table below summarises the Company's maximum exposure to credit risk at the reporting date:

	Loans and advances R'000	Committed undrawn facilities R'000	Other R'000	Total R'000
2009				
Current accounts	**593 688**	–	–	**593 688**
Credit card	**15 193**	**15 285**	–	**30 478**
Mortgage loans	**1 745 498**	**175 549**	–	**1 921 047**
Instalment sales and leases	**341 794**	–	–	**341 794**
Structured loans	**247 715**	–	–	**247 715**
Other advances	**685 686**	–	–	**685 686**
Negotiable securities	–	–	**267 902**	**267 902**
Bank term deposits	–	–	**35 276**	**35 276**
Cash and cash equivalents	–	–	**1 400 937**	**1 400 937**
Guarantees	–	–	**303 514**	**303 514**
Letters of credit	–	–	**12 330**	**12 330**
	3 629 574	**190 834**	**2 019 959**	**5 840 367**
2008				
Current accounts	503 622	–	–	503 622
Credit card	14 920	19 364	–	34 284
Mortgage loans	1 614 867	312 357	–	1 927 224
Instalment sales and leases	370 780	–	–	370 780
Structured loans	254 795	–	–	254 795
Other advances	644 805	–	–	644 805
Negotiable securities	–	–	247 141	247 141
Bank term deposits	–	–	324 295	324 295
Cash and cash equivalents	–	–	1 464 959	1 464 959
Guarantees	–	–	331 494	331 494
Letters of credit	–	–	6 886	6 886
	3 403 789	331 721	2 374 775	6 110 285

Risk management and control (continued)

Management of risk (continued)

Operational risk

The Company subscribes to the 10 Principles of Sound Practices for the Effective Management and Supervision of Operational Risk.

Operational risks faced by the Company are extensive and include risks associated with reputation, robbery, fraud, theft of data, systems access and controls, legal challenges, statutory and legislative compliance, operational processes, employment policies, documentation risk and business continuity. Strategies, procedures and action plans to monitor, manage and limit the risks associated with operational processes, systems and external events include:

- documented operational policies, processes and procedures with segregation of duties;
- training and upskilling staff on operational procedures and legislative compliance;
- an operational event logger wherein all losses associated with operational issues including theft and robbery are recorded and evaluated to facilitate corrective action;
- ongoing improvements to the Disaster Recovery and Business Continuity plans including conducting a variety of simulation exercises in the branches and critical operations environments;
- conducting a variety of internal audits and reviews by both the Compliance and Internal Audit Departments in line with annual plans approved by the Board;
- development and implementation of a comprehensive bank-wide Risk Control Self Assessment Process which will be rolled out to job functional level in high-risk operational processing areas during 2010; and
- limiting access to systems and enforcing strong password controls.

There have been no material losses during the reporting period that require specific identification.

Market risk

Market risk is the risk of revaluation of any financial instrument as a consequence of changes in market prices or rates and can be quantified as the potential change in the value of the banking book as a result of changes in the financial environment between now and a future point in time. The Board determines market risk limits. These limits are reviewed at least annually dependent on market events.

The Company does not currently have any proprietary trading positions and therefore has minimal exposure to market risk. Before the Company enters into a proprietary trading position, the Trading Committee will evaluate and approve such positions. This Committee will ensure that the Company is prudently positioned, taking into account agreed limits, policies, prevailing markets, available liquidity and the relationship between risk and reward primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The Company enters into derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward exchange contracts; and
- interest rate and foreign currency swaps.

Detailed market risk reports are produced on a daily basis, which allows for monitoring against prescribed limits. In the unlikely event of an unauthorised limit violation, the ALM Forum records such violation, which is immediately corrected, and reported to the ALCO, which is a subcommittee of the RMC.

The Company does not perform a detailed sensitivity analysis on the potential impact of a change in exchange rates on a daily basis due to the fact that the Company does not currently have any proprietary trading positions. The impact of changes in open foreign currency client positions is modelled to take cognisance of credit risks associated with volatility in foreign currency exchange rates with the purpose of covering adverse positions through calling for initial and variation margins. A detailed sensitivity analysis is performed for liquidity and interest rate risk (described below).

There has been no significant change to the Company's exposure to market risks or the manner in which it manages and measures the risk. Various additional conservative prudential risk limits were introduced during 2009. The results of the prudential risk limits and various sensitivities are reported to the ALCO, RMC and Board on a regular basis.

Risk management and control (continued)

Management of risk (continued)

Foreign currency risk

The Company, in terms of approved limits, manages short-term foreign currency exposures relating to trade imports, exports and interest flows on foreign liabilities.

The Company has conservative limits in terms of net open foreign currency positions that are well below the limits allowed by the SARB. For the year under review the highest net open position recorded for any single day was R10.0 million (2008: R6.2 million). An adverse movement in the exchange rate of 10% would reduce the Company's income by R1.0 million (2008: R0.62 million).

The transaction exposures and foreign exchange contracts at the reporting date are summarised as follows:

	US Dollar R'000	Euro R'000	Pound Sterling R'000	Other R'000	Total R'000
2009					
Total foreign exchange assets	**615 326**	**48 369**	**32 490**	**9 877**	**706 062**
Total foreign exchange liabilities	**(182 815)**	**(16 896)**	**(7 253)**	**(3 176)**	**(210 140)**
Commitments to purchase foreign currency	**127 566**	**100 434**	**3 003**	**15 579**	**246 582**
Commitments to sell foreign currency	**(559 551)**	**(131 475)**	**(27 953)**	**(21 859)**	**(740 838)**
Year-end effective net open foreign currency positions	**526**	**432**	**287**	**421**	**1 666**
2008					
Total foreign exchange assets	1 361 063	35 327	26 585	12 277	1 435 252
Total foreign exchange liabilities	(129 695)	(13 782)	(12 828)	(130)	(156 435)
Commitments to purchase foreign currency	301 762	76 282	8 299	14 086	400 429
Commitments to sell foreign currency	(1 532 755)	(100 155)	(22 371)	(26 754)	(1 682 035)
Year-end effective net open foreign currency positions	375	(2 328)	(315)	(521)	(2 789)

Interest rate risk

Interest rate risk is the impact on net interest earnings and the sensitivity to economic value as a result of increases or decreases in interest rates arising from the execution of the core business strategies and the delivery of products and services to customers. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected adverse movements arise. The ALM forum monitors interest rate repricing on a daily basis and reports back to the ALCO, RMC and Board.

The Company is exposed to interest rate risk as it takes deposits from clients at both fixed and floating interest rates. The Company manages the risk by maintaining an appropriate mix between fixed and floating rate funds, by the use of interest rate swap contracts and by matching the maturities of deposits and assets as appropriate.

The objective with the management of interest rate risk is to ensure a higher degree of interest rate margin stability and lower interest rate risk over an interest rate cycle. This is achieved by hedging material exposures and by not allowing any proprietary interest rate positions. Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The interest rate swaps reprice on a quarterly basis. The floating rate on the interest rate swaps is based on the three-month JIBAR and/or prime rate. The Company will settle the difference between the fixed and floating interest rate on a net basis.

Risk management and control (continued)

Management of risk (continued)

Interest rate risk (continued)

Sources of interest rate risk include volatility and changes in interest rate levels, yield curves and spreads. These affect the interest rate margin realised between lending income and borrowing costs when applied to our rate sensitive assets and liabilities. The Company is also exposed to basis risk, which is the difference in repricing characteristics of two floating-rate indices such as the South African prime rate and three-month JIBAR.

To measure such risk, the Company aggregates interest rate sensitive assets and liabilities into fixed time bands in accordance with the respective interest repricing dates. The Company uses both dynamic maturity gap and duration analysis, which measures the mismatch level between the average time over which the cash inflows are generated and cash outflows are required. Various reports are prepared taking alternative strategies and interest rate forecasts into consideration. These reports are presented to the ALCO and RMC on a regular basis.

To monitor the effect of the gaps on net interest income, a regular forecast of interest rate sensitive asset and liability scenarios is produced. It includes relevant banking activity performance and trends, different forecasts of market rates and expectations reflected in the yield curve.

The yield on assets declined during 2009, which can mainly be attributed to the steep decline in the prevailing prime and repo rates in South Africa during this period. South Africa was not immune to the global credit and liquidity crisis and this, together with market uncertainty in respect of the longer-term interest rate trends, resulted in the cost of funding contributing to the decline in margin. Pressure on margins is likely to continue during 2010. Net interest income was adversely impacted by the negative endowment effect due to the current excess capital of the Company.

For regulatory purposes, the assessment and measurement of interest rate risk is based on the accumulated impact of interest rate sensitive instruments resulting from a parallel movement of plus or minus 200 basis points on the yield curve.

In addition, the impact on equity and profit and loss resulting from a change in interest rates is calculated monthly based on management's forecast of the most likely change in interest rates.

At the reporting date, a 50 basis point change in prevailing interest rates was applied as a sensitivity analysis to determine exposure to interest rates. If interest rates increased/decreased by 50 basis points and all other variables remained constant, the Company's net profit and equity at year-end would increase/decrease by R9.8 million (2008: increase/decrease by R7.8 million). This is mainly attributable to the Company's exposure to interest rates on its lending and borrowings in the banking book.

Risk management and control (continued)

Management of risk (continued)

Interest rate risk (continued)

The table below summarises the Company's exposure to interest rate risk. Assets and liabilities are included at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates and also indicate their effective interest rates at year-end. The repricing profile indicates that the Bank remains asset-sensitive as interest-earning assets reprice sooner than interest-paying liabilities, before and after derivative hedging activities. Thus, future net interest income remains vulnerable to a decrease in market interest rates.

	Up to 1 month R'000	1 – 3 months R'000	3 – 12 months R'000	1 – 5 years R'000	Over 5 years R'000	Non-interest sensitive R'000	Total R'000	Effective interest rate %
2009								
Assets								
Intangible assets	–	–	–	–	–	170 325	170 325	–
Property and equipment	–	–	–	–	–	31 955	31 955	–
Other accounts receivable	–	–	–	–	–	41 742	41 742	–
Interest in subsidiaries	46 884	–	–	–	–	48 845	95 729	–
Other investments	–	–	–	–	–	29 957	29 957	–
Deferred tax assets	–	–	–	–	–	98 381	98 381	–
Non-current assets held for sale	–	–	–	–	–	5 510	5 510	–
Loans and advances	3 652 205	–	–	62 420	–	(85 051)	3 629 574	12.57
Derivative financial instruments	–	53	–	–	–	21 353	21 406	–
Negotiable securities	19 895	114 007	114 985	–	19 015	–	267 902	9.34
Bank term deposits	–	–	35 276	–	–	–	35 276	7.22
Cash and cash equivalents	1 290 685	–	–	–	–	110 252	1 400 937	7.22
Total assets	5 009 669	114 060	150 261	62 420	19 015	473 269	5 828 694	
Equity and liabilities								
Shareholders' equity	–	–	–	–	–	1 465 234	1 465 234	–
Deposits	2 678 232	292 106	666 650	5 560	–	606 186	4 248 734	6.73
Derivative financial instruments	6 140	1 438	–	–	–	8 652	16 230	–
Provisions	–	–	–	–	–	38 142	38 142	–
Other accounts payable	–	–	–	–	–	60 354	60 354	–
Total equity and liabilities	2 684 372	293 544	666 650	5 560	–	2 178 568	5 828 694	
Financial position interest sensitivity gap	2 325 297	(179 484)	(516 389)	56 860	19 015		1 705 299	
Derivative financial instruments	49 684	59 526	–	(70 501)	(38 709)	–	–	
Total net interest sensitivity gap	2 374 981	(119 958)	(516 389)	(13 641)	(19 694)	–	1 705 299	

Risk management and control (continued)

Management of risk (continued)

Interest rate risk (continued)

	Up to 1 month R'000	1 – 3 months R'000	3 – 12 months R'000	1 – 5 years R'000	Over 5 years R'000	Non-interest sensitive R'000	Total R'000	Effective interest rate %
2008								
Assets								
Intangible assets	–	–	–	–	–	76 894	76 894	–
Property and equipment	–	–	–	–	–	35 995	35 995	–
Other accounts receivable	–	–	–	–	–	50 501	50 501	–
Interest in subsidiaries	51 097	–	–	–	–	39 936	91 033	–
Other investments	–	–	–	–	–	20 070	20 070	–
Deferred tax assets	–	–	–	–	–	153 531	153 531	–
Non-current assets held for sale	–	–	–	–	–	5 289	5 289	–
Loans and advances	3 329 515	–	–	109 470	44 636	(79 832)	3 403 789	15.32
Derivative financial instruments	–	184	–	–	–	56 689	56 873	–
Negotiable securities	24 823	87 275	114 505	–	20 538	–	247 141	11.84
Bank term deposits	–	–	324 295	–	–	–	324 295	9.42
Cash and cash equivalents	947 999	410 808	–	–	–	106 152	1 464 959	9.42
Total assets	4 353 434	498 267	438 800	109 470	65 174	465 225	5 930 370	
Equity and liabilities								
Shareholders' equity	–	–	–	–	–	1 296 760	1 296 760	–
Deposits	2 277 185	550 288	1 012 189	8 161	–	543 720	4 391 543	8.30
Derivative financial instruments	7 091	1 906	–	–	–	86 094	95 091	–
Provisions	–	–	–	–	–	48 560	48 560	–
Other accounts payable	–	–	–	–	–	98 110	98 110	–
Tax	–	–	–	–	–	306	306	–
Total equity and liabilities	2 284 276	552 194	1 012 189	8 161	–	2 073 550	5 930 370	
Financial position interest sensitivity gap	2 069 158	(53 927)	(573 389)	101 309	65 174	–	1 608 325	
Derivative financial instruments	27 559	119 758	–	(106 331)	(40 986)	–	–	
Total net interest sensitivity gap	2 096 717	65 831	(573 389)	(5 022)	24 188	–	1 608 325	

Liquidity risk

Liquidity risk is the risk of being unable to meet current and future cash flow and collateral requirements when they become due, without negatively affecting the normal course of business. The Company is exposed to daily cash needs from overnight deposits, current accounts, maturing deposits, loan drawdowns and guarantees

To measure liquidity risk, the Company aggregates assets and liabilities into fixed time bands in accordance with the respective maturity dates, which measures the mismatch level between the average time over which the cash inflows are generated and cash outflows are required.

The ALM forum monitors liquidity risk on a daily basis and reports back to the ALCO and RMC. Ultimate responsibility for liquidity risk management rests with the Board. An appropriate liquidity risk management framework has been developed for the management of the Company's short-, medium- and long-term funding and liquidity requirements.

Risk management and control (continued)

Management of risk (continued)

Liquidity risk (continued)

Through active liquidity management, the Company seeks to preserve stable, reliable and cost-effective sources of funding. To accomplish this, management uses a variety of liquidity risk measures that consider market conditions, prevailing interest rates, liquidity needs and the desired maturity profile of liabilities.

To manage this risk, the Company performs, amongst others, the following:

- maintenance of stock of readily available, high-quality liquid assets in excess of the statutory requirements as well as strong statement of financial position liquidity ratios;
- assumptions-based sensitivity analysis to assess potential cash flows at risk;
- management of concentration risk, being undue reliance on any single counterparty or counterparty group, sector, market, product, instrument, currency and tenor;
- maintenance of sources of funding for contingency funding needs;
- monitoring of daily cash flow movements/cash flow requirements, including daily settlements and collateral management processes;
- creation and monitoring of prudential liquidity risk limits; and
- maintenance of an appropriate term mix of funding.

While international financial markets experienced significant stress in 2009, the South African domestic money market liquidity remained largely unaffected. Overall the Company's key liquidity risk metrics, which have been formulated to achieve a prudent liquidity profile, were maintained at acceptable levels. Through increased stress testing, scenario analysis and contingency planning, the Company continues to actively manage its stress funding sources and liquidity buffers to ensure that it exceeds the estimated stress funding requirements which could emanate from moderate to high-stressed liquidity events. Overall the Company's liquidity position remains strong.

There were no significant changes in the Company's liquidity position during the current financial year or the manner in which it manages and measures the risk. The Company is adequately funded and able to meet all its current and future obligations.

The table below summarises assets and liabilities of the Company into relevant maturity groupings, based on the remaining period to the contractual maturity at the reporting date:

	Assets R'000	Liabilities R'000	Total mismatch R'000
2009			
Maturing up to one month	**2 150 785**	**3 384 146**	**(1 233 361)**
Maturing between one and three months	**122 559**	**298 338**	**(175 779)**
Maturing between three and six months	**122 715**	**270 899**	**(148 184)**
Maturing between six months and one year	**89 494**	**396 940**	**(307 446)**
Maturing after one year	**2 986 362**	**13 137**	**2 973 225**
Non-contractual	**356 779**	**–**	**356 779**
	5 828 694	**4 363 460**	**1 465 234**
2008			
Maturing up to one month	1 894 685	3 010 581	(1 115 896)
Maturing between one and three months	518 301	591 013	(72 712)
Maturing between three and six months	322 211	509 066	(186 855)
Maturing between six months and one year	181 561	505 792	(324 231)
Maturing after one year	2 699 358	17 158	2 682 200
Non-contractual	314 254	–	314 254
	5 930 370	4 633 610	1 296 760

Risk management and control (continued)

Management of risk (continued)

Liquidity risk (continued)

The remaining period to contractual maturity of financial liabilities of the Company as at the reporting date which includes the interest obligation on unmatured deposits and derivatives calculated up to the maturity date is summarised in the table below:

	Up to 1 month R'000	1 – 3 months R'000	3 – 6 months R'000	6 – 12 months R'000	Over 1 year R'000
2009					
Deposits	**3 285 860**	**295 726**	**276 889**	**418 630**	**6 066**
Derivative financial instruments	**1 720**	**5 742**	**1 190**	–	**7 578**
Other accounts payable	**60 354**	–	–	–	–
Guarantees letters of credit and committed undrawn facilities	**506 678**	–	–	–	–
Operating lease commitments	**395**	**793**	**1 179**	**1 887**	**7 011**
Capital commitments	**17 209**	**25 814**	**8 605**	–	–
	3 872 216	**328 075**	**287 863**	**420 517**	**20 655**
2008					
Deposits	2 824 277	565 940	529 882	551 597	9 669
Derivative financial instruments	45 937	37 929	2 774	2 306	6 202
Other accounts payable	98 110	–	–	–	–
Tax	306	–	–	–	–
Guarantees letters of credit and committed undrawn facilities	670 100	–	–	–	–
Operating lease commitments	1 377	2 755	4 149	7 963	7 824
Capital commitments	24 738	11 415	17 980	30 497	8 388
	3 664 845	618 039	554 785	592 363	32 083

Basel II – influencing risk management developments at the Bank

In today's complex environment, combining effective bank-level management with market discipline and regulatory supervision, best attains systemic safety and soundness. Building on these principles, the implementation of Basel II had far-reaching implications for banks in terms of minimum capital standards linked to risks, risk measurement systems and methods, risk management practices and public disclosure of risk profile information. It focuses mainly on improving the management of credit and operational risks, enhancements to the supervisory review process and more extensive risk disclosure.

The implementation of Basel II on 1 January 2008 in South Africa has provided the banking industry with an internationally recognised framework that incorporates best practice in risk and capital management. Basel II provides a range of approaches that vary in levels of sophistication for the measurement of credit, operational and market risk to determine capital levels. It provides a flexible structure in which banks, subject to supervisory review, will adopt approaches that best fit their level of sophistication and their risk profile.

Basel II places emphasis on 3 pillars:

- Pillar 1 – minimum capital requirement
- Pillar 2 – supervisory review
- Pillar 3 – market discipline/disclosure

The Company implemented the following approaches in order to determine the regulatory capital requirement under pillar 1 of Basel II:

- Credit risk – Standardised Approach Advanced IRB
- Operational risk – Standardised Approach Advanced Measurement Approach
- Market risk – Standardised Approach

The Company recognises the significance of Basel II in aligning regulatory capital to risk and further entrenching risk reward principles and practices in bank management and decision making.

Risk management and control (continued)

Capital management

The Bank is subject to minimum capital requirements as defined in the Banks Act and Regulations. The management of the Company's capital takes place under the auspices of the RMC, through the ALCO. The capital management strategy is focused on maximising shareholder value over time by optimising the level and mix of capital resources whilst ensuring sufficient capital is available to support the growth objectives of the Company. Decisions on the allocation of capital resources, conducted as part of the strategic planning and budget review, are based on a number of factors including growth objectives, return on economic and regulatory capital and the residual risk inherent to specific business lines. This is conducted as part of the ICAAP and strategic planning review on a regular basis. The RMC considers the various risks faced by the Company and analyses the need to hold capital against these risks whilst taking account of the regulatory requirements.

Capital adequacy and the use of regulatory capital are monitored by employing techniques based on the guidelines documented in the Regulations to the Banks Act and implemented by the SARB for supervisory purposes. The SARB uses the capital adequacy ratio of banks as a key supervisory tool. In terms of regulation, the Company is able to consider different tiers of capital. The capital of the Bank consists almost entirely of tier 1 capital. Following the recapitalisation of the Company in 2004, it has remained capitalised well beyond regulatory and internal requirements.

Risk weighted capital is allocated to the different business units in line with their targeted growth requirements.

Capital to support the Company's needs is currently generated by retained earnings.

The approach to capital management has been enhanced over the past year in line with Basel II and will remain a focus area for the future.

The level of capital for the Bank is as follows:

	2009 R'000	2008 R'000
Risk weighted assets – Banking book		
Credit risk	**3 917 762**	3 338 517
Operational risk	**775 636**	564 151
Market risk	**1 914**	3 910
Equity	**23 561**	22 162
Other assets	**169 447**	375 074
	4 888 320	4 303 814
Net qualifying capital and reserves		
Primary capital	**1 225 750**	1 157 214
Share capital and share premium	**1 483 300**	1 483 300
Reserves	**12 231**	6 734
Less: Deductions	**(269 781)**	(332 820)
Secondary capital	**19 331**	18 418
General debt provisions	**19 297**	18 384
Fifty per cent of a revaluation surplus	**34**	34
	1 245 081	1 175 632
Capital adequacy ratio (%)	**25.5**	27.3
Primary capital (%)	**25.1**	26.9
Secondary capital (%)	**0.4**	0.4

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