Audited Annual Financial Statements 2015

for the year ended 31 December

Mercantile Bank

CELEBRATING 50 YEARS OF ENTREPRENEURIAL SPIRIT

Mercantile Bank Limited

The Business Bank inspired by entrepreneurs

Mercantile Bank Limited

The Business Bank inspired by entrepreneurs

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In terms of section 29(1)(e)(ii) of the Companies Act, it is confirmed that the preparation of these annual financial statements is the responsibility of MEL Teixeira (CA)SA, the Chief Financial Officer of the Bank.

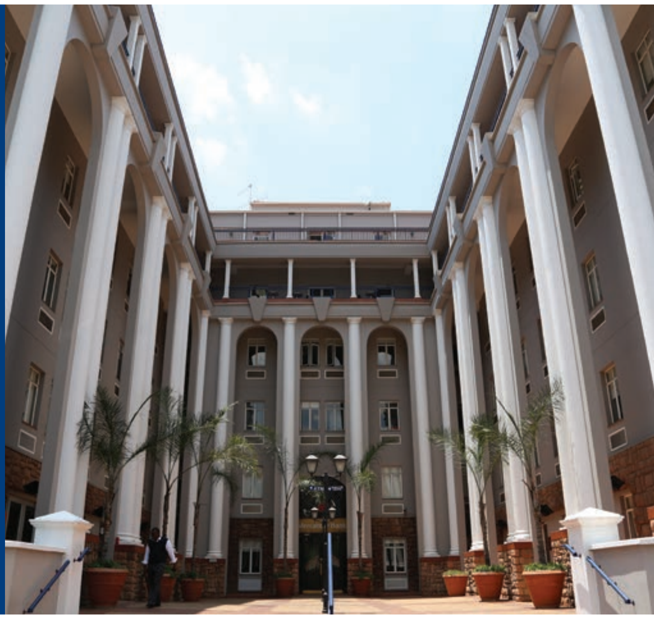
These annual financial statements have been audited in compliance with the requirements of section 29(1)(e)(i) of the Companies Act.

MERCANTILE BANK LIMITED
Registration number: 1965/006706/06
Member of CGD Group
An Authorised Financial Services and Credit Provider NCRCP19

GLOSSARY OF TERMS

"We are all at risk of stagnating if we don't pursue the future, vigorously. But if you pursue the future, you have to accept that not everybody will agree with your vision"

MARK SHUTTLEWORTH



Abbreviation	Definition/Description
AC	Audit Committee
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
Bank Regulations	Regulations relating to banks issued under section 90 of the Banks Act, No. 94 of 1990, as amended
Banks Act	Banks Act, No. 94 of 1990, as amended
CGD	Caixa Geral de Depósitos S.A., a company registered in Portugal and the ultimate holding company
Companies Act	Companies Act, No. 71 of 2008
CREDCOM	Credit Committee
IFRS	International Financial Reporting Standards and Interpretations
MBHL	Mercantile Bank Holdings Limited, the holding company
Mercantile	Mercantile Bank Limited
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 STATEMENT

In terms of the Companies Act, the Directors are required to maintain adequate accounting records and 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 2015 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, and financial and specific audits, and co-ordinates audit coverage with the External Auditors.

The External Auditors are responsible for reporting on the fair presentation of the Company's annual financial statements.

The Company's annual financial statements are prepared in accordance with IFRS issued by the International Accounting Standards Board 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 6 to 60, have been approved by the Board and are signed on their behalf by:

NF Thomaz
Chairman

KR Kumbier
Chief Executive Officer

30 March 2016

CERTIFICATE FROM THE COMPANY SECRETARY

In terms of the provisions 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 2015, all such returns as are required of a public company in terms of the Companies Act, and that all such returns are true, correct and up to date.

T Singh
Company Secretary

30 March 2016

INDEPENDENT AUDITOR'S REPORT

To the shareholder of Mercantile Bank Limited

Report on the financial statements

We have audited the financial statements of the Company set out on pages 7 to 60, which comprise the statement of financial position at 31 December 2015, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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 the requirements of the Companies Act of South Africa, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 control 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 management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mercantile Bank Limited as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with IFRS and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2015, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of the Company for 14 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Diana Jorge
Partner

30 March 2016

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

AUDIT COMMITTEE REPORT

for the year ended 31 December 2015

The duties of the Audit Committee (AC) include its statutory duties in terms of section 94(7) of the Companies Act as well as additional duties assigned to it by the Board. The AC is a committee of the MBHL Board and has assumed the responsibilities of an audit committee in respect of all subsidiaries of MBHL, with the exception of the securitisation vehicle, Compass Securitisation (RF) Limited, which has a separate audit committee, and therefore a separate AC has not been formed for the Bank.

The AC assists the Board in fulfilling its monitoring and controlling responsibilities in terms of applicable legislation.

Terms of reference

The AC is both a statutory and a Board Committee. Its powers and terms of reference are derived from the Companies Act and are formalised in its charter, which is reviewed annually and approved by the Board. The AC has executed its duties during the past financial year in accordance with its charter and the Companies Act.

Composition

The AC comprises four independent Non-Executive Directors. At 31 December 2015 the members were:

- TH Njikizana (Chairman) CA(SA)
- L Hyne CA(SA)
- GP de Kock
- DR Motsepe

The Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, heads of Risk and Internal Audit, and representatives from the External Auditors attend the Committee meetings by invitation. The External and Internal Auditors have unrestricted access to the AC Chairman or any other member of the Committee, as required.

Meetings

The AC held five meetings during the period under review. During their tenure as members of the Committee, all members attended each of these meetings.

Statutory duties

In execution of its statutory duties during the financial year under review, the AC:

- nominated for appointment, as External Auditor, Deloitte & Touche which, in its opinion, is independent of the Company;
- determined the fees to be paid to Deloitte & Touche as disclosed in note 25 to the annual financial statements;
- determined Deloitte & Touche's terms of engagement;
- believes the appointment of Deloitte & Touche complies with the relevant provisions of the Companies Act and King III;
- pre-approved all non-audit service contracts with Deloitte & Touche in accordance with its policy;
- received no complaints with regard to accounting practices and the internal audit of the Company, the content or auditing of its financial statements, the internal financial controls of the Company, and any other related matters; and
- advised the Board that regarding matters concerning the Company's accounting policies, financial control, records and reporting, it concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

Internal financial control and internal audit

In the execution of its delegated duties in this area, the AC has:

- reviewed and recommended the Internal Audit charter for approval;
- evaluated the independence, effectiveness and performance of the Internal Audit function;
- reviewed the effectiveness of the Company's system of internal financial controls;
- reviewed significant issues raised by the External and Internal Audit process, and the adequacy of corrective action in response to such findings; and
- reviewed policies and procedures for preventing and detecting fraud.

The head of Internal Audit functionally reported to the AC, had unrestricted access to the AC Chairman, and is of the opinion that significant internal financial controls operated effectively during the period under review.

Based on the processes and assurances obtained, the AC believes that significant internal financial controls are effective.

Regulatory compliance

The AC has complied with all applicable legal, regulatory and other responsibilities.

External audit

Based on processes followed and assurances received, the AC is satisfied that both Deloitte & Touche and the audit partner, D Crowther (resigned 1 November 2015) and D Jorge (appointed 1 November 2015), are independent of the Bank. The AC confirmed that no reportable irregularities were identified and reported by the External Auditors in terms of the Auditing Professions Act, No. 26 of 2005.

Based on our satisfaction with the results of the activities outlined above, the AC has recommended to the Board that Deloitte & Touche should be reappointed for 2016.

Finance function

The AC believes that MEL Teixeira, the Chief Financial Officer, who is responsible for Finance, possesses the appropriate expertise and experience to meet her responsibilities in that position. We are also satisfied with the expertise and adequacy of resources within the Finance function.

In making these assessments, we have obtained feedback from both External and Internal Audit.

Based on the processes and assurances obtained, we believe that the accounting practices are effective.

Financial statements

Based on the processes and assurances obtained, we recommend the current annual financial statements be approved by the Board.

TH Njikizana
Chairman of the AC

30 March 2016

DIRECTORS' REPORT

for the year ended 31 December 2015

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 2015.

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 commercial, business, 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 7 to 60 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 current and previous year. The authorised and issued share capital of the Company is detailed in note 12 to the annual financial statements.

5. Dividends

A dividend of R29,197 million was declared on 24 February 2016 in respect of the year ended 31 December 2015 (2014: R25,668 million – paid in 2015).

6. Directors, Company Secretary and registered addresses

The Directors of the Company during the year were as follows:

NF Thomaz*+ *(Chairman)*

GP de Kock°x *(Deputy Chairman)*

KR Kumbier# *(Chief Executive Officer)*

RS Caliço*# *(Deputy Chief Executive Officer)*

L Hyne°

AT Ikalafeng°

DR Motsepe°

TH Njikizana^°

** Portuguese ^ Zimbabwean # Executive*
+ Non-Executive ° Independent Non-Executive
x Lead Independent Director

T Singh is the Company Secretary.

The registered addresses of the Company are:

Postal	**Physical**
PO Box 782699	1st Floor
Sandton	Mercantile Bank
2146	142 West Street
	Sandown
	2196

7. Going concern

The Directors, in performing their assessment of the Company's ability to continue as a going concern, considered the approved operating budget for the next financial year, as well as the cash flow forecast for the year ahead. The approved operating budget was reviewed and analysed based on the current developments in the market and operating model for the Company. The Directors believe the Company will have sufficient capital and cash resources to operate as a going concern in the year ahead.

8. Special resolutions

There were no special resolutions passed during the year under review.

ACCOUNTING POLICIES

for the year ended 31 December 2015

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 are prepared in accordance with IFRS adopted by the International Accounting Standards Board; the South African Institute of Chartered Accountants' Financial Reporting Guides as issued by the Accounting Practices Committee; Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the Companies Act.

IFRS that became effective in the current reporting period have had no impact on the Company.

2. Recognition of assets and liabilities

2.1 Assets

The Company recognises an asset 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 a liability 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

A provision is 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 can be made.

2.4 Contingent liabilities

A contingent liability is disclosed where the Company 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 an obligation in terms of which it is merely possible that an outflow of resources will be required to settle the obligation, or the amount of an obligation cannot be measured with sufficient reliability.

3. Financial instruments

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

The Company derecognises a financial asset when:

- the contractual rights to the cash flows arising from the financial assets have expired or have 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 retaining 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 the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

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 instruments.

Derivative financial instruments (derivatives) are not entered into for trading or speculative purposes. All derivatives are recognised on the statement of financial position. Derivatives are recorded at cost and are measured to fair value, excluding transaction costs, at each reporting date. Changes in the fair value of derivatives are recognised in profit or loss.

Derivatives related to unlisted equity instruments whose fair value cannot be reliably determined are measured at cost less impairment.

3. Financial instruments continued

3.1 Derivative financial instruments continued

A derivative's notional principal amount 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 or loss

Financial assets are designated at fair value through profit or loss primarily to eliminate or significantly reduce an accounting mismatch. The Company seeks to demonstrate that, by applying the fair value option, which measures fair value gains and losses in profit or loss, it significantly reduces measurement inconsistency that would otherwise arise from measuring such designated financial assets at amortised cost.

Available-for-sale financial assets

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

Other investments

Investments consist of unlisted equity investments. Other investments, which are an integral part of the Company's structured loan portfolio, are designated at fair value through profit or 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 other comprehensive income until the financial asset is sold or disposed of. At that time, the cumulative gains or losses previously recognised in other comprehensive income are included in profit or loss.

Negotiable securities

Negotiable securities consist of Government stock, treasury bills and promissory notes.

Government stock acquired prior to 31 December 2014 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 other comprehensive income until sold or, otherwise disposed of. At that time, the cumulative gains or losses previously recognised in other comprehensive income are included in profit or loss.

Government stock acquired from 1 January 2015 has been designated as held-to-maturity and is carried at amortised cost.

All other negotiable securities are classified as loans, and receivables and 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 or loss, with resultant gains and losses being included in profit or loss.

Variable rate loans and advances are designated as loans and receivables, and are measured at amortised cost.

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

Other accounts receivable

Other accounts receivable comprise items in transit, pre-payments and deposits which meet the definition of financial assets, 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 and other accounts payable consisting of accruals, product-related credits, and sundry creditors. These financial liabilities are measured at amortised cost. Derivative instruments are measured at fair value through profit or loss; the resultant gains and losses are included in profit or loss.

3.4 Fair value estimation

The fair value of publicly traded derivatives, securities and investments is based on the quoted market prices at the reporting date. In the case of an asset held by the Company, the exit 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-publicly traded financial instruments, the Company uses a variety of valuation methods which take into consideration input assumptions which are based, as far as possible, on objective market information 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 valuation techniques, such as option pricing models, discounted cash flows, replacement cost and net asset values of underlying investee entities, are used to determine fair values.

3.5 Amortised cost

Amortised cost is determined using the effective interest rate 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.

3.6 Impairment

Specific impairments are made against identified financial assets. 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 policies set out the criteria for write-offs, which involve 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 profit or loss.

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's 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 recognising a specific impairment expense. Where the impairment 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 in prior years. The reversal of an impairment is recognised through profit or loss, except for the reversal of an impairment of equity instruments designated as available-for-sale, which reversal is recognised in other comprehensive income.

4. Foreign currency transactions

Transactions in foreign currencies are converted to the functional currency at the prevailing exchange rate on the transaction date. Monetary assets, liabilities and commitments in foreign currencies are translated to the functional currency using the rate of exchange at reporting date. Gains and losses on foreign exchange are recognised in profit or loss.

5. Subsidiaries

Investments in subsidiaries in the Company's annual financial statements are designated as available-for-sale measured at fair value.

6. Property and equipment

All equipment is stated at historical cost, less accumulated depreciation and subsequent accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

6. Property and equipment continued

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 profit or loss as incurred.

Depreciation on equipment is calculated using the straight-line method. Leasehold improvements are depreciated over the period of the lease, or over such lesser period as is considered appropriate.

The residual values and useful lives of equipment are reviewed and adjusted, if appropriate, at each reporting date.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates that the asset is classified as held-for-sale or derecognised. The estimated useful lives of 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

Gains and losses on the disposal of equipment are determined by deducting from the proceeds the carrying amounts and are recognised in profit or loss.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down 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, or its value in use.

7. Intangible assets

Computer software

Direct costs associated with purchasing, developing and enhancing computer software programs and the acquisition of software licences are recognised as intangible assets if they are expected to generate future economic benefits that exceed related costs beyond one financial period.

Computer software and licences that are recognised as intangible assets are amortised on a straight-line basis over a period of three to five years, but where appropriate, to a maximum of 10 years. These intangible assets are carried at historical cost less accumulated amortisation and/or impairment.

An intangible asset is de-recognised on disposal or when future economic benefits are no longer expected from its use or disposal. Gains and losses on the disposal of intangible assets are determined by deducting from the proceeds the net carrying amounts, and are recognised in profit or loss.

At the end of each reporting period, the Company reviews the carrying amounts of intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down 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 or its value in use.

8. Non-current assets held for sale

Non-current assets are classified as held-for-sale if they are to 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 within 12 months, the asset is available for immediate sale in its present condition, the asset is being marketed at a reasonable price and management is committed to the sale and actively looking for buyers.

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

9. Tax

Income tax expense represents the sum of current and deferred tax.

9.1 Current tax

Current tax is determined based on taxable profits for the period. Taxable profit may differ from accounting profit as it may exclude, or include, items of income or expense that are taxable or deductible in other periods, and it would further exclude 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.

9.2 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 of such items and is determined 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 sufficient taxable temporary differences or taxable profits will be available against which those deductible temporary differences may be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from 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 timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 that 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 it will be utilised.

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 when the Company intends to settle its current tax assets and liabilities on a net basis.

9.3 Current and deferred tax

Current and deferred tax are recognised in profit or loss, except when they relate to items recognised in other comprehensive income or directly in equity, in which case, the tax is recognised in the same statements as the related item.

10. Instalment sales and leases

10.1 The Company as the lessee

The leases entered into by the Company are primarily operating leases. The total payments made under operating leases are recognised in profit or loss on a straight-line basis over the term 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.

10.2 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.

11. Interest income and interest expense

Except where interest income is suspended, interest income and expense are recognised in profit or loss for all interest-bearing instruments measured at amortised cost using the effective interest rate method.

12. 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 right to receive payment has been established.

13. Retirement funds

The Company operates a defined contribution fund that is 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 profit or loss as accrued.

14. 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 is 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 current service cost of providing post-retirement medical benefits is recognised in profit or loss. The interest cost and expected return on plan assets, as well as the effect of settlements on the liability and plan assets, are recognised in profit or loss and any remeasurement of the defined benefit liability and assets (which include actuarial gains and losses) are recognised in other comprehensive income. The net post-retirement asset or liability recognised in the consolidated statement of financial position reflects the full value of the plan deficit or surplus.

15. Key accounting estimates and judgements applied by management

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Assumptions and 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.

15.1 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 recognised, the Company makes judgements as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be attributed to 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 group, 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 forecasting 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.

15.2 Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets is 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. The models are calibrated to ensure that outputs reflect actual data and comparative market prices. To this 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.

15.3 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.

16. Recent accounting developments

There are new and revised standards in issue that are not yet effective and that the Company has no plans to early adopt. These include the following standards that could be applicable to the business of the Company, and may have an impact on future financial statements. Except for preliminary assessments in respect of IFRS 9, the impact of initial application of the following standards has not been assessed as at the date of authorisation of the annual financial statements.

	Standard	Effective date
IFRS 5 IFRS 7 IAS 19 IAS 34	Amendments resulting from September 2014 annual improvements to IFRSs	Annual periods beginning on or after 1 January 2016
IFRS 7	**Financial instruments:** Additional hedge accounting disclosures	Annual periods beginning on or after 1 January 2018
IFRS 9	**Financial instruments**	Annual periods beginning on or after 1 January 2018
IFRS 10	**Consolidated financial statements:** Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Deferred indefinitely
IFRS 10	**Consolidated financial statements:** Amendments regarding the application of the consolidation exception	Annual periods beginning on or after 1 January 2016
IFRS 11	**Joint arrangements:** Amendments regarding the accounting for acquisitions of an interest in a joint operation	Annual periods beginning on or after 1 January 2016
IFRS 12	**Disclosure of interests in other entities:** Amendments regarding the application of the consolidation exception	Annual periods beginning on or after 1 January 2016
IFRS 14	**Regulatory deferral accounts**	Annual periods beginning on or after 1 January 2016
IFRS 15	**Revenue from contracts with customers**	Annual periods beginning on or after 1 January 2017
IAS 16	**Leases**	Annual periods beginning on or after 1 January 2019
IAS 1	**Presentation of financial statements:** Amendments resulting from the disclosure initiative	Annual periods beginning on or after 1 January 2016
IAS 16	**Property, plant and equipment:** Amendments regarding the clarification of acceptable methods of depreciation and amortisation; and amendments bringing bearer plants into the scope of IAS 16	Annual periods beginning on or after 1 January 2016
IAS 27	**Separate financial statements:** Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements	Annual periods beginning on or after 1 January 2016
IAS 28	**Investments in associates and joint ventures:** Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Deferred indefinitely
IAS 28	**Investments in associates and joint ventures:** Amendments regarding the application of the consolidation exception	Annual periods beginning on or after 1 January 2016
IAS 38	**Intangible assets:** Amendments regarding the clarification of acceptable methods of depreciation and amortisation	Annual periods beginning on or after 1 January 2016
IAS 41	**Agriculture:** Amendments bringing bearer plants into the scope of IAS 16	Annual periods beginning on or after 1 January 2016

STATEMENT OF FINANCIAL POSITION

at 31 December 2015

	Note	2015 R'000	2014 R'000
Assets			
Intangible assets	2	**191 799**	188 476
Property and equipment	3	**39 680**	26 943
Other accounts receivable	4	**130 118**	120 822
Interest in subsidiaries	5	**191 777**	184 667
Other investments	6	**5 897**	6 326
Non-current assets held for sale	7	**–**	13 482
Loans and advances	8	**6 907 838**	5 903 625
Derivative financial instruments	9	**56 775**	6 069
Negotiable securities	10	**551 494**	440 767
Cash and cash equivalents	11	**1 564 652**	1 492 707
Total assets		**9 640 030**	8 383 884
Equity and liabilities			
Shareholders' equity		**2 038 544**	1 915 578
Share capital and share premium	12	**1 483 300**	1 483 300
General reserve		**–**	12 231
Property revaluation reserve		**–**	69
Employee benefits reserve		**(8 354)**	(7 453)
Available-for-sale reserve		**65 010**	55 354
Retained earnings		**498 588**	372 077
Liabilities		**7 601 486**	6 468 306
Deferred tax	13	**13 963**	30 422
Long-term funding	14	**556 193**	437 539
Deposits	15	**6 726 640**	5 797 103
Derivative financial instruments	9	**62 955**	8 727
Provisions and other liabilities	16	**93 774**	78 384
Current tax payable	18	**12 245**	5 204
Other accounts payable	19	**135 716**	110 927
Total equity and liabilities		**9 640 030**	8 383 884

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Note	2015 R'000	2014 R'000
Interest income	21	**732 751**	605 603
Interest expense	22	**(335 067)**	(265 211)
Net interest income		**397 684**	340 392
Net charge for credit losses	8.4	**(31 305)**	(28 066)
Net interest income after credit losses		**366 379**	312 326
Waiver of interest-bearing loan to subsidiary		**(1 818)**	–
Net non-interest income		**237 466**	226 569
Non-interest income	23	**398 157**	410 522
Fee and commission expenditure	24	**(160 691)**	(183 953)
Net interest and non-interest income		**602 027**	538 895
Operating expenditure	25	**(407 442)**	(359 472)
Profit before tax		**194 585**	179 423
Tax	26	**(54 637)**	(50 701)
Profit after tax		**139 948**	128 722
Other comprehensive income			
Gains on remeasurement to fair value		**9 817**	11 458
Remeasurement of defined benefit obligation		**(1 251)**	(1 760)
Tax relating to other comprehensive income		**120**	(1 230)
Other comprehensive income net of tax		**8 686**	8 468
Total comprehensive income		**148 634**	137 190
Profit after tax attributable to:			
Equity holder of the Company		**139 948**	128 722
Total comprehensive income attributable to:			
Equity holder of the Company		**148 634**	137 190

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Share capital R'000	Share premium R'000	Employee benefits reserve R'000	General reserve R'000	Property revaluation reserve R'000	Available-for-sale reserve R'000	Retained earnings R'000	Total R'000
Balance at 1 January 2014	124 969	1 358 331	(6 186)	12 231	69	45 619	269 056	1 804 089
Net movement for the year	–	–	(1 267)	–	–	9 735	103 021	111 489
Total comprehensive (loss)/ income for the year	–	–	(1 267)	–	–	9 735	128 722	137 190
Profit after tax	–	–	–	–	–	–	128 722	128 722
Other comprehensive (loss)/income	–	–	(1 760)	–	–	11 458	–	9 698
Tax relating to other comprehensive income/loss	–	–	493	–	–	(1 723)	–	(1 230)
Dividend paid	–	–	–	–	–	–	(25 701)	(25 701)
Balance at 31 December 2014	**124 969**	**1 358 331**	**(7 453)**	**12 231**	**69**	**55 354**	**372 077**	**1 915 578**
Net movement for the year	**–**	**–**	**(901)**	**–**	**(69)**	**9 656**	**126 511**	**148 634**
Total comprehensive (loss)/ income for the year	**–**	**–**	**(901)**	**–**	**(69)**	**9 656**	**139 948**	**148 634**
Profit after tax	**–**	**–**	**–**	**–**	**–**	**–**	**139 948**	**139 948**
Other comprehensive (loss)/income	**–**	**–**	**(1 251)**	**–**	**(69)**	**9 886**	**–**	**8 566**
Tax relating to other comprehensive income/loss	**–**	**–**	**350**	**–**	**–**	**(230)**	**–**	**120**
Transfer between reserves	**–**	**–**	**–**	**(12 231)**	**–**	**–**	**12 231**	**–**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(25 668)**	**(25 668)**
Shareholders' equity at 31 December 2015	**124 969**	**1 358 331**	**(8 354)**	**–**	**–**	**65 010**	**498 588**	**2 038 544**

STATEMENT OF CASH FLOWS

for the year ended 31 December 2015

	Note	2015 R'000	2014 R'000
Cash flows from operating activities			
Cash receipts from customers	27.1	**1 133 459**	1 019 713
Cash paid to customers, suppliers and employees	27.2	**(840 914)**	(758 239)
Cash generated from operations	27.3	**292 545**	261 474
Dividends received		**–**	103
Tax (paid)	27.4	**(63 935)**	(49 289)
Net (increase) in income-earning assets	27.5	**(1 139 847)**	(798 897)
Net increase in deposits and other accounts	27.6	**942 666**	718 026
Net cash inflow from operating activities		**31 429**	131 417
Cash flows from investing activities			
Purchase of intangible assets	2	**(37 134)**	(15 697)
Purchase of property and equipment	3	**(22 973)**	(15 695)
Proceeds on disposal of property and equipment		**417**	1 080
Acquisition of non-current assets held for sale		**–**	(12)
Dividends paid		**(25 668)**	(25 701)
Decrease/(Increase) in interest in subsidiaries		**7 220**	(17 732)
Net cash (outflow) from investing activities		**(78 138)**	(73 757)
Cash flows from financing activities			
Increase/(Decrease) in long-term funding	14	**118 654**	(55 634)
Net cash inflow/(outflow) from financing activities		**118 654**	(55 634)
Net cash inflow for the year		**71 945**	2 026
Cash and cash equivalents at the beginning of the year		**1 492 707**	1 490 681
Cash and cash equivalents at the end of year	11	**1 564 652**	1 492 707

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2015

	2015		2014	
	Fair value R'000	Carrying amount R'000	Fair value R'000	Carrying amount R'000
1. Categories and fair values of financial instruments				
1.1 Category analysis of financial instruments				
Assets				
Available-for-sale	**361 487**	**361 487**	369 867	369 867
Other investments	**5 897**	**5 897**	6 326	6 326
Interest in subsidiaries	**191 777**	**191 777**	184 667	184 667
Negotiable securities – Government stock	**163 813**	**163 813**	178 874	178 874
Held-to-maturity				
Negotiable securities - Government stock	**282 098**	**290 057**	–	–
Loans and receivables	**8 653 755**	**8 695 022**	7 764 738	7 764 641
Loans and advances				
Current accounts	**1 682 213**	**1 682 213**	1 477 032	1 477 032
Credit cards	**24 198**	**24 198**	15 744	15 744
Mortgage loans	**3 139 299**	**3 139 299**	2 431 852	2 431 852
Instalment sales and leases	**403 144**	**403 144**	336 356	336 356
Structured loans	**211 019**	**211 019**	80 539	80 539
Medium-term loans	**1 442 755**	**1 442 755**	1 547 696	1 547 696
Negotiable securities				
Treasury bills	**–**	**–**	205 633	205 565
Land Bank promissory notes	**56 357**	**97 624**	56 357	56 328
Cash and cash equivalents	**1 564 652**	**1 564 652**	1 492 707	1 492 707
Other accounts receivable	**130 118**	**130 118**	120 822	120 822
Designated at fair value through profit and loss				
Loans and advances				
Mortgage loans	**5 210**	**5 210**	14 406	14 406
Held-for-trading				
Derivative financial instruments	**56 775**	**56 775**	6 069	6 069
	9 359 325	**9 408 551**	8 155 080	8 154 983
Liabilities				
Held-for-trading				
Derivative financial instruments	**62 955**	**62 955**	8 727	8 727
Amortised cost	**7 418 549**	**7 418 549**	6 345 569	6 345 569
Long-term funding	**556 193**	**556 193**	437 539	437 539
Deposits	**6 726 640**	**6 726 640**	5 797 103	5 797 103
Other accounts payable	**135 716**	**135 716**	110 927	110 927
	7 481 504	**7 481 504**	6 354 296	6 354 296

1. Categories and 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 value.
- 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 value of loans and advances that are carried at amortised cost approximate the fair value reported as they bear variable rates of interest. The fair value is adjusted for deterioration of credit quality through the application of the credit impairment models.
- Long-term funding and debt securities are carried at amortised cost and approximate the fair value reported as they bear variable rates of interest.
- Deposits generally have short terms to maturity and 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 investments and interest in subsidiaries which are unlisted, is determined by reference to the net asset value of the entity and/or the underlying net asset value of its investment holdings.
- The fair value of loans and advances, designated at fair value through profit and loss, is calculated using the credit spread observed at origination. The fair value is adjusted for deterioration of credit quality through the application of the credit impairment models.

1. Categories and fair values of financial instruments continued

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).

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2015				
Assets				
Available-for-sale				
Other investments	**–**	**–**	**5 897**	**5 897**
Interest in subsidiaries	**–**	**–**	**191 777**	**191 777**
Negotiable securities – Government stock	**163 813**	**–**	**–**	**163 813**
Designated at fair value through profit and loss				
Loans and advances				
Mortgage loans	**–**	**–**	**5 210**	**5 210**
Held-for-trading				
Derivative financial instruments	**–**	**56 775**	**–**	**56 775**
	163 813	**56 775**	**202 884**	**423 472**
Liabilities				
Held-for-trading				
Derivative financial instruments	**–**	**62 955**	**–**	**62 955**
	–	**62 955**	**–**	**62 955**
2014				
Assets				
Available-for-sale				
Other investments	–	–	6 326	6 326
Interest in subsidiaries	–	–	184 667	184 667
Negotiable securities – Government stock	178 874	–	–	178 874
Designated at fair value through profit and loss				
Loans and advances				
Mortgage loans	–	–	14 406	14 406
Held-for-trading				
Derivative financial instruments	–	6 069	–	6 069
	178 874	6 069	205 399	390 342
Liabilities				
Held-for-trading				
Derivative financial instruments	–	8 727	–	8 727
	–	8 727	–	8 727

Management has assessed the classification of financial instruments in terms of IFRS 13 and classified derivative instruments under Level 2, mortgage loans and interest in subsidiaries under Level 3. Comparatives balances have been reclassified accordingly.

	2015 R'000	2014 R'000

1. Categories and fair values of financial instruments continued

1.4 Reconciliation of Level 3 fair value measurements of financial assets

	2015 R'000	2014 R'000
Available-for-sale		
Other investments – unlisted equities		
Balance at the beginning of the year	**6 326**	5 737
(Losses)/Gains on remeasurement to fair value in comprehensive income	**(429)**	589
Balance at the end of the year	**5 897**	6 326

2. Intangible assets

	2015 R'000	2014 R'000
Computer software		
Cost at the beginning of the year	**317 747**	323 353
Additions	**37 134**	15 697
Net transfer from property and equipment	**–**	5 955
Write-off of obsolete computer software	**(57)**	(27 258)
Cost at the end of the year	**354 824**	317 747
Accumulated amortisation and impairment losses at the beginning of the year	**(129 271)**	(126 887)
Amortisation	**(33 811)**	(29 236)
Write-off of obsolete computer software	**57**	26 852
Accumulated amortisation and impairment losses at the end of the year	**(163 025)**	(129 271)
Net carrying amount at the end of the year	**191 799**	188 476

During 2015 and 2014, the Bank identified no events or circumstances that would indicate that the Bank's intangible assets may need to be impaired.

3. Property and equipment

	Owner-occupied property R'000	Leasehold improvements R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
2015							
Open market value/cost at the beginning of the year	164	14 295	30 059	11 191	23 872	646	80 227
Additions	–	5 407	7 146	1 624	8 486	310	22 973
Disposals	(164)	–	–	(63)	(15)	(122)	(364)
Transfer	–	–	1	(10)	9	–	–
Write-off of obsolete assets	–	(8 239)	(1 381)	(1 145)	(2 742)	–	(13 507)
Open market value/cost at the end of the year	–	11 463	35 825	11 597	29 610	834	89 329
Accumulated depreciation and impairment losses at the beginning of the year	–	(11 712)	(23 480)	(3 071)	(14 624)	(397)	(53 284)
Depreciation – disclosed in operating expenditure	–	(743)	(4 010)	(951)	(3 641)	(133)	(9 478)
Depreciation – disclosed in fee and commission expenditure	–	–	(30)	–	–	–	(30)
Disposals	–	–	–	63	13	122	198
Write-off of obsolete assets	–	7 747	1 502	1 132	2 564	–	12 945
Accumulated depreciation and impairment losses at the end of the year	–	(4 708)	(26 018)	(2 827)	(15 688)	(408)	(49 649)
Net carrying amount at the end of the year	–	6 755	9 807	8 770	13 922	426	39 680

	Owner-occupied properties 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 continued

2014							
Open market value/cost at the beginning of the year	164	15 873	98 734	9 749	28 556	550	153 626
Additions	–	783	3 075	6 214	5 383	240	15 695
Disposals	–	–	–	–	–	(144)	(144)
Transfer*	–	–	(5 955)	–	–	–	(5 955)
Write-off of obsolete assets	–	(2 361)	(65 795)	(4 772)	(10 067)	–	(82 995)
Open market value/cost at the end of the year	164	14 295	30 059	11 191	23 872	646	80 227
Accumulated depreciation and impairment losses at the beginning of the year	–	(13 019)	(84 777)	(7 208)	(20 907)	(461)	(126 372)
Depreciation	–	(622)	(4 004)	(582)	(2 998)	(80)	(8 286)
Disposals	–	–	–	–	–	144	144
Write-off of obsolete assets	–	1 929	65 301	4 719	9 281	–	81 230
Accumulated depreciation and impairment losses at the end of the year	–	(11 712)	(23 480)	(3 071)	(14 624)	(397)	(53 284)
Net carrying amount at the end of the year	164	2 583	6 579	8 120	9 248	249	26 943

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

	2015 R'000	2014 R'000
4. Other accounts receivable		
Items in transit	**80 501**	72 597
Loan to fellow subsidiary (refer to note 28.2)	**160**	146
Prepayments and deposits	**10 260**	10 289
Properties in possession	**18 491**	–
Other receivables	**20 706**	37 790
	130 118	120 822

The Directors consider that the carrying amount of other accounts receivable approximates their fair value.

The other accounts receivable are not past due, therefore no age analysis has been prepared for past due but not impaired receivables.

	2015 R'000	2014 R'000
5. Interest in subsidiaries		
Unlisted		
Shares at fair value		
Portion 2 of Lot 8 Sandown Proprietary Limited	**70 721**	65 137
Loans to/(from) subsidiaries	**121 056**	119 530
Portion 2 of Lot 8 Sandown Proprietary Limited	**1 568**	6 877
Mercantile Acquiring Proprietary Limited	**(17)**	7 266
Mercantile Rental Finance Proprietary Limited	**119 505**	112 315
Less: Provisions held against loan accounts	**–**	(6 928)
	191 777	184 667

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

The loans to Portion 2 of Lot 8 Sandown Proprietary Limited and Mercantile Acquiring Proprietary Limited bear interest at the prevailing prime rate plus 2% (2014: prime rate plus 2%) and are repayable on demand. During the year under review an amount of R1,818 million owing from Mercantile Acquiring Proprietary Limited was waived.

The loan to Mercantile Rental Finance Proprietary Limited bears interest at 12% (2014: 12%) and has no fixed terms of maturity.

	2015 R'000	2014 R'000
6. Other investments		
Available-for-sale		
Unlisted equities	**5 897**	6 326
	5 897	6 326

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

	2015 R'000	2014 R'000

7. Non-current assets held for sale

	2015 R'000	2014 R'000
Properties in possession	–	13 482
	–	13 482

The Bank intended, during 2013 and 2014, to dispose of a property that it purchased as a result of a loan default but, due to unsatisfactory market conditions, the property has yet to be sold. The property has been reclassified under other accounts receivable (refer to note 4).

8. Loans and advances

8.1 Product analysis

	2015 R'000	2014 R'000
Amortised cost	**6 962 091**	5 928 216
Current accounts	**1 700 363**	1 489 153
Credit cards	**26 579**	17 942
Mortgage loans	**3 146 475**	2 441 378
Instalment sales and leases	**406 805**	338 663
Structured loans	**211 361**	85 691
Medium-term loans	**1 470 508**	1 555 389
Fair value through profit and loss		
Mortgage loans	**5 211**	14 412
Gross loans and advances	**6 967 302**	5 942 628
Less: Portfolio impairments for credit losses	**(25 340)**	(11 005)
Specific impairments for credit losses	**(34 124)**	(27 998)
	6 907 838	5 903 625

Loans and advances in foreign currencies are converted into South African rands, at prevailing exchange rates, at the reporting date.

8.2 Maturity analysis

	2015 R'000	2014 R'000
Repayable on demand and maturing within one month	**1 932 070**	1 548 815
Maturing after one month but within six months	**55 240**	15 262
Maturing after six months but within 12 months	**50 366**	265 396
Maturing after 12 months	**4 929 626**	4 113 155
	6 967 302	5 942 628

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

8. Loans and advances continued

8.3 Detailed product analysis of loans and advances

	Gross amount R'000	Portfolio impair-ments R'000	Specific impair-ments R'000	Net balance R'000
2015				
Current accounts	**1 700 363**	**(10 160)**	**(7 990)**	**1 682 213**
Credit cards	**26 579**	**(883)**	**(1 498)**	**24 198**
Mortgage loans	**3 151 686**	**(674)**	**(6 503)**	**3 144 509**
Instalment sales and leases	**406 805**	**(918)**	**(2 743)**	**403 144**
Structured loans	**211 361**	**(342)**	**–**	**211 019**
Medium-term loans	**1 470 508**	**(12 363)**	**(15 390)**	**1 442 755**
	6 967 302	**(25 340)**	**(34 124)**	**6 907 838**
2014				
Current accounts	1 489 153	(4 685)	(7 436)	1 477 032
Credit cards	17 942	(840)	(1 358)	15 744
Mortgage loans	2 455 790	(1 050)	(8 482)	2 446 258
Instalment sales and leases	338 663	(914)	(1 393)	336 356
Structured loans	85 691	(57)	(5 095)	80 539
Medium-term loans	1 555 389	(3 459)	(4 234)	1 547 696
	5 942 628	(11 005)	(27 998)	5 903 625

8. Loans and advances continued

8.4 Impairments for credit losses

	Total R'000	Current accounts R'000	Credit cards R'000	Mortgage loans R'000	Instalment sales and leases R'000	Structured loans R'000	Medium-term loans R'000
2015							
Balance at the beginning of the year	**(39 003)**	**(12 121)**	**(2 198)**	**(9 532)**	**(2 307)**	**(5 152)**	**(7 693)**
Movements for the year							
Credit losses written off	**17 985**	**8 059**	**293**	**2 477**	**2 741**	**–**	**4 415**
Net impairments (raised)/released	**(38 446)**	**(14 089)**	**(476)**	**(122)**	**(4 094)**	**4 810**	**(24 475)**
Balance at the end of the year	**(59 464)**	**(18 151)**	**(2 381)**	**(7 177)**	**(3 660)**	**(342)**	**(27 753)**
2014							
Balance at the beginning of the year	(40 264)	(22 758)	(3 156)	(4 633)	(3 208)	(377)	(6 132)
Movements for the year							
Credit losses written off	31 797	23 372	962	163	1 339	–	5 961
Net impairments (raised)/released	(30 536)	(12 735)	(4)	(5 062)	(438)	(4 775)	(7 522)
Balance at the end of the year	(39 003)	(12 121)	(2 198)	(9 532)	(2 307)	(5 152)	(7 693)

	2015 R'000	2014 R'000
Net charge for credit losses in the statement of comprehensive income		
Net impairments raised	**(38 446)**	(30 536)
Amounts written off directly to comprehensive income	**–**	(564)
Reversal of impairment for properties in possession previously impaired	**5 000**	–
Recoveries in respect of amounts previously written off	**2 141**	3 034
	(31 305)	(28 066)

8. Loans and advances continued

8.5 Product analysis of performing loans and advances

	Gross amount R'000	Portfolio impairment R'000	Net balance R'000
2015			
Current accounts	**1 686 749**	**(10 160)**	**1 676 589**
Credit cards	**25 081**	**(883)**	**24 198**
Mortgage loans	**3 021 010**	**(674)**	**3 020 336**
Instalment sales and leases	**401 246**	**(918)**	**400 328**
Structured loans	**211 361**	**(342)**	**211 019**
Medium-term loans	**1 445 344**	**(12 363)**	**1 432 981**
	6 790 791	**(25 340)**	**6 765 451**
2014			
Current accounts	1 472 293	(4 685)	1 467 608
Credit cards	16 584	(840)	15 744
Mortgage loans	2 323 572	(1 050)	2 322 522
Instalment sales and leases	329 660	(914)	328 746
Structured loans	69 547	(57)	69 490
Medium-term loans	1 520 893	(3 459)	1 517 434
	5 732 549	(11 005)	5 721 544

	2015 R'000	2014 R'000
8.6 Product analysis of performing loans and advances excluding loans and advances with renegotiated terms		
Current accounts	**1 625 905**	1 418 275
Credit cards	**25 081**	16 584
Mortgage loans	**3 014 421**	2 274 028
Instalment sales and leases	**400 897**	329 660
Structured loans	**211 361**	69 547
Medium-term loans	**1 377 498**	1 505 604
	6 655 163	5 613 698
8.7 Product analysis of loans and advances with renegotiated terms that would otherwise be past due or impaired		
Current accounts	**60 844**	54 018
Mortgage loans	**6 589**	49 544
Instalment sales and leases	**349**	–
Medium-term loans	**67 846**	15 289
	135 628	118 851

8. Loans and advances continued

8.8 Product age analysis of loans and advances that are past due but not individually impaired

	Past due for 1 – 30 days R'000	Past due for 31 – 60 days R'000	Past due for 61 – 90 days R'000	Total gross amount R'000	Fair value of collateral and other credit enhance-ments R'000
2015					
Mortgage loans	**6 226**	**–**	**–**	**6 226**	**6 226**
Instalment sales and leases	**2 315**	**–**	**–**	**2 315**	**1 699**
Medium-term loans	**863**	**36 573**	**–**	**37 436**	**13 580**
	9 404	**36 573**	**–**	**45 977**	**21 505**
2014					
Mortgage loans	12 365	2 673	1 645	16 683	13 148
Instalment sales and leases	1 206	–	–	1 206	961
Medium-term loans	6 959	466	406	7 831	6 511
	20 530	3 139	2 051	25 720	20 620

8.9 Product analysis of loans and advances that are individually impaired

	Gross amount R'000	Specific impair-ment R'000	Net balance R'000	Fair value of collateral and other credit enhance-ments R'000
2015				
Current accounts	**13 614**	**(7 990)**	**5 624**	**8 609**
Credit cards	**1 498**	**(1 498)**	**–**	**–**
Mortgage loans	**130 676**	**(6 503)**	**124 173**	**127 036**
Instalment sales and leases	**5 559**	**(2 743)**	**2 816**	**5 411**
Medium-term loans	**25 164**	**(15 390)**	**9 774**	**29 460**
	176 511	**(34 124)**	**142 387**	**170 517**
2014				
Current accounts	16 860	(7 436)	9 424	8 609
Credit cards	1 358	(1 358)	–	–
Mortgage loans	132 218	(8 482)	123 736	127 036
Instalment sales and leases	9 003	(1 393)	7 610	5 411
Structured loans	16 144	(5 095)	11 049	10 851
Medium-term loans	34 496	(4 234)	30 262	29 460
	210 079	(27 998)	182 081	181 367

8. Loans and advances continued

8.10 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.

All customers of the Bank are accorded a risk grading. The risk grading is dependent upon the customer's creditworthiness and standing with the Bank, and is subject to ongoing assessment of their financial standing and the acceptability of their dealings with the Bank, including adherence to repayment terms and compliance with other set conditions.

Description of collateral held as security and other credit enhancements	Method of valuation
Cession of debtors	15% – 75% of debtors due and payable under 90 days and depending on debtor credit quality
Pledge of shares	50% of listed shares value; nil for unlisted shares
Pledge and cession of assets (specific and general)	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	100% of asset value
Vacant land	50% of professional valuation
Residential properties	80% of official 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
Earthmoving 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 a loan and advance can be realised in accordance with the terms of the agreement or the facility conditions applicable thereto. Cash collateral and pledged assets that can be realised 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 will be disposed of in accordance with the applicable legislation. In the case of insolvent and deceased estates, the duly appointed liquidator/trustee will dispose of all assets.

8.11 Structured loans

The Bank has zero cost equity options attached to certain structured loans that have been recognised at cost in accordance with accounting policy 3.1.

	Notional principal of assets R'000	Fair value of assets R'000	Notional principal of liabilities R'000	Fair value of liabilities R'000
9. Derivative financial instruments				
2015				
Held-for-trading				
Foreign exchange contracts	**415 850**	**56 771**	**621 270**	**62 936**
Interest rate swaps	**619**	**4**	**6 026**	**19**
	416 469	**56 775**	**627 296**	**62 955**
2014				
Held-for-trading				
Foreign exchange contracts	282 285	6 049	341 281	8 558
Interest rate swaps	3 963	20	14 888	169
	286 248	6 069	356 169	8 727

	2015 R'000	2014 R'000
10. Negotiable securities		
Loans and receivables		
Treasury bills	**–**	205 565
Land Bank promissory notes	**97 624**	56 328
Available-for-sale		
Government stock	**163 813**	178 874
Held-to-maturity		
Government stock	**290 057**	–
	551 494	440 767
Maturity analysis		
Maturing within one month	**–**	–
Maturing after one month but within six months	**97 624**	244 374
Maturing after six months but within 12 months	**194 373**	22 924
Maturing after one year but within five years	**259 497**	173 469
	551 494	440 767

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

	2015 R'000	2014 R'000
11. Cash and cash equivalents		
Cash on hand	**28 551**	31 820
Central Bank balances	**321 873**	261 651
Money market funds	**723 365**	784 745
Rand-denominated domestic bank balances	**3 528**	7 373
Foreign currency-denominated bank balances	**487 335**	407 118
	1 564 652	1 492 707

	Number of issued ordinary shares	Share capital R'000	Share premium R'000	Total R'000
12. Share capital and share premium				
At 31 December 2014 and 31 December 2015	**62 484 352**	**124 969**	**1 358 331**	**1 483 300**

The total authorised number of ordinary shares is 62 630 000 shares (2014: 62 630 000 shares) with a par value of R2,00 per share.

No shares were issued during the financial years ended 31 December 2015 and 31 December 2014.

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

	2015 R'000	2014 R'000
13. Deferred tax		
Balance at the beginning of the year	**30 422**	34 204
Current year charge		
Per the statement of comprehensive income	**(16 339)**	(5 012)
Per the statement of changes in equity/other comprehensive income	**(120)**	1 230
	13 963	30 422
Deferred tax is attributable to the following temporary differences:		
Asset/(Liability)		
Property and equipment	**–**	2 233
Intangible assets	**37 325**	41 862
Provisions and other liabilities	**(22 630)**	(18 282)
Impairments on loans and advances	**13 009**	30 161
Leased assets	**(3 245)**	(3 257)
Revaluations	**8 667**	8 438
Interest rate swaps	**(50)**	(42)
Current assets	**(19 260)**	(30 401)
Other	**147**	(290)
	13 963	30 422

	2015 R'000	2014 R'000
14. Long-term funding		
International Finance Corporation (IFC)	**322 519**	437 539
Short-term portion payable in the next 12 months	**117 845**	117 845
Portion payable after 12 months but within five years	**204 674**	319 694
Banco Nacional Ultramarino S.A. (BNU Macau)		
Portion payable after 12 months but within five years	**233 674**	–
	556 193	437 539

The loan obtained from the IFC in 2011, with interest repayable quarterly and linked to JIBAR, is repayable between 15 September 2014 and 15 September 2018.

The three-year foreign currency loan obtained from BNU Macau in 2015, with interest payable quarterly and linked to LIBOR, is renewable annually with an option for early settlement.

	2015 R'000	2014 R'000
15. Deposits		
Call deposits and current accounts	**3 620 678**	2 926 422
Savings accounts	**175 795**	172 436
Term and notice deposits	**2 721 407**	2 543 586
Negotiable certificates of deposit	**19 979**	18 346
Foreign deposits	**188 781**	136 313
	6 726 640	5 797 103
Maturity analysis		
Repayable on demand and maturing within one month	**4 473 734**	3 597 149
Maturing after one month but within six months	**914 837**	1 082 634
Maturing after six months but within 12 months	**342 065**	389 230
Maturing after 12 months	**996 004**	728 090
	6 726 640	5 797 103

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

	Deferred bonus scheme R'000	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 and other liabilities							
At 1 January 2014	7 107	16 000	3 922	18 270	10 810	15 202	71 311
Provision raised	3 620	19 030	7 008	–	4 176	2 334	36 168
Reversal of provision	–	–	(80)	–	–	(3 570)	(3 650)
Charged to provision	(3 203)	(16 000)	(5 283)	2 219	(2 717)	(461)	(25 445)
At 31 December 2014	**7 524**	**19 030**	**5 567**	**20 489**	**12 269**	**13 505**	**78 384**
Provision raised	**4 112**	**23 817**	**7 439**	**–**	**3 562**	**15 501**	**54 431**
Reversal of provision	**(183)**	**–**	**–**	**–**	**–**	**(185)**	**(368)**
Charged to provision	**(3 075)**	**(19 081)**	**(8 430)**	**1 591**	**(3 591)**	**(6 087)**	**(38 673)**
At 31 December 2015	**8 378**	**23 766**	**4 576**	**22 080**	**12 240**	**22 734**	**93 774**

Post-retirement medical benefits

Refer to note 17 for detailed disclosure of this provision.

Leave pay

In terms of the Bank's 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 Bank, the outcome of which cannot be foreseen. Such 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.

17. Post-retirement medical benefits

The Bank operates a partly funded post-retirement medical scheme. The assets of the funded plans are held independently of the Bank's assets in a separate trustee-administered fund. Independent actuaries value this scheme annually (the last valuation was carried out at 31 December 2015). The actuary's opinion is that the plan is in a sound financial position.

	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000
The amounts recognised in the statement of financial position are as follows (refer to note 16):					
Present value of total service liabilities	**22 080**	21 715	19 900	21 575	18 577
Fair value of plan assets	**–**	(1 226)	(1 630)	(2 103)	(2 528)
Provident fund	**–**	(914)	(782)	(1 315)	(1 800)
Endowment bond	**–**	(312)	(848)	(788)	(728)
Liability in the statement of financial position	**22 080**	20 489	18 270	19 472	16 049
The amounts recognised in the statement of comprehensive income are as follows:					
Staff cost (refer to note 25):	**(1 204)**	(1 060)	(1 030)	(1 494)	(994)
Current service cost	**22**	19	22	13	53
Payments from plan assets	**540**	540	540	–	–
Benefits paid	**(1 766)**	(1 619)	(1 592)	(1 507)	(1 533)
Discharge of liability and related plan asset	**–**	–	–	–	486
Net interest cost (refer to note 22):	**1 544**	1 519	1 369	1 232	1 127
Interest costs	**1 619**	1 636	1 502	1 466	1 636
Expected return on plan assets	**(75)**	(117)	(133)	(234)	(509)
Total included in comprehensive income	**340**	459	339	(262)	133
The amounts recognised in the statement of other comprehensive income, are as follows:					
Remeasurement of defined benefit obligation	**1 251**	1 760	(1 541)	3 685	767
Total included in other comprehensive income	**1 251**	1 760	(1 541)	3 685	767

	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000

17. Post-retirement medical benefits

continued

	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000
Reconciliation of the movement in the present value of total service liabilities:					
At the beginning of the year	**21 715**	19 900	21 575	18 577	20 648
Current service cost	**22**	19	22	13	53
Interest costs	**1 619**	1 636	1 502	1 466	1 636
Discharge of liability	**–**	–	–	–	(1 891)
Remeasurement of defined benefit obligation	**490**	1 779	(1 607)	3 026	(336)
Employer benefit payments	**(1 766)**	(1 619)	(1 592)	(1 507)	(1 533)
At the end of the year	**22 080**	21 715	19 900	21 575	18 577
Reconciliation of the movement in the fair value of plan assets:					
At the beginning of the year	**1 226**	1 630	2 103	2 528	5 499
Expected return on plan assets	**75**	117	133	234	509
Payments from plan assets	**(540)**	(540)	(540)	–	–
Non-qualifying plan assets as a result of discharge of liability	**–**	–	–	–	(2 377)
Remeasurement of defined benefit obligation	**(761)**	19	(66)	(659)	(1 103)
At the end of the year	**–**	1 226	1 630	2 103	2 528

The principal actuarial assumptions used were as follows:

Discount rate	**8,8%**	(2014: 7,8%) compounded annually
Investment return	**–**	(2014: 7,8%) compounded annually
Rate of medical inflation	**8,6%**	(2014: 7,6%) compounded annually
Salary inflation	**8,1%**	(2014: 7,1%) 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 R2,050 million (2014: R1,791 million) and a decrease of R1,726 million (2014: R1,510 million), respectively.

18. Current tax payable

	2015 R'000	2014 R'000
South African Revenue Service		
Tax owing	**12 245**	5 204

19. Other accounts payable

	2015 R'000	2014 R'000
Loan from the holding company (refer to note 28.2)	**199**	347
Accruals	**22 043**	29 201
Product-related credits	**52 186**	33 975
Sundry creditors	**61 288**	47 404
	135 716	110 927

	2015 R'000	2014 R'000
20. Contingent liabilities and commitments		
20.1 Guarantees, letters of credit and committed undrawn facilities		
Guarantees	**507 551**	468 748
Lending-related	**6 684**	6 762
Mortgage	**166 411**	153 739
Performance	**334 456**	308 247
Letters of credit	**22 112**	42 567
Committed undrawn facilities	**307 592**	174 292
	837 255	685 607
20.2 Commitments under operating leases		
The total minimum future lease payments under operating leases are as follows:		
Property rentals		
Due within one year	**23 446**	23 842
Due between one and five years	**30 445**	46 987
	53 891	70 829
After-tax effect on operating leases	**38 802**	50 997

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.

	2015 R'000	2014 R'000
21. Interest income		
Loans to subsidiaries and fellow subsidiaries	**32 165**	28 866
Loans and receivables at amortised cost	**673 820**	571 538
Cash and cash equivalents	**67 465**	66 942
Negotiable securities	**33 857**	22 848
Loans and advances	**572 498**	481 748
Loans and receivables designated as available-for-sale		
Negotiable securities	**10 929**	3 290
Loans and receivables designated as held-to-maturity		
Negotiable securities	**14 842**	–
Loans and receivables designated at fair value through profit and loss		
Loans and advances	**995**	1 909
	732 751	605 603

	2015 R'000	2014 R'000
22. Interest expense		
Deposits	**298 836**	221 795
Long-term funding	**34 431**	41 431
Held-for-trading		
Interest rate swaps	**196**	460
Net interest on defined benefit obligation	**1 544**	1 519
Other	**60**	6
	335 067	265 211

	2015 R'000	2014 R'000

23. Non-interest income

	2015 R'000	2014 R'000
Fee and commission income		
Loans and receivables	**275 091**	308 862
Trading income	**123 066**	101 557
Held-for-trading	**123 593**	94 007
Foreign currency	**123 476**	93 657
Derivative assets and liabilities	**117**	350
Designated at fair value through profit and loss	**(527)**	7 550
Loans and advances	**(527)**	(1 007)
Other investments	**–**	8 557
Investment income		
Dividends	**–**	103
	398 157	410 522

24. Fee and commission expenditure

	2015 R'000	2014 R'000
Relating to non-interest income earned from:		
Foreign currency	**63 756**	42 393
Fees and commissions	**96 905**	141 560
	160 661	183 953

		2015 R'000	2014 R'000
25. Operating expenditure			
Amortisation (refer to note 2)		**33 811**	29 236
Auditors' remuneration			
Audit fees – Current year		**7 442**	6 928
Fees for other services	– Tax advisory fees	**236**	230
	– Regulatory reviews	**400**	–
	– Other	**311**	–
		8 389	7 158
Depreciation (refer to note 3)		**9 478**	8 286
Directors' remuneration (refer to note 28.3)			
Executive Directors		**15 671**	13 531
Non-Executive Directors' fees		**3 970**	3 819
		19 640	17 350
Indirect tax			
Non-claimable value-added tax		**7 541**	10 659
Skills development levy		**1 815**	1 602
		9 356	12 261
Loss on sale and write-off of intangible assets and property and equipment		**145**	1 091
Marketing		**7 454**	4 622
Operating leases for premises and related costs		**29 652**	28 802
Other operating costs		**50 296**	37 977
Professional fees			
Consulting		**1 634**	3 748
Legal and collection		**4 924**	4 505
Computer consulting and services		**40 887**	35 370
		47 445	43 623
Staff costs			
Salaries, allowances and incentives		**185 041**	162 335
Post-retirement medical benefits (refer to notes 16 and 17)		**(1 204)**	(1 060)
Deferred bonus scheme expense including Directors		**3 930**	3 619
Other		**4 009**	4 172
		191 776	169 066
Total operating expenditure		**407 442**	359 472
Number of persons employed by the Company at year-end		**444**	411

	2015 R'000	2014 R'000
26. Tax		
South African normal tax	**70 976**	55 713
Current year	**69 807**	55 476
Prior year	**1 169**	237
Deferred tax	**(16 339)**	(5 012)
Current year	**(17 763)**	(5 819)
Prior year	**1 424**	807
	54 637	50 701
Direct tax		
South African normal tax	**70 976**	55 713
South African tax rate reconciliation		
South African standard tax rate (%)	**28,00**	28,00
Exempt income (%)	**–**	(0,02)
Expenses not deductible for tax purposes (%)	**0,01**	0,17
Additional allowances for tax purposes (%)	**(0,06)**	(0,02)
Underprovision prior year (%)	**0,13**	0,13
Effective tax rate (%)	**28,08**	28,26

	2015 R'000	2014 R'000
27. Notes to statements of cash flows		
27.1 Cash receipts from customers		
Interest income	**732 751**	605 603
Non-interest income	**398 157**	410 522
Waiver of interest-bearing loan to subsidiary	**(1 818)**	–
Adjusted for:		
Dividends received	**–**	(103)
Revaluation of fair value financial instruments	**410**	657
Waiver of interest-bearing loan to subsidiary	**1 818**	–
Recoveries in respect of amounts previously written off	**2 141**	3 034
	1 133 459	1 019 713
27.2 Cash paid to customers, suppliers and employees		
Interest expense	**(335 067)**	(265 211)
Operating expenditure and fee and commission expenditure	**(568 133)**	(543 425)
Adjusted for:		
Amortisation	**33 811**	29 236
Depreciation	**9 508**	8 286
Write-off of obsolete intangible assets	**–**	406
Write-off of obsolete property and equipment	**728**	1 765
Loss on sale and write-off of intangible assets and property and equipment	**145**	1 091
Deferred bonus scheme expense	**3 930**	3 619
Increase in provisions and other liabilities	**14 164**	5 994
	(840 914)	(758 239)

	2015 R'000	2014 R'000
27. Notes to statements of cash flows continued		
27.3 Reconciliation of profit before tax to cash generated from operations		
Profit before tax	**194 585**	179 423
Profit before tax adjusted for:		
Dividends received	**–**	(103)
Revaluation of fair value financial instruments	**410**	657
Waiver of interest-bearing loan to subsidiary	**1 818**	–
Net impairments raised	**33 446**	31 100
Amortisation	**33 811**	29 236
Depreciation	**9 508**	8 286
Write-off of obsolete intangible assets	**–**	406
Write-off of obsolete property and equipment	**728**	1 765
Loss on sale and write-off of intangible assets and property and equipment	**145**	1 091
Deferred bonus scheme expense	**3 930**	3 619
Increase in provisions and other liabilities	**14 164**	5 994
Cash generated from operations	**292 545**	261 474
27.4 Tax		
Amounts (underpaid)/overpaid at the beginning of the year	**(5 204)**	1 220
Statement of comprehensive income (charge)	**(70 976)**	(55 713)
Less: Amounts underpaid at the end of the year	**12 245**	5 204
Total tax (paid)	**(63 935)**	(49 289)
27.5 Net movement in income-earning assets		
(Increase)/Decrease in negotiable securities	**(101 778)**	52 900
(Increase) in loans and advances	**(1 038 069)**	(851 797)
Net (increase) in income-earning assets	**(1 139 847)**	(798 897)
27.6 Net movement in deposits and other accounts		
Increase in deposits	**929 537**	748 835
(Increase) in other accounts receivable	**(9 186)**	(34 465)
Increase in other accounts payable	**22 315**	3 656
Net increase in deposits and other accounts	**942 666**	718 026

28. Related party information

28.1 Identity of related parties with whom transactions have occurred

The ultimate holding company (CGD), holding company (MBHL), direct and fellow subsidiaries, a joint venture (Mercantile Payment Solutions Proprietary Limited) and 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 related parties. Except for the interest-free loan between the Bank and MBHL, transactions are governed by commercial terms.

	% held	2015 R'000	2014 R'000
Balances with the holding company, direct and fellow subsidiaries and joint venture			
Loans to/(from) subsidiaries			
Portion 2 of Lot 8 Sandown Proprietary Limited	100	**1 568**	6 877
Mercantile Acquiring Proprietary Limited	100	**(17)**	7 266
Mercantile Rental Finance Proprietary Limited	74,9	**328 686**	275 197
Shareholder loan (refer to note 5)		**119 505**	112 315
Current account (included as part of loans and advances – refer to note 8)		**209 181**	162 882
Less: Provisions held against loan accounts		**–**	(6 928)
		330 237	282 412
Loans to/(from) the holding company, fellow subsidiary and joint venture			
Mercantile Bank Holdings Limited		**(199)**	(347)
Mercantile Insurance Brokers Proprietary Limited		**160**	146
Mercantile Payment Solutions Proprietary Limited		**2 267**	4 071
		2 228	3 870
Deposits from the holding company, subsidiary, fellow subsidiary and joint venture			
Mercantile Bank Holdings Limited		**4 120**	4 166
The Mercantile Bank Foundation (NPC)		**1**	84
Mercantile Insurance Brokers Proprietary Limited		**605**	648
Mercantile Payment Solutions Proprietary Limited		**83**	1 966
		4 809	6 864
Transactions with the holding company, direct and fellow subsidiaries and joint venture:			
Interest received from:			
Portion 2 of Lot 8 Sandown Proprietary Limited		**485**	201
Mercantile Acquiring Proprietary Limited		**605**	837
Mercantile Rental Finance Proprietary Limited		**31 075**	27 828
Interest paid to:			
Portion 2 of Lot 8 Sandown Proprietary Limited		**–**	185
Mercantile Insurance Brokers Proprietary Limited		**10**	59
Waiver of interest-bearing loan to:			
Mercantile Acquiring Proprietary Limited		**(1 818)**	–

28. Related party information continued

28.2 Related party balances and transactions continued

	2015 R'000	2014 R'000
Transactions with the holding company, direct and fellow subsidiaries and joint venture continued:		
Non-interest income earned from:		
Mercantile Insurance Brokers Proprietary Limited	**1**	1
Mercantile Rental Finance Proprietary Limited	**216**	90
Mercantile Payment Solutions Proprietary Limited	**47 826**	44 174
Dividends paid to:		
Mercantile Bank Holdings Limited	**25 668**	25 701
Donations paid to:		
The Mercantile Bank Foundation (NPC)	**1 000**	1 000
Operating expenditure paid to:		
Portion 2 of Lot 8 Sandown Proprietary Limited	**20 207**	18 546
Mercantile Acquiring Proprietary Limited	**122**	1 897
Balances with the ultimate holding company (CGD)		
CGD – Lisbon (Branch of CGD)	**243**	69 083
Nostro accounts	**2 114**	682
Vostro accounts	**(1 717)**	(953)
Call deposit	**(155)**	(152)
Foreign currency placements	**–**	69 506
CGD – Paris (Branch of CGD)		
Nostro accounts	**(27)**	(114)
CGD – New York (Branch of CGD)		
Foreign currency placements	**155 676**	80 968
CGD – London (Branch of CGD)		
Vostro accounts	**(9)**	(11)
CGD	**155 882**	149 926
Banco Comercial e de Investimentos (BCI) – Mozambique (Subsidiary of CGD)	**55 537**	(52 029)
Foreign currency placements	**233 642**	92 577
Nostro accounts	**2**	–
Vostro accounts	**(3 779)**	(3 900)
Fixed deposits	**(170 550)**	(136 806)
Call and notice deposits	**(3 779)**	(3 900)
Banco Caixa Geral Totta Angola SA (BCGTA) (subsidiary of CGD)		
Call deposit	**(7 164)**	(5 053)
Banco Nacional Ultramarino S.A. (BNU Macau)		
Long-term funding	**(233 674)**	–
Total (deposits and funding from)/placements with CGD	**(29 419)**	92 844
Transactions with the ultimate holding company (CGD):		
Interest paid by the Bank to BCI	**9 271**	8 851
Interest paid by the Bank to BCGTA	**105**	115
Interest paid by the Bank to BNU	**2 974**	–
Interest received by the Bank from CGD – Lisbon	**456**	613
Interest received by the Bank from CGD – New York	**1 236**	14
Interest received by the Bank from BCI	**5 116**	59

28. Related party information continued

28.3 Director and Director-related activities

There were no material transactions with Directors other than the following:

	Directors' fees R'000	Salary R'000	Role-based allowance** R'000	Fringe benefits R'000	Retirement funds and medical aid contributions R'000	Performance bonus R'000	Total R'000
2015							
Non-Executive Directors							
NF Thomaz*	–	–	–	–	–	–	–
GP de Kock	**1 063**	–	–	–	–	–	**1 063**
L Hyne	**779**	–	–	–	–	–	**779**
AT Ikalafeng	**654**	–	–	–	–	–	**654**
DR Motsepe	**669**	–	–	–	–	–	**669**
TH Njikizana	**806**	–	–	–	–	–	**806**
Executive Directors							
RS Caliço	–	**2 718**	–	**556**	**104**	**1 431**	**4 808**
KR Kumbier	–	**3 589**	**2 600**	–	**574**	**4 100**	**10 863**
	3 970	**6 306**	**2 600**	**556**	**678**	**5 531**	**19 640**
2014							
Non-Executive Directors							
NF Thomaz (appointed 28 May 2014)*	–	–	–	–	–	–	–
JAS de Andrade Campos	740	–	–	–	–	–	740
GP de Kock	858	–	–	–	–	–	858
L Hyne	762	–	–	–	–	–	762
AT Ikalafeng	594	–	–	–	–	–	594
DR Motsepe (appointed 1 October 2014)	153	–	–	–	–	–	153
TH Njikizana	712	–	–	–	–	–	712
Executive Directors							
RS Caliço (appointed 1 July 2014)	–	1 350	–	212	39	500	2 101
KR Kumbier	–	3 440	2 550	–	322	3 500	9 812
JPM Lopes (resigned 1 July 2014)	–	1 265	–	305	48	–	1 618
	3 819	6 055	2 550	517	409	4 000	17 350

**In line with CGD policy, an executive director of CGD will not be paid a fee for holding a directorship on the board of a subsidiary entity within the group. Accordingly Mr Thomaz does not receive a fee for his Chairmanship of the Mercantile Board.*

***Refer below for nature of the role-based allowance.*

	2015 R'000	2014 R'000
28. Related party information continued		
28.3 Director and Director-related activities continued		
Deferred bonus scheme expense relating to Executive Directors		
KR Kumbier	**283**	483
Loans to Executive Directors		
RS Caliço	**806**	956
Amounts paid by CGD to Executive Directors		
RS Caliço (appointed 1 July 2014)	**1 403**	757
JPM Lopes (resigned 1 July 2014)	**–**	477

Service agreements and deferred bonus scheme awards

KR Kumbier, Chief Executive Officer

Mr Kumbier was employed by Mercantile as Executive Director: Finance and Business on 1 June 2010. He was subsequently appointed as Deputy CEO (effective 1 April 2012), and thereafter as CEO from 1 April 2013.
The Remuneration Committee's annual bonus decision for Mr Kumbier considered performance during the year against Group and individual performance measures. The Remuneration Committee noted performance against key financial and non-financial measures contained in the balanced scorecard and the strong personal contribution made by Mr Kumbier, particularly in building and embedding a strong leadership team.

During 2015, of the 3 500 000 phantom awards granted in 2012 to Mr Kumbier, 875 000 phantom awards were cash settled at a proxy price of 67,2 cents each. The balance of awards (2 625 000) were forfeited as performance conditions in terms of the plan were not achieved (2014: 1 775 000 phantom awards cash settled at a proxy price of 64,9 cents each).

In terms of the deferred bonus scheme, phantom awards granted to Mr Kumbier, which have not yet vested as at 31 December 2015, are as follows:

- 5 000 000, awarded in 2013, at an estimated proxy price of 76 cents each (of which 25% will vest in 2016).

The CEO's remuneration structure in response to the remuneration regulations outlined under the Capital Requirements Directive IV, a European Union legislative requirement impacting our parent company, CGD (and consequently MBHL) was revised and the phantom awards granted under the deferred bonus scheme were cancelled. A role-based, non-pensionable allowance of R2,6 million was paid to the CEO in the 2015 financial year (2014: R2,55 million) (refer to the remuneration table on page 43).

RS Caliço, Deputy Chief Executive Officer

Mr Caliço has been seconded to Mercantile by CGD and took up office at Mercantile on 1 July 2014 as Executive Director. In July 2015, Mr Caliço was appointed the Deputy Chief Executive Officer of the Bank. In terms of his service agreement, Mr Caliço has 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/Deputy Chief Executive Officer.

29. Events after the reporting period

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


"Set realistic goals and don’t give up until you reach them”
PETER BIRCH
Imvula Group

RISK MANAGEMENT AND CONTROL

Risk management philosophy

The Bank 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 extended global financial crisis. Risk management is a key focus of the Bank and addresses a wide spectrum of risks that are continually evaluated, and policies and procedures are reviewed and stress tested to adapt to changing circumstances. In any economy, there are sectors that are more vulnerable to cyclical downturns than others. Changing 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, the Bank acknowledges the potential for concentration risk 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 policy serves to eliminate weaker credit from the portfolio. The Bank remains well positioned to effectively manage identified threats in a way that minimises risks to the Bank. Continuous risk management and control reviews are undertaken by senior staff members to identify material control weaknesses and action is taken as required to address any areas of weakness.

A philosophy of enterprise-wide risk management within a Risk Management Monitoring and Control Framework has been implemented 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. Existing policies, methodologies, processes, systems and infrastructure are frequently evaluated for relevance and to ensure that they remain at the forefront of risk management and in line with regulatory developments and emerging best practices. The Bank takes all necessary steps to safeguard its depositors' funds, its own asset base, and shareholder's funds.

A number of risk initiatives were implemented and others further entrenched during the year. These included:

- further enhancements to the ALM monitoring and reporting process, including an increased focus on margin management and the monitoring of the effective net open currency position;
- compliance with amended regulations introduced as part of Basel III implementation;
- enhancements to the Risk Tolerance Framework as approved by the Board;
- additions to the prudential management schedule, wherein all risk-related ratios are monitored and reported to the ALCO and Board on a monthly basis;
- further improvements to various risk control self-assessment templates;
- the introduction of an automated online tool to monitor compliance with the key risk indicator process;
- streamlining of risk management methodologies and techniques in subsidiary companies together with rewrites of processes and procedures in use;
- expansion of stress testing;
- review of the application of the Principles for the Sound Management of Operational Risk;
- review of the application of the Principles for Sound Liquidity Risk Management and Supervision;
- expanded utilisation of an online training application to ensure that staff stay abreast of regulatory and other changes;
- implementation of a workflow solution in various departments;
- enhancements to operational risk data collection and reporting;
- comprehensive documentation and amalgamation of information relating to the Bank's ICAAP;
- enhancements and additions to the Bank-wide Enterprise-wide Risk Management Framework to factor in changes in risk profiles; and
- review of the Funding Policy and Contingent Funding Plan.

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 in line with changing circumstances. Risk dimensions vary in importance, depending upon 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 to achieve an optimal risk-reward profile. The presence of accurate measures of risk makes risk-adjusted performance measurement possible, creates the potential to generate increased shareholder returns, and allows risk-taking behaviour to be more closely aligned with strategic objectives.

Risk management is performed on a Bank-wide basis, involving the Board and its various committees, Credit Management, senior management, Risk Management, business line management, Finance and Control, Legal/Compliance, Treasury and Operations, with support from Information Technology. Independent oversight and validation by Internal Audit ensures a high standard of assurance across methodology, operational and process components of the Bank's risk and capital management processes.

Risk management life cycle/process

All the Bank's policies and procedures manuals are subject to ongoing review and are signed off by the relevant business unit heads. These standards are an integral part of the Bank's governance structure and risk management profile, reflecting the expectations and requirements of the Board in respect of key areas of control. The standards and effective maintenance of the risk control self-assessment process ensure alignment and consistency in the way that prevalent risk types are identified and managed, and form part of the various 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 lend themselves more easily to determination and measurability than others, but it is necessary to ascertain the magnitude of each risk to the extent it is quantifiable, whether direct or indirect.

To consider risk appetite and the alignment against broader financial targets, the Bank mainly considers the level of earnings, growth and volatility that it is willing to accept from certain risks that are core to its business. Economic and regulatory capital required for such transactions is also considered, together with the resultant return on the required capital. The Bank also maintains a capital buffer for unforeseen events and business expansion.

Risk management (as an independent function)

The Bank'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 and process review, to establish how much risk is acceptable, and to decide how the Bank will stay within targets laid down in risk tolerance thresholds.

Risk monitoring (and compliance with documented policies)

Open, two-way communication between the Bank 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, and to the SARB (through Banks Act returns and periodic meetings).

Risk control (stress and back-testing)

The Bank follows a policy of ongoing applicable stress testing. Critical variables are sensitive to market changes, both domestic and international. These are identified and modelled to determine the possible impact of any deterioration of such identified variables on the Bank's results. Both internal and external events are considered in formulating appropriate modelling criteria. A policy of back-testing for identified key variables has been approved by the Board and deployed within the Bank.

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 unit within the Bank, 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 the Bank's reputation and success. These decisions are usually intended to enhance the Bank's long-term viability or success and are therefore difficult to quantify at a given point in time.

Board Committees monitor various aspects of the 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	Compliance risk
Investment risk	Market conduct risk

The responsibility for understanding the risks incurred by the Bank, 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 and within laid-down parameters, delegated to line heads and line managers to enable them to execute the Bank's strategic objectives within predefined risk management policies and tolerance levels. Major risks are managed, controlled and reviewed by an independent risk function.

The Board fully recognises that it is 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 on any significant control weaknesses identified.

A process is in place whereby the top risks faced by the Bank 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 and any changes are approved by the RMC. Business and operating units are integrally involved in the process in both risk identification and evaluation.

The Bank subscribes to the Principles for the Sound Management of Operational Risk as defined by the Basel Committee on Banking Supervision.

Business continuity management continues to be an area of focus and ensures the availability of key staff and processes required to support essential activities in the event of an interruption to, or disruption of, business. Business continuity management 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.

The ALCO (which incorporates capital management), under the auspices of the RMC, proactively evaluates and manages the capital requirements of the Bank as determined by Basel requirements. A comprehensive re-evaluation of the capital requirements under the Internal Capital Adequacy Assessment Process is regularly undertaken with consideration being given to all risks impacting the need for capital reserves within the Bank. The outcome of these assessments resulted in the Bank identifying different levels of risk related to specific characteristics of the business where it was deemed prudent to hold a capital buffer in addition to the regulatory capital requirements. Such buffer requirements are re-evaluated at least half-yearly and adjusted where appropriate.

The Bank employs a size-appropriate approach to stress testing that is a component of business planning. Stress testing measures potential volatility of earnings under various scenarios.

Under the Enterprise-wide Risk Management Framework, the direct risks of the Bank have been categorised and those deemed to be of the most significance are reported on below:

Credit risk

The Bank offers a spread of banking products common to the banking industry, with a specific focus on small and medium-sized businesses, across a wide variety of industries. The Bank's Credit Risk Strategy, which is contained within our Bank Risk and Credit Risk policy manuals, is approved by the CREDCOM and ratified by RMC. No specific targeting of the broader personal retail-based market is done. However, the Private Bank was launched at the end of 2013 and it specifically targets entrepreneurs with the view to ultimately acquiring their business accounts. To manage the related credit risk, a new Head of Credit: Private Bank was appointed with the post reporting to the Head of Credit.

Dependent upon the risk profile of the customer, the risk inherent in the product offering and the track record/payment history of the customer, 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. The Bank does, however, have a small structured loan portfolio that includes an element of unsecured lending where the Bank is financially rewarded for the additional risk taken. This portfolio is carefully managed within agreed RMC limits/parameters.

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

At year-end, the Bank did not have any significant concentration of risk that had not been adequately provided for. There were no material exposures in advances made to foreign entities at year-end. The Bank does not lend to foreign registered companies but does provide banking to a number of locally-registered companies that have foreign shareholding and, occasionally, to CGD group companies operating in certain African countries.

A portfolio analysis report is prepared and presented to the RMC analysing the performance and make-up of the book, including customer, geographic, segment and product concentration.

The Bank 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 aggregate). In addition, new deals and/or products, as well as requests for substantial increases in credit facilities, are considered at a daily credit meeting. A formal and detailed application will then be submitted through the normal credit process if the Committee considers the proposal to be desirable.

Adverse behavioural patterns such as continual excesses above approved limits are monitored closely by the Credit department and discussed at the weekly CREDCOM meeting with appropriate actions being taken.

During the year, the following changes/reviews were implemented in the Credit department:

- The RMC approved certain changes to the sanctioning levels of various posts. These changes will not have any impact on the risk profile of the Bank;
- A retired banker was engaged on a temporary basis in 2014 to undertake a comprehensive review of collateral documentation. The bulk of the shortcomings identified in the review were rectified during 2015;
- A Credit Legal and Compliance area was established at the beginning of 2015 and has enhanced the preparation and execution of our facilities/loan documentation, and the supervision and monitoring of covenants and sanction conditions, particularly in respect of our larger exposures; and
- Further enhancements were made to our workflow solution in the Credit Origination, Assessment and Fulfilment departments.

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

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

	Loans and advances R'000	Committed undrawn facilities R'000	Other R'000	Total R'000
2015				
Current accounts	**1 700 363**	**211 850**	**–**	**1 912 213**
Credit cards	**26 579**	**66 021**	**–**	**92 600**
Mortgage loans	**3 151 686**	**29 721**	**–**	**3 181 407**
Instalment sales and leases	**406 805**	**–**	**–**	**406 805**
Structured loans	**211 361**	**–**	**–**	**211 361**
Medium-term loans	**1 470 508**	**–**	**–**	**1 470 508**
Negotiable securities	**–**	**–**	**551 494**	**551 494**
Cash and cash equivalents	**–**	**–**	**1 564 652**	**1 564 652**
Guarantees	**–**	**–**	**507 551**	**507 551**
Letters of credit	**–**	**–**	**22 112**	**22 112**
	6 967 302	**307 592**	**2 645 809**	**9 920 703**
2014				
Current accounts	1 489 153	–	–	1 489 153
Credit cards	17 942	–	–	17 942
Mortgage loans	2 455 790	–	–	2 455 790
Instalment sales and leases	338 663	–	–	338 663
Structured loans	85 691	–	–	85 691
Medium-term loans	1 555 389	–	–	1 555 389
Negotiable securities	–	–	440 767	440 767
Cash and cash equivalents	–	–	1 492 707	1 492 707
Guarantees	–	–	468 748	468 748
Letters of credit	–	–	42 567	42 567
	5 942 628	–	2 444 789	8 387 417

Operational risk

Operational risk is defined as the risk of loss from inadequate or failed internal processes, people, and systems, or from external events. Operational risks faced by the Bank are extensive and include robbery, fraud, theft of data, unauthorised systems access, legal challenges, statutory and legislative non-compliance, ineffective operational processes, and business continuity. Operational risk can also cause reputational damage and therefore efforts to identify, manage and mitigate operational risk are equally sensitive to reputational risk, as well as the risk of financial loss.

The aim of operational risk management is to enhance the level of risk maturity across the Bank by implementing and embedding risk-based control identification and assessments, and integrating the operational risk management process in all business units to ensure adequate risk management in an ever-changing business and financial industry. The Operational Risk Committee meets at least quarterly and has representation from all business units.

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;
- ongoing training and up-skilling of staff on operational procedures and legislative compliance;
- an internal operational loss database, wherein all losses associated with operational issues, including theft and robbery, are recorded and evaluated to facilitate corrective action;
- development of appropriate risk mitigation actions in line with the Bank's Risk Appetite as approved by the Board;
- ongoing improvements to the Disaster Recovery and Business Continuity plans, including conducting a variety of simulation exercises in critical operational environments;
- conducting monitoring and reviews by both the Compliance and Internal Audit functions, in line with annual plans approved by the Board;

- comprehensive data security and protection;
- ongoing review of the Bank-wide risk and control self-assessment process, rolled out to job functional level in high-risk operational processing areas;
- ongoing review of key risk indicators as a tool to further assist with risk identification and assessment;
- limiting access to systems and enforcing strong password controls; and
- a comprehensive insurance programme to safeguard the Bank's financial and non-financial assets.

Disaster recovery and business continuity management facilities are outsourced to specialist service providers.

The Bank further benchmarks itself and stays abreast of developments with regard to operational risk by actively participating as a member of the Banking Association of South Africa's (BASA) operational risk forum as well as of industry working banks tasked with investigating and making recommendations to BASA on topical issues.

The Company subscribes to the Principles for the Sound Management of Operational Risk.

Technology risk

Information technology is a key functional enabler in assisting the Bank to achieve its strategic and operating objectives and is dependent on the availability of adequately skilled resources. The Bank operates within a dynamic operating environment and faces numerous risks that need to be identified, managed and reported on.

IT Governance, Risk, Compliance (ITGRC) and Information Security Management (ISO) are committed to manage risk appropriately within these environments to maximise potential opportunities and minimise the adverse effects of technology risk within the Bank.

ITGRC and Information Security are therefore key components in technology-related projects and in business-as-usual activities. Bank IT has adopted an ITGRC risk framework that was presented to the Board and integrates into the Enterprise-wide Risk Management Framework – ensuring an integrated risk model whereby risk assessment, management and reporting thereof is consistent across all operations. This enables quick and transparent reporting to all stakeholders and the Board.

During the last quarter, the following key milestones were achieved:

- Successful implementation of the Industry Interchange (IRD) project;
- Migration of Gold and Classic Card credit card products to EMV;
- Masking of all card data on Online reports;
- Acquisition of all necessary PCI policies and a SIEM solution;
- Implementation of a new Postilion HA solution;
- Integration of the Intermediary Trading Platform into BaNCS Treasury to automate foreign exchange deal booking from various intermediaries;
- Multiple inward credits intraday processing (customer accounts credited with inward EFTs intraday and not only during end-of-day); and
- A comprehensive cyber security assessment and report completed.

In terms of the ITGRC and ISO, the following future steps have been planned for 2016 to reduce and understand technology-related risks:

- Alignment of MCF, cyber and regulatory controls – establishing a single view of control requirements and achievements;
- Implementation of a roadmap for controls, with defined ownership and alignment to best practice or recognised standards; and
- Rewrite and update the policy library with regard to structure, standards and procedure.

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, which are reviewed at least annually or more often, depending on prevailing market conditions.

The Bank does not currently take proprietary trading positions and, therefore, has minimal exposure to market risk. Should the Bank consider such action, the Trading Committee and RMC will have to evaluate and approve entering into such a position. The Trading Committee will ensure that the Bank is sensibly positioned, taking into account agreed limits, policies, prevailing market conditions, available liquidity, and the risk-reward trade-off, mainly in respect of changes in foreign currency exchange rates and interest rates.

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

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

Market risk reports are produced on a daily basis, which allows for monitoring against prescribed prudential and regulatory limits. In the event of a limit violation, the ALM forum records this and it is immediately corrected and reported to the ALCO (a Management Committee accountable to the RMC).

The Bank does not perform a detailed sensitivity analysis on the potential impact of a change in exchange rates on a daily basis because the Bank does not currently have any proprietary trading positions. The impact of changes in foreign currency customer positions is, however, modelled to take cognisance of credit risks associated with volatility in foreign currency exchange rates, with the purpose of covering adverse positions by calling for initial and variation margins. A detailed sensitivity analysis is performed for interest rate and liquidity risk (described on pages 53 to 57).

There has been no significant change to the Bank's exposure to market risks, or the manner in which it manages and measures the risk. Controls are in place to monitor foreign exchange exposures on a real-time basis through the BaNCS Treasury system. Various conservative prudential risk limits are in place and associated exposures relating thereto are reported to the ALCO, RMC and Board on a regular basis.

Foreign currency risk

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

The Bank has conservative net open foreign currency position limits 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 R15,8 million (2014: R15,7 million). An adverse movement in the exchange rate of 10% would reduce the Bank's income by R1,6 million (2014: R1,6 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
2015					
Total foreign exchange assets	**470 893**	**13 530**	**3 444**	**2 338**	**490 205**
Total foreign exchange liabilities	**(405 614)**	**(12 779)**	**(2 960)**	**(719)**	**(422 072)**
Commitments to purchase foreign currency	**397 036**	**99 055**	**12 418**	**134 832**	**643 341**
Commitments to sell foreign currency	**(452 398)**	**(100 147)**	**(12 490)**	**(135 113)**	**(700 148)**
Year-end effective net open foreign currency positions	**9 917**	**(341)**	**412**	**1 338**	**11 326**
2014					
Total foreign exchange assets	372 055	31 074	1 370	2 434	406 933
Total foreign exchange liabilities	(113 700)	(18 500)	(1 478)	(327)	(134 005)
Commitments to purchase foreign currency	116 601	87 306	8 881	13 942	226 730
Commitments to sell foreign currency	(370 251)	(96 740)	(7 254)	(14 416)	(488 661)
Year-end effective net open foreign currency positions	4 705	3 140	1 519	1 633	10 997

Interest rate risk

Interest rate risk is the impact on net interest earnings and 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 occur. The ALM forum monitors interest rate re-pricing on a daily basis, and reports back to the ALCO, RMC and the Board.

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

The objective in 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 Bank agrees to exchange the difference between fixed and floating interest rate amounts, calculated on agreed notional principal amounts. Such contracts enable the Bank 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 floating rate on the interest rate swaps is based on the three-month JIBAR and/or prime rate. The Bank will settle/receive the difference between the fixed and floating interest rate, on a net basis.

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 rate-sensitive assets and liabilities. The Bank is also exposed to basis risk, which is the difference in re-pricing characteristics of two floating rates, such as the South African prime rate and three-month JIBAR.

To measure interest rate risk, the Bank aggregates interest rate-sensitive assets and liabilities into defined time bands, in accordance with the respective interest re-pricing dates. The Bank 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.

South Africa was not immune to the global credit and liquidity crisis or market uncertainty in respect of the longer-term interest rate trends. Pressure on margins is likely to continue during 2016 – especially due to competitors paying more for deposits that will improve Basel III ratios.

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 in the yield curve.

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. In addition to the above, the impact of a static bank-specific favourable and unfavourable interest rate movement, of 50 and 200 basis points respectively, is calculated and monitored by the ALM forum. Various approved prudential limits are in place and monitored by the ALM forum. The results are reported regularly to the ALCO and Board.

At the reporting date, a 50 basis point change in prevailing interest rates was applied as a sensitivity analysis to determine the impact on earnings as a result of a change in interest rates. If interest rates increased/decreased by 50 basis points, and all other variables remained constant, the Bank's net profit and equity at year-end would increase by R9,8 million or decrease by R15,7 million, respectively (2014: increase/decrease by R11,1 million/R16,3 million). This is mainly attributable to the Bank's exposure to interest rates on its surplus capital and lending and borrowings in the banking book.

The tables on pages 54 and 55 summarise the Bank's exposure to interest rate risk. Assets and liabilities are included at carrying amounts, categorised by the earlier of contractual repricing 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 re-price 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	Non-interest-sensitive R'000	Total R'000	Effective interest rate %
2015							
Assets							
Intangible assets	–	–	–	–	191 799	191 799	–
Property and equipment	–	–	–	–	39 680	39 680	–
Other accounts receivable	–	–	–	–	130 118	130 118	–
Interest in subsidiaries	121 056	–	–	–	70 721	191 777	–
Other investments	–	–	–	–	5 897	5 897	–
Loans and advances	7 006 167	–	–	5 183	(103 512)	6 907 838	9,7
Derivative financial instruments	–	–	–	–	56 775	56 775	–
Negotiable securities	–	–	291 997	259 497	–	551 494	6,5
Cash and cash equivalents	878 359	389 318	–	–	296 975	1 564 652	5,3
Total assets	8 005 582	389 318	291 997	264 680	688 453	9 640 030	
Equity and liabilities							
Total equity	–	–	–	–	2 038 544	2 038 544	–
Deferred tax liabilities	–	–	–	–	13 963	13 963	–
Long–term funding	233 674	320 699	–	–	1 820	556 193	8,4
Deposits	4 595 260	249 015	592 229	24 812	1 265 324	6 726 640	4,8
Derivative financial instruments	–	–	–	–	62 955	62 955	–
Provisions and other liabilities	–	–	–	–	93 774	93 774	–
Current tax payable	–	–	–	–	12 245	12 245	–
Other accounts payable	–	–	–	–	135 716	135 716	–
Total equity and liabilities	4 828 934	569 714	592 229	24 812	3 624 341	9 640 030	
Financial position interest sensitivity gap	3 176 648	(180 396)	(300 232)	239 868		2 935 888	
Derivative financial instruments	223	5 183	(5 183)	(223)		–	
Total net interest sensitivity gap	3 176 871	(175 213)	(305 415)	239 645		2 935 888	

	Up to 1 month R'000	1 – 3 months R'000	3 – 12 months R'000	1 – 5 years R'000	Non-interest-sensitive R'000	Total R'000	Effective interest rate %
2014							
Assets							
Intangible assets	–	–	–	–	188 476	188 476	–
Property and equipment	–	–	–	–	26 943	26 943	–
Other accounts receivable	–	–	–	–	120 822	120 822	–
Interest in subsidiaries	126 459	–	–	–	58 208	184 667	–
Other investments	–	–	–	–	6 326	6 326	–
Non–current assets held for sale	–	–	–	–	13 482	13 482	
Loans and advances	5 963 230	–	2 241	11 616	(73 462)	5 903 625	9,3
Derivative financial instruments	–	–	–	–	6 069	6 069	–
Negotiable securities	–	215 074	52 223	173 470	–	440 767	6,1
Cash and cash equivalents	961 304	–	69 506	–	461 897	1 492 707	4,7
Total assets	7 050 993	215 074	123 970	185 086	808 761	8 383 884	
Equity and liabilities							
Total equity	–	–	–	–	1 915 578	1 915 578	–
Deferred tax liabilities	–	–	–	–	30 422	30 422	–
Long–term funding	–	437 212	–	–	327	437 539	8,1
Deposits	3 581 647	336 299	603 321	79 776	1 196 060	5 797 103	4,2
Derivative financial instruments	–	–	–	–	8 727	8 727	–
Provisions and other liabilities	–	–	–	–	78 384	78 384	–
Current tax payable	–	–	–	–	5 204	5 204	
Other accounts payable	–	–	–	–	110 927	110 927	–
Total equity and liabilities	3 581 647	773 511	603 321	79 776	3 345 629	8 383 884	
Financial position interest sensitivity gap	3 469 346	(558 437)	(479 351)	105 310		2 536 868	
Derivative financial instruments	281	13 857	(2 241)	(11 897)		–	
Total net interest sensitivity gap	3 469 627	(544 580)	(481 592)	93 413		2 536 868	

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 Bank is exposed to daily cash needs from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees.

To measure liquidity risk, the Bank aggregates assets and liabilities into defined time bands in accordance with the respective maturity dates, which measure 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 Bank's short-, medium- and long-term funding and liquidity requirements.

Through active liquidity management, the Bank 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 Bank performs, among others, the following:

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

Overall, the Bank'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 Bank continues to actively manage its stress funding sources and liquidity buffers to ensure that it exceeds the estimated stress funding requirements that could emanate from moderate- to high-stressed liquidity events. The Bank subscribes to the Bank of International Settlement's Principles for Sound Liquidity Risk Management and Supervision. Overall, the Bank's liquidity position remains strong.

Macro-economic conditions continue to impede growth in advances and deposits as the South African banking sector is characterised by certain structural features, such as a low discretionary propensity to save, and a higher degree of contractual savings with institutions such as pension funds, provident funds and asset management services. The Bank was successful in collecting retail customer and longer-term deposits to reshape the structure of the balance sheet, and to ensure compliance with the Basel III liquidity requirements (effective 2015).

The two key liquidity ratios that were introduced by Basel III are the liquidity coverage ratio (LCR), designed to promote short-term resilience of the one-month liquidity profile by ensuring that banks have sufficient high-quality liquid assets to meet potential outflows in a stressed environment; and the net stable funding ratio (NSFR), designed to measure the stability of long-term structural funding.

Both the LCR and the NSFR are subject to phased-in implementation, which commenced in 2015 with full compliance required in 2018. The Bank also monitors other Basel III-related ratios, such as the Leverage Ratio, which is a measure of qualifying capital against both on- and off-balance-sheet exposures. The Bank currently meets all the requirements of the new regulations.

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

The table below summarises assets and liabilities of the Bank 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
2015			
Maturing up to one month	**3 235 294**	**4 730 273**	**(1 494 979)**
Maturing between one and three months	**425 411**	**937 116**	**(511 705)**
Maturing between three and six months	**154 551**	**257 189**	**(102 638)**
Maturing between six months and one year	**247 051**	**344 222**	**(97 171)**
Maturing after one year	**5 189 127**	**1 318 526**	**3 870 601**
Non-contractual	**388 596**	**14 160**	**374 436**
	9 640 030	**7 601 486**	**2 038 544**
2014			
Maturing up to one month	3 095 587	3 793 574	(697 987)
Maturing between one and three months	220 563	800 130	(579 567)
Maturing between three and six months	111 574	288 705	(177 131)
Maturing between six months and one year	288 479	389 355	(100 876)
Maturing after one year	4 286 642	1 165 774	3 120 868
Non-contractual	381 039	30 768	350 271
	8 383 884	6 468 306	1 915 578

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

	Up to 1 month R'000	1 – 3 months R'000	4 – 6 months R'000	7 – 12 months R'000	Over 1 year R'000
2015					
Deposits	**4 474 513**	**666 258**	**260 506**	**359 547**	**1 083 045**
Long–term funding	**–**	**234 699**	**–**	**–**	**368 144**
Derivative financial instruments	**15 000**	**42 332**	**3 461**	**2 157**	**350**
Other accounts payable	**135 716**	**–**	**–**	**–**	**199**
Guarantees, letters of credit and committed undrawn facilities	**837 255**	**–**	**–**	**–**	**–**
Operating lease commitments	**2 005**	**4 013**	**5 955**	**11 473**	**30 445**
	5 464 489	**947 302**	**269 922**	**373 177**	**1 482 183**
2014					
Deposits	3 461 487	803 930	291 218	408 566	786 504
Long–term funding	–	–	–	–	526 522
Derivative financial instruments	2 257	1 935	4 266	124	145
Other accounts payable	110 927	–	–	–	–
Guarantees, letters of credit and committed undrawn facilities	685 607	–	–	–	–
Operating lease commitments	2 045	4 092	6 118	11 586	46 988
	4 262 323	809 957	301 602	420 276	1 360 159

Basel III – influencing risk management developments

In today's complex environment, combining effective bank-level management with market discipline and regulatory supervision best achieves systemic safety and soundness. The Bank recognises the significance of Basel III in aligning regulatory capital to risk and further entrenching risk-reward principles and practices in bank management and decision-making. This framework focuses on strengthening and harmonising global liquidity standards to ensure that internationally active banks are adequately capitalised.

South Africa embraced the principles of the Basel III Capital Framework, which was successfully implemented by the Bank on 1 January 2013. Full compliance with all the regulations will only be required in January 2019.

The Bank's capital adequacy was largely unaffected by the new regulations, which impose tighter restrictions on the quality and type of capital that qualifies as Tier 1 capital. The Bank's capital still consists almost entirely of Tier 1 capital. The new regulations also increase the required minimum regulatory capital. The Bank's internal capital targets remain well in excess of the new minimum requirements.

The banking industry in South Africa will find it difficult to fully meet the new liquidity ratios (LCR and the NSFR) as a result of the structural characteristics and constraints with regard to qualifying liquid assets in South Africa; hence the phase-in approach adopted to allow banks to change the structure of their balance sheets.

The Bank currently complies with the requirements of the LCR and NSFR. The Bank also calculates various sensitivities on these ratios to identify potential constraints in meeting the requirements timeously.

The Bank will continue to seek and adopt market best practice in accordance with these regulatory requirements. The focus in 2016 will remain on lengthening the maturity of the Bank's deposits and putting appropriate funding structures in place to further enhance these ratios.

Capital management

The Bank is subject to specific capital requirements, as defined in the Banks Act and Regulations. The management of the Bank'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 while ensuring sufficient capital is available to support the growth objectives of the Bank. 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 on a regular basis as part of the ICAAP and strategic planning review. The RMC considers the various risks faced by the Bank and analyses the need to hold capital against these risks while taking account of the regulatory requirements.

Some enhancements to the ICAAP document were undertaken during the year under review, in line with suggestions made by the SARB following an on-site inspection as part of the Supervisory Review and Evaluation Process with additional enhancements, updates and changes due in 2016.

Capital adequacy and the use of regulatory capital are monitored by employing techniques based on the guidelines documented in the Bank Regulations and implemented by the SARB for supervisory purposes. The SARB uses the capital adequacy ratio of banks as a key supervisory signal. Despite the regulations allowing the Bank to consider different tiers of capital, the capital of the Bank consists almost entirely of Tier 1 capital. Following the recapitalisation of the Bank 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 assessed operational risk profile and targeted growth requirements. Capital to support the Bank's needs is currently generated by retained earnings and the surplus capital held.

The approach to capital management has been further enhanced over the past year in line with Basel III, and will remain a focus area for the future. The Bank was largely unaffected by the new regulations, which impose tighter restrictions on the quality and type of capital that qualifies as Tier 1 capital and raised the minimum required regulatory capital.

The Bank complies with the provisions of section 46 of the Companies Act, whereby all dividends and distributions are authorised by the Board. The Board authorises a distribution after assuring itself that the Bank will fulfil the solvency and liquidity test immediately after completing the distribution.

The level of capital for the Bank is as follows:

	2015 R'000	2014 R'000
Risk-weighted assets – Banking book		
Credit risk	**7 407 215**	6 450 327
Operational risk	**1 130 769**	1 055 502
Market risk	**21 213**	11 000
Equity	**76 618**	71 464
Other assets	**174 640**	164 357
	8 810 455	7 752 650
Net qualifying capital and reserves		
Tier 1 capital	**1 834 072**	1 708 073
Share capital and share premium	**1 483 300**	1 483 300
Retained earnings	**448 591**	311 188
Other reserves	**56 655**	60 199
Less: Deductions	**(154 474)**	(146 614)
Tier 2 capital		
General allowance for credit impairment	**25 341**	11 006
	1 859 413	1 719 079
Capital adequacy ratio (%)	**21,1**	22,2
Tier 1 capital (%)	**20,8**	22,0
Tier 2 capital (%)	**0,3**	0,2

Fraud

Payment card fraud

The Bank is an issuer of MasterCard and VISA payment cards and has, in line with the card associations' regulations, adopted proactive measures to prevent fraudulent use of these products. The Bank makes use of a fraud monitoring system. Reports based on a set of parameters prescribed by the card associations and industry best practices are reviewed regularly with the aim of identifying suspicious transactional behaviour.

In addition to standard monitoring measures, the Bank offers an SMS notification service on both its credit and debit card products. Since its introduction, this service has contributed to the early detection of fraudulent transactions and mitigation of losses.

If fraudulent activity is confirmed, action is taken to prevent further use of the card/card number. Confirmed fraudulent transactions are investigated and reported to the relevant card associations and the South African Banking Risk Information Centre (SABRIC), which determines common trends and then alerts the industry accordingly.

The Bank commenced with the migration from magstripe cards to integrated circuit cards (also known as "smart" or "chip" cards) during the first quarter of 2015. These cards use advanced encryption, embedded card risk analysis capabilities, and online and offline authentication. The traditional methods used to steal card data or to clone cards using magstripe technology are counteracted by implementing these cards. This is supported by a One Time PIN (OTP) or personal password service which protects cardholders against unauthorised use when making online purchases (also known as e-Commerce transactions).

Fraud other than payment card fraud

The Bank has adopted a zero tolerance approach toward all types of fraud and theft. The Bank's Forensic Investigators investigate all incidents relating to external fraud while internal fraud is investigated by the Internal Audit function.

If an incident of fraud is brought to the Bank's attention, it is investigated immediately, evidence is collected, and statements are taken. If the incident was perpetrated externally, criminal charges are laid. If the incident was perpetrated internally, disciplinary action is instituted in addition to laying criminal charges. All fraud incidents are reported to SABRIC and the South African Police Service.

Merchant acquiring fraud

The Bank offers Merchant Services allowing merchants to accept card-based customer purchases. These merchants are thoroughly vetted during the on-boarding process and site visits are performed to confirm the location of the Bank's point-of-sale devices. Merchants are trained on the card association requirements concerning payment card acceptance and use of the point-of-sale terminals. Real-time monitoring of merchant activity is performed seven days a week and action is taken to protect the merchant and the Bank against possible losses emanating from fraud and non-compliance with the card association rules. Actions taken to prevent such losses include further merchant training or termination of the merchant relationship should the training not have the desired outcome.

Fraud awareness

Fraud awareness training is conducted on a regular basis and awareness newsletters on topical issues are compiled and disseminated to all staff. The newsletters address a wide range of topics and are not limited to payment card fraud only. Fraud awareness newsletters are also compiled and distributed to customers when required. Fraud awareness material on prevalent modus operandi is also made available to customers and staff members on the Bank's website in the Fraud Prevention webpage.

Fraud alerts containing warnings of the recently identified fraud trends, as well as relevant fraud prevention and awareness material related to the incident, are disseminated to all staff. The aim of the fraud alerts is to cover specific and current fraud trends as and when they are identified as well as to create awareness of the most prevalent fraud incidents.

Fraud Department staff members attend industry meetings and use Internet-based sources to stay abreast of fraud trends and the prevention thereof. The Bank also works closely with SABRIC, the Payment Association of South Africa and the card associations.

Whistle-blowing

The Bank has a comprehensive Protected Disclosures Policy based on the Act of the same name. The policy addresses the reporting of corrupt activities, as well as any improper conduct, under a section on whistle-blowing. Employees are encouraged to make disclosures in good faith and on reasonable grounds.

All employees receive, twice annually, an electronic step-by-step guide on what to report and how to report it.

To this end, an enhanced anonymous web-based reporting system is in place to enable employees to report directly to Compliance and Internal Audit. This system simplifies the anonymous reporting procedure and encourages employees to make use of the process.

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