PROUDLY TEBA BANK

ANNUAL REPORT 09

TOGETHER WE CAN

Sanhill Park, No 1 Eglin Road, Sunninghill 2157 www.tebabank.co.za

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TEBA BANK

Growing together with trust

OPEN LETTER

AMANDLA TO THE WORKERS OF MZANZI - AMANDLA

Our country will not be where it is today without the contribution and sacrifices of those dedicated, selfless and committed workers. We therefore salute them and honour them in a special way.

Teba Bank salutes all workers that as producers of wealth, they have given us the means to do what could be done to improve the lives of our communities where we do business.

Workers we thank you for demonstrating your trust in Teba Bank to be the chosen vehicle to **lend a hand** with your financial needs. We thank you for the business you have directed to Teba Bank over the many years.

Workers, we salute you. You have been at the forefront of our prosperous and united nation. We pay tribute to the millions of workers who fought for a democratic South Africa and the many who sacrificed so much.

We are committed to supporting you through these current economic climates. Our priority is to achieve good growth through time by diversifying our business base and increasing our presence in the market to serve you better.

Working together with you, Teba Bank is determined that whatever obstacles or occasional setbacks we may encounter, we are advancing steadily towards a common goal of becoming the **Workers' Bank of Choice**.

PHAMBILI NABASEBEZI, PHAMBILI!
AMANDLA

THE WORKERS' BANK OF CHOICE

Teba Bank's business strategy is built on four pillars:

- Operational Excellence
- Customer Service Excellence
- Grow our business and our people
- Community contribution

THE TEBA BANK WAY

We at Teba Bank are empowered to care for and develop our colleagues and our customers.

We contribute to our communities by:

- Using our good judgement
- Getting it right first time
- Giving excellent service
- Growing the business

It is vital that colleagues at Teba Bank display the following behaviours:

- Demonstrate positive energy, enthusiasm, pride, passion and integrity
- Drive performance at pace, deliver on our promises, celebrate success
- Develop ourselves and our people
- Treat colleagues and customers with dignity and respect
- Protect and enhance our reputation
- Actively participate in our communities

TOWARDS A BETTER FUTURE
TOGETHER

HIGHLIGHTS
OF 2009

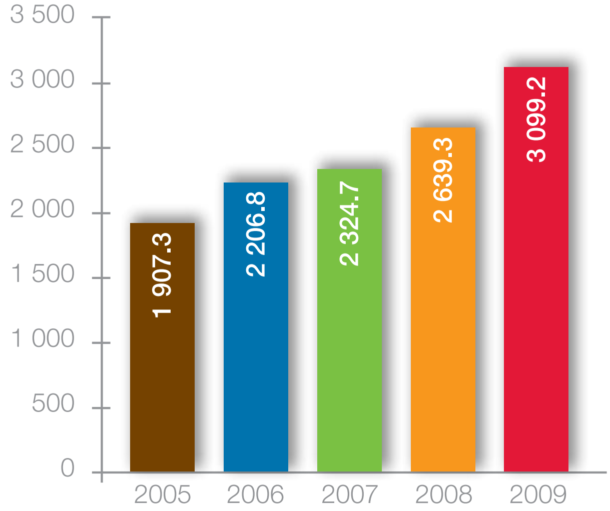
VALUE ADDED STATEMENT

		2009	%	2008	%
Value added	Rm				
Net interest income		348.6	113.0	321.2	122.0
Other income		184.5	59.8	155.2	58.9
Other operating expenditure		(224.7)	(72.9)	(213.1)	(80.9)
		308.4	100.0	263.3	100.0
Value allocated	Rm				
To employees:					
Staff costs		224.8	72.9	168.9	64.1
To government:					
Direct taxation		9.9	3.2	13.7	5.2
To retention for expansion and growth:					
Depreciation		23.2	7.5	17.6	6.7
Retained income for the year		50.5	16.4	63.1	24.0
		308.4	100.0	263.3	100.0

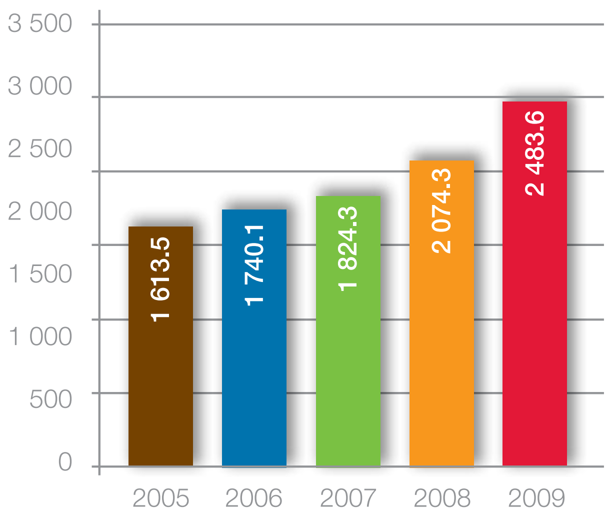
KEY PERFORMANCE INDICATORS

		2009	2008	2007	2006	2005
Income statement						
Profitability	Rm	50.5	63.1	34.6	193.0	-36.7
Balance sheet						
Total assets	Rm	3,099.1	2,639.3	2,324.7	2,206.8	1,907.3
Net loans and advances	Rm	545.0	405.7	295.8	188.3	65.6
Total liabilities	Rm	2,483.6	2,074.3	1,824.3	1,740.1	1,613.5
Deposits	Rm	2,361.30	1,966.1	1,752.4	1,656.2	1,506.8
Loan-to-deposit-ratio	%	23.1	20.6	16.9	11.4	4.4
Financial performance						
ROE	%	8.2	11.2	6.9	41.3	-12.5
ROA	%	1.6	2.4	1.5	8.7	-1.9
Capital adequacy ratio	%	23.1	30.5	63.1	83.0	82.0
Headline earnings per share		2.1	2.6	1.4	7.9	-1.5
Operating performance						
Net interest income	Rm	348.6	321.2	246.7	160.0	111.7
Net interest margin	%	11.9	12.7	11.0	7.5	6.4
Impairment ratio	%	18.9	20.0	12.6	5.5	2.6
Non interest income as % of total income	%	41.6	39.6	41.0	44.3	47.1
Cost-to-income-ratio	%	79.1	71.1	82.0	96.0	131.0

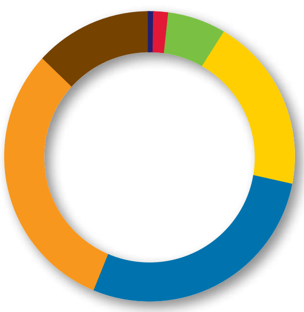
TOTAL ASSETS



TOTAL LIABILITIES

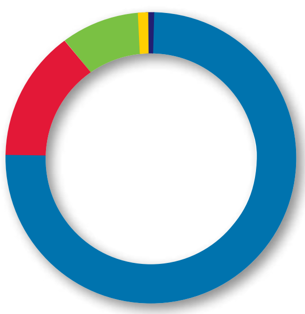


COMPOSITION OF SAVINGS DEPOSITS



Debit Card Clients	7,079,491
ATM Savings	42,305,757
IGF & Related	149,979,191
Term Deposit	451,530,506
TCFS	667,615,710
GWU	713,455,460
Other	329,393,706

COMPOSITION OF GROSS LOANS & ADVANCES



Makoya	504,130,381
Housing Loans	98,941,658
Tirisano	57,632,932
Wholesale Loans	7,796,573
Staff Loans	3,911,984

MILESTONES

1998

- NUM pressurised employers to explore options to assist miners facing retrenchments. This culminated in a vision penned by the Godsell/Motlatsi Commission to create a bank to help miners and broader communities by providing financial services to underserviced rural communities.

1999

- 80 outlets on the mines; Teba Credit is established.

2000

- Teba Bank obtains a banking licence, but remains owned by a Trust managed by National Union of Mineworkers (NUM) and Chamber of Mines.

2001

- Roll-out of branches in Eastern Cape and Mining Towns.

2003

- Teba Bank becomes a member of Payments Association of South Africa and achieves clearing bank status.
- The Schools Benefit Programme is launched to assist needy rural schools.
- Pilot of specialised ATM card with Cell C Community Chat Entrepreneurs.

2004

- Reach to rural communities increases with rollout of deposit products to agencies in rural areas.
- Partnership with UIF for provision of debit cards in mining and recruiting areas.

2005

- Introduction of new microloan products.

2006

- COSATU endorses NUM's resolution for Teba Bank to be the workers' bank.
- Savings deposits reach R1,6-billion.
- R20m is paid to the Teba Trust for social development activities.

2007

- Signing of an agreement with the Mineworkers Provident Fund to guarantee mineworkers home loans.
- Each colleague has community involvement included as a key performance indicator.
- Teba Bank is ranked the 8th best known banking brand in South Africa in the *Sunday Times/Markinor* Top Brands Survey for the second year.

2008

- The new "look and feel" for Teba Bank is launched with the opening of the Westonaria branch, followed by an outlet on ATOK mine.
- The Teba Bank VISA debit card is launched.
- The Teba Bank website is upgraded.

2009

- Launch of the Teba Bank Bursary Fund in partnership with JB Marks.
- Receive "Best Annual Report" publishers award.
- Teba Bank is awarded the most effective company risk management programme 2009 by the Institute of Risk Management South Africa.
- COSATUs 10th annual congress affirms Teba Bank as a vehicle to build a workers' bank.
- ATM network reaches 60 ATMs.

CHAIRMAN'S REPORT

The year under review focused on laying foundations for the execution of a high growth strategy whilst at the same time retaining our position with mining customers in difficult market conditions. The credit and deposit books showed pleasing growth (34.3% and 20%, respectively), bringing our net advances to R545 million and customer savings to R2,3 billion. High costs in preparation for growth and a declining interest rate cycle impacted on profitability which declined to R50,5 million compared with R63,1 million in 2008.The bank remains well capitalised, with a capital adequacy ratio of 23.1% in February 2009.

Our core target market, workers in the mining industry, experienced tough conditions in the year under review. Starting with energy constraints in the beginning of the period, that has led to a down-scaling of production to a 90% rate, escalating costs linked to inflation and the rand exchange rate, the high commodity prices of the first half of 2008 nevertheless buoyed the industry. Conditions worsened dramatically towards the end of 2008, with the downturn in the global economy severely affecting mining, particularly the platinum industry. The deepening global crisis has led to cancellation of fixed investment spending plans, job losses and weak confidence in mining companies. Production declined by 12% year-on-year in the last quarter to February 2009, and 11 000 mining jobs were lost in the last quarter of 2008.

While 2008 saw a rising interest rate cycle, from December 2008, interest rates started to fall with the impact of the global economic downturn on the domestic economy in the last quarter. As the domestic economy weakened further in the first quarter of 2009, other sectors besides mining have suffered contraction, with 200 000 jobs lost in this period. Despite this, Teba Bank remains committed to execution of its strategy to become the workers' bank of choice.

In the past year, R69 million of capital has been spent on preparation for a competitive retail banking offering to all workers. Most of this was spent on enhancing our IT system capability. Human capital was also a major strategic focus of the past year, with a bank-wide re-structure of functions and job profile review, to optimise capability groupings and functional efficiencies within divisions. Credit capability has been improved significantly with a staff complement of 33 and a new Executive position created, a new credit system implemented, and a refined affordability model introduced.

CHAIRMAN'S REPORT

"As the domestic economy weakened further in the first quarter of 2009, other sectors besides mining have suffered contraction, with 200 000 jobs lost in this period. Despite this, Teba Bank remains committed to execution of its strategy to become the workers' bank of choice".

– Samson Moraba, Chairman

A comprehensive review of operational and credit risks was undertaken during the year, with the priority on credit policies and processes. Impairments as a percentage of gross loans and advances has reduced slightly in the period under review to 19%, but still fall short of our target of 15%.

The debit card was developed and piloted during the year, and is currently launched. This product is key to retaining our position within our core target market, and as an anchor product for servicing the banking needs of other workers and their communities.

COMMUNITY

Our social investment programme continued to focus on the field of education as an important area for breaking the poverty cycle and for the continuing competitiveness of the country. The programme focused on assistance with school infrastructure in mining areas and the Eastern Cape, in line with our existing presence. Teba Bank allocated 2.9% of Profit before Tax to community spend. Additionally Teba Bank launched a R1 million bursary scheme to assist children of mineworkers with university education costs.

PROSPECTS

Short-term prospects are challenging for Teba Bank, with the macro-environment likely to see further moderation in overall employment, continuing high debt levels, slowing credit growth and subdued consumer spending. Monetary policy is likely to ease further in response to a weakening economy.

The domestic economy is anticipated to contract in the year ahead, for the first time since the early 1990s. With world trade, expected by the IMF to contract by 9,5% in 2009, export industries in South Africa, including mining, are likely to continue to be hard hit in the short-term. The accompanying threat is the possibility of substantial job losses, with most key sectors of the economy expected to be either in recession or with very little growth prospects. Teba Bank's core existing target market, mining, was strongly at risk in 2009, especially in the PGMs sector. 24 000 mining jobs are believed to be on the line, with analysts indicating that more than 40 000 people could lose their jobs if the economic crisis deepens.

Longer-term, the recovery of industrialised countries and the ongoing industrialisation of the major developing markets are expected to drive demand for commodities, stimulated by government spending programmes in many major economies, including the US and China.

In the year ahead, external conditions are far from optimal for our balance sheet growth, credit quality and interest-based income. In response, our focus for the year is to stay on track with preparation for future high growth, to ensure correct focus of management capability and resources, to maximise value for our rand and to encourage empowered innovation in the face of change.

IT and credit will remain prioritised areas for development in the coming year. We are targeting a comprehensive upgrade of our core banking system, the development of payment interfaces for inter-bank issuing and acquiring of loan collections, further improvement to asset quality, and the launch of a basic banking offering to new worker markets. Teba Bank aims to advance cautiously into new markets, with an initial plan of ten new branch openings in the next year.

From a capital planning perspective, a high level of existing funds are being moved into sovereign investments in accordance with prudent capital adequacy targets. This ensures stability but will impact on income levels in the short-term. A funding strategy has been devised to address future funding needs, and targets are on track regarding the deposit portion of funding needs.

I would like to thank Teba Bank's CEO, Mark Williams, and his executive team for their hard work and drive in progressing the bank towards a high performance, competitive player. My thanks also to the board for their continued guidance and support. I extend a welcome to our newest board member, Lerato Mangope who joined us in December 2008.

CHIEF EXECUTIVE'S REPORT

The 2009 financial year has focused on consolidating delivery of the foundation for the ambitious new strategy devised in the previous financial year, while continuing to pursue cross-selling opportunities within our existing market. Financial results were solid and good progress has been made in building the foundation for sustainable growth.

FINANCIAL PERFORMANCE

The balance sheet has grown by a sturdy 17% to R3,1 billion, outdoing the 13% growth of 2008 despite tougher conditions in our key market, gold and platinum mining. This is attributable to a continued focus on cross-selling amongst our existing market.

The loan book grew by 33%, due to the steady growth of unsecured loans, (taking into account seasonality factors), and the introduction of housing loans to mineworkers during the period under review. Gross housing loans grew by 77% to R93 million, whilst gross personal loans grew by 25% to R579 million. Net of impairments of R127 million, the loan book stood at R545 million in February 2009.

The loan to deposit ratio increased slightly from 20.6% in 2008 to 23% in 2009. The increase was slight because of cross-selling efforts on the deposit side of the balance sheet as well. Deposits grew by 20%, with particularly satisfying growth achieved in fixed deposits (up 41%) and savings accounts aimed at "non-mining" clients (up 46%).

Despite double figure growth of the balance sheet, net interest income grew by only 9% to R348.5 million, due to the turn in the interest rate cycle from December 2008. This lowered interest income from both loans as well as investments.

The cost to income ratio increased from 71% in 2008 to 79% in 2009, due mainly to higher staff costs as a result of a deliberate move to upgrade staffing capacity in preparation for our high growth strategy. Staff costs increased by 33% to R224 million.

FOUNDATION BUILDING

Mineworkers have called on us to become a bank for all workers. The major focus of our strategy is to ensure that we become a competitive retail bank that is the workers' bank of choice. Building the foundation requires focus on the following pillars:

- Operational and customer service excellence
- Growth
- Community

CHIEF EXECUTIVE'S REPORT

"The major focus of our strategy is to ensure that we become a competitive retail bank that is the workers' bank of choice"

– Mark Williams, Chief Executive

OPERATIONAL AND CUSTOMER SERVICE EXCELLENCE

We are changing the way we do business to provide a compelling reason for workers to select Teba Bank as their bank of choice.

IT, credit and human capital were the major focus areas for addressing operational and service excellence, including the creation of a viable platform from which to service new worker markets.

The majority of capital spending in 2009, R60 million, was used to enhance our IT capability. The emphasis was on ensuring stability and availability by upgrading hardware and systems and enhancing network availability. This project is still in progress, and will embrace the ability to seamlessly and cost-effectively provide products and services required by our customers, delivered with speed and convenience.

The Human Capital initiative oversaw the streamlining and rationalisation of the organisational structure to enhance operational efficiency. Functions were re-organised to ensure groupings logically aligned with the value chain. Gaps were identified, jobs profiled and people with the right skills were recruited. The credit division especially was boosted to cater for centralised collections and oversight of credit quality. The regions were re-organised into a front-office and back-office component to enhance efficient customer service. The back-office was further rationalised into five centralised hubs to improve efficiencies, whilst the front office was re-organised into five regions to enhance hands-on management of customer-based operations. Furthermore, performance management was standardised and a differential reward system introduced, in the first steps to institutionalise a high performance organisation. For the first time, performance reviews incorporate demonstration of our key six behaviours: enthusiasm, pace, development, respect, reputation and community participation.

Improvement of credit capability was not restricted to human capital issues. Under an umbrella initiative to address credit quality, a new credit system was implemented, and loans migrated onto the system. The credit strategy has been re-formulated, and a new credit and impairment policy has been released. The scoring model has been reviewed, and an updated affordability model implemented. Credit processes were prioritised for review and refinement. Currently, origination and collections processes are under review.

As part of building our operational and customer excellence pillars, a comprehensive review of all operational risks was undertaken during the year, with refinement and optimisation of 96 processes underway at present.

GROWTH

The debit card was piloted and launched during the period under review. We foresee a significant growth in non-interest income from transactions by product users. To cater for demand amongst customers, a review of existing distribution was undertaken, and ATM and branch presence enhanced. Ten ATMs were placed in mining areas, and two new branches opened (Atok and Witbank). In addition, 16 mine-based outlets were refurbished.

As part of the preparation for high growth, inorganic growth options have also been explored. The acquisition of Meeg Bank did not in the end materialise, but Teba Bank has been assessing other potential partnerships and alliances to improve its service offering to workers.

In terms of growth of our people, a leadership academy was launched during the year under review. Comprising 30 members drawn from management and supervisory staff, with a strong emphasis on regional representation, the academy, the WOBOC Leadership Forum, is a platform to grow future leaders through participation in strategy formulation, special task teams for addressing transformation and challenges to delivery, and improving co-ordination between the various business units within the bank. Forum members are rotated annually to give a wide opportunity for exposure to top leadership responsibilities.

COMMUNITY

R1.5 million was spent on community projects in 2008/9. In addition, funds were raised by staff for selected schools in each of the regions where Teba Bank has a presence. R1 million has also been set aside for a bursary scheme for children of mineworkers. Teba Bank's social investment focus is on schools and students, to assist in providing adequate learning environments for the next generation. Good education for their children is very close to the hearts of our customers, to provide them with opportunities for a better life.

This year, we have assisted various schools with computers, building and/or facilities repairs and office equipment. Further, we have launched the Teba Bank Bursary Programme, to assist children of mineworkers with tertiary education. Ten staff volunteers are involved with mentoring bursary recipients in the transition from rural life to the challenges of university education in an urban setting.

In keeping with our focus on education and students, Teba Bank was proud to participate in the Banking Associations' Teach Children To Save campaign held during National Savings Week in July. Along with other banks and financial institutions, Teba Bank gave lessons in savings and budgeting to school children.

THE YEAR AHEAD

The goals for the year ahead are to consolidate preparation for a high growth strategy by ensuring judicious, focused and optimal usage of resources. We will then be in a position to fulfil our commitment to our stakeholders' wish to become a bank serving the wider worker market.

IT infrastructure preparation is a large and complex project and will carry on in the next financial year. Optimisation of processes is also receiving priority, with the top customer-orientated processes identified and in the process of review and enhancement.

On the people side, talent management and empowered innovation are major new focus areas. Teba Bank is keen to develop leadership skills amongst its younger talented employees, and to encourage innovation as a primary pillar for successful response to change. Performance management and differentiated reward will continue to be refined in the year ahead, with the aim of raising standards in our quest for a high performance organisation. A coaching training programme for management is underway to enhance the ability to unlock the potential of our people.

The development and bedding down of a competitive value proposition and banking model is a top priority in preparation for expansion. Progress has already been made on identification of customer needs and positioning of the bank to attract new markets. The planned development of interbank payments facilities for the issuing and acquiring of loan collections will pave the way for the introduction of a debit order loan, on offer as part of a basic suite of high demand products to new worker markets. Ten new branches are planned for the year ahead, for our initial exploration of providing banking services to workers outside the mining industry.

With weakening economic prospects in the short-term, the year ahead looks to be challenging, but invigorating, with the prospect of consolidating a strong platform for future growth, and venturing into greenfields.

APPRECIATION

My executive team and I would like to thank our Stakeholders and Board for their support. Our thanks also to Teba Bank's employees, who have worked hard in a demanding environment.

BOARD
OF DIRECTORS

DIRECTORS

Samson Moraba (Chairman)
Mark Williams (Chief Executive)
Andiswa Ndoni (Company Secretary)
Jo-Ann Pohl (Chief Financial Officer)
Jacob Henry De Villiers Botha
Charles Stofile
Brian Hawksworth
Zoli Macanda
Derrick Elbrecht
Ayanda Mjekula
Nicolette Erasmus
Lerato Mangope

BOARD COMMITTEES

Teba Bank is managed under the supervision of its Board of Directors. The Board approves the management philosophy, assesses management's execution and reviews the results obtained. Its duties include, among others, approval of strategic plans, review of corporate risks identified by management and Teba Bank's practices and policies for dealing with these risks, management succession planning, and assessment of the integrity of Teba Bank's internal and disclosure controls and information systems.

BOARD OF DIRECTORS

Samson Moraba	Chairman
Mark Williams	Chief Executive
Jacob Henry De Villiers Botha	Board Member
Charles Stofile	Board Member
Brian Hawksworth	Board Member
Andiswa Ndoni	Company Secretary
Jo-Ann Pohl	Chief Financial Officer
Zoli Macanda	Board Member
Derrick Elbrecht	Board Member
Ayanda Mjekula	Board Member
Nicolette Erasmus	Board Member
Lerato Mangope	Board Member

AUDIT COMMITTEE

Brian Hawksworth	Chairman
Jacob Henry De Villiers Botha	Non – Executive Director
Zoli Macanda	Non – Executive Director
Derick Elbrecht	Non – Executive Director
Lerato Mangope	Non – Executive Director

RISK AND CAPITAL MANAGEMENT COMMITTEE

Jacob Henry De Villiers Botha	Chairman
Derick Elbrecht	Non – Executive Director
Nicolette Erasmus	Non – Executive Director
Ayanda Mjekula	Non – Executive Director
Lerato Mangope	Non – Executive Director

DIRECTOR'S AFFAIRS COMMITTEE

Samson Moraba	Chairman
Jacob Henry De Villiers Botha	Non – Executive Director
Charles Stofile	Non – Executive Director
Brian Hawksworth	Non – Executive Director
Ayanda Mjekula	Non – Executive Director

CREDIT COMMITTEE

Zoli Macanda	Non – Executive Director
Ayanda Mjekula	Non – Executive Director
Nicolette Erasmus	Non – Executive Director
Lerato Mangope	Non – Executive Director

REMUNERATION COMMITTEE

Charles Stofile	Chairman
Ayanda Mjekula	Non – Executive Director
Nicolette Erasmus	Non – Executive Director

INFORMATION TECHNOLOGY & GOVERNANCE COMMITTEE

Samson Moraba	Chairman
Jacob Henry De Villiers Botha	Non – Executive Director
Charles Stofile	Non – Executive Director
Derrick Elbrecht	Non –Executive Director

GROUP MOBILISATION COMMITTEE

Jacob Henry De Villiers Botha	Non – Executive Director
Charles Stofile	Non – Executive Director
Zoli Macanda	Non – Executive Director
Ayanda Mjekula	Non – Executive Director

STATEMENT OF CORPORATE GOVERNANCE

The Board embraces the principles of good corporate governance as espoused in the guidelines of the King Report on Corporate Governance for South Africa 2002 (King II), the provisions of the Banks Act, 1990 and the Companies Act, 1963. It is committed to business integrity, transparency and professionalism in all its activities to ensure that the Bank is managed ethically and responsibly to enhance the value of its business for the benefit of all stakeholders.

The Board is satisfied that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times and relies on the internal and external auditors, the Audit Committee and the Risk Committee to raise any issues of financial concern. Teba Bank Limited ("the Bank"/"the company") is constantly striving to develop and improve corporate governance structures and practices to ensure continued compliance with the recommendations of King II and other good corporate governance practices.

BOARD STRUCTURE

The Bank has a unitary board structure, which forms the focal point of the system of corporate governance of the organisation and consists of executive and non-executive directors who share the responsibility for both the direction and control of the Bank. The Board has assessed the size and composition of the Board and is of the opinion that the composition of the Board is compliant with good corporate governance practices and that there is the value of executive knowledge within the Board alongside the value of non-executive director knowledge and experience. The Bank strives to maintain an appropriate ratio of executive to non-executive directors given the nature, size, complexity and risk of the business. The roles of the Chairman and Chief Executive are segregated and an independent non-executive director acts as chairman. The Board is of the opinion that there is an appropriate balance between executive and non-executive directors on the Board.

SKILLS AND EXPERIENCE OF THE BOARD

The Board comprises persons with diverse experience including banking and business and is of the opinion that having directors with relevant business and industry experience is beneficial to the Board as a whole as directors with such backgrounds can provide a useful perspective on significant risks and competitive advantages and an understanding of the challenges facing the business. The Board monitors the mix of skills and experience of directors in order to assess whether the Board has the necessary tools to perform its oversight function effectively.

SELECTION, APPOINTMENT AND ROTATION OF DIRECTORS

The Directors' Affairs Committee acts as a nominations committee should the need arise and considers all director appointments. The charter of the Directors' Affairs Committee makes provision for formal procedures for assisting the Board with director selection and appointment of directors. Should the committee be satisfied that the appointment would add value to the Board as a whole, the committee then recommends the appointment for consideration to the full Board subject to:

- Approval by the South African Reserve Bank;
- Approval by other regulatory authorities; and
- "Fit and proper" tests in terms of the Banks Act.

All director appointments are subject to confirmation by shareholders at the next annual general meeting. The Board as a whole has considered the classification of directors as independent non-executive, non-executive and executive directors. The classification is reviewed on an annual basis or more frequently if necessary.

TERMS OF EMPLOYMENT OF DIRECTORS

Executive directors are employees and have standard terms and conditions of employment and do not receive any special remuneration or other benefits for their additional duties as executive directors. All executive directors have standard letters of appointment. None of the executive directors have extended employment contracts or special termination benefits, and there are no restraints of trade in place. The Board, and Remuneration Committee, determines the remuneration of executive directors and other senior executive management positions. None of the non-executive directors have any employment contracts with the Bank.

INDUCTION AND TRAINING

It is acknowledged that in order for the Board to function effectively it is important to ensure that the resources for developing and refreshing the knowledge and skills of non-executive directors are provided. To this end all non-executive directors have an open invitation to visit the operations of the Bank, meet with management and attend management meetings such as the Asset and Liability Committee (ALCO) and credit committees. This is to ensure that the non-executive directors in particular are able to obtain as full a picture of the operations of the Bank as possible in order to make informed decisions and hence enhance the effectiveness of the Board. There is an informal procedure for the induction and training of directors to ensure that directors are aware of their statutory duties, obligations and potential liabilities. This informal induction course is supplemented by formal training scheduled through GIBS (Banking Board Leadership Programme) and the Institute of Directors.

INFORMATION REQUIREMENTS OF DIRECTORS AND BOARD PROCESSES

It is regarded as critical that directors have sufficient information to enable them to make informed decisions and therefore the Board continuously reviews the information requirements of directors to enable them to effectively fulfil their duties and responsibilities. Directors are timeously informed of matters that will be discussed at Board meetings and provided with information relating thereto. In addition, directors can suggest additional items for discussion at meetings and call for additional information or a briefing on any topic prior to the meeting.

LEVELS OF MATERIALITY

The Board has quantitatively and qualitatively defined levels of materiality for the Bank. This is reviewed on an annual basis or more frequently if necessary.

DELEGATION OF AUTHORITY

The Board has approved and delegated certain authorities to the Board subcommittees, where applicable, and to management.

BOARD MEETINGS

At a minimum, Board meetings are held quarterly and the Board is of the opinion that this is sufficient. The Board is constantly reviewing the amount of time spent on corporate performance, strategic issues and the content and quality of non-financial information.

AUDIT COMMITTEE

The Audit Committee meets on a quarterly basis and the chairman is an independent non-executive director. The Audit Committee members meet at least annually with the internal and external auditors without management being present.

The Audit Committee is responsible for monitoring the appropriateness of the company's combined assurance model and ensuring that significant audit risks facing the company are adequately addressed. This is considered by the Audit Committee when internal and external audit and assurance providers present their plans. The Audit Committee also monitors the integrity and completeness of the company's financial reporting.

The Audit Committee is satisfied that the external auditors are independent.

INTERACTION WITH MANAGEMENT

The Board regards as critical that a strong relationship between non-executive directors and management should be fostered and that there should be a culture of openness, trust and mutual respect in order for a Board to be effective. Whilst the Bank's Board has a high level of regular interaction with the executive management, thereby enabling the directors to infuse their considerable experience, professional knowledge and knowledge of the target market into its strategic direction, there is an ongoing drive to increase the level of interaction and exposure of senior management with the Board. There is a policy of open communication between the Board and management and this ensures that the Board is fully informed of major matters concerning the Bank and its business.

COMPANY SECRETARY

All directors have access to the services of the company secretary, Andiswa Ndoni, who is responsible for ensuring that Board procedures are followed and plays an active role in the facilitation of the induction of new directors and the improvement and monitoring of corporate governance processes. All directors are entitled to seek independent professional legal advice with respect to any affairs of the Bank at the company's expense. The appointment, removal and appraisal of the performance of the company secretary is a matter for consideration by the Board of Directors.

COMMUNICATION

The Bank subscribes to the principle of transparent, timeous, balanced, relevant and understandable communication, focused on substance not form, with all relevant parties. Communication covers both financial and non-financial aspects of the business to assist in creating an informed stakeholder population. Detailed reports of the various aspects influencing the business, both directly and indirectly, are communicated to stakeholders. The Bank undertakes this responsibility to ensure that stakeholders are comprehensively informed so as to understand why they should continue to invest in a company which, they believe, will enjoy sustained success.

CODE OF BANKING PRACTICE AND FINANCIAL SECTOR CHARTER

As a member of the Banking Association of South Africa, the Bank is committed to maintaining the standards of fairness set out in the code of banking practice and the provisions of the Financial Sector Charter.

NATIONAL CREDIT REGULATOR (NCR)

The Bank is registered at the NCR which inter alia, allows them to write loans under the Exemption Notice to the Usury Act, 1968.

Being a member requires that its lending practices be audited by the external auditors to ensure that they adhere to the rules of the NCR.

ANNUAL FINANCIAL STATEMENTS

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DIRECTORS' APPROVAL

The directors are responsible for the preparation, integrity and objectivity of the annual financial statements and the related financial information included in this report, which fairly present the state of affairs of the Bank at the end of the financial year. In meeting this obligation, they are assisted by management, the internal and external auditors of the Bank. The external auditors are responsible for reporting on the financial statements. Internal control and administrative systems, designed to provide reasonable assurance as to the integrity of the financial statements, that assets are adequately safeguarded and that transactions are executed in terms of the Bank's policy and procedures, are in place and duly maintained in a cost-effective manner.

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and the provisions of the Companies Act, No. 61 of 1973 (as amended), and Banks Act, 1990, including complete and responsible disclosure in accordance with the Bank's adopted accounting policies. The Bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis. As a result of uncertainties inherent in business activities, many items in the financial statements cannot be measured with precision but can be estimated. Estimation involves judgements based on the latest available and reliable information. The use of reasonable estimates is an essential part of the preparation of the financial statements and do not undermine the credibility.

The directors do not have reason to believe that the Bank will not be a going concern in the year ahead, based on forecast and available cash resources. The financial statements have accordingly been prepared on that basis.

APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements set out on pages 28 to 73 were approved by the Board of Directors of Teba Bank Limited and are signed on their behalf by:

Director

Director

Johannesburg, 24 June 2009

CERTIFICATE OF THE COMPANY SECRETARY

In my capacity as company secretary I certify that in terms of the Companies Act, No. 61 of 1973 (as amended), this Bank submitted all returns for the year ended 28 February 2009, as required by a public company, in terms of the Companies Act, and that all returns are correct and up to date.

Company secretary

Johannesburg, 24 June 2009

REPORT OF THE INDEPENDENT AUDITORS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual financial statements of Teba Bank Limited, which comprise the directors' report, the balance sheet as at 28 February 2009, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 28 to 73.

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 International Financial Reporting Standards, and in the manner required by the Companies Act, No. 61 of 1973 (as amended), of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about 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 the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 28 February 2009, and of the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, No. 61 of 1973 (as amended), of South Africa.

Ernst & Young Inc.

Ernst & Young Inc.
Registered Auditor

Johannesburg, 05 November 2009

DIRECTORS' REPORT

FOR THE YEAR ENDED 28 FEBRUARY 2009

NATURE OF ACTIVITIES

Teba Bank Limited is incorporated and domiciled in South Africa and is a financial services company providing savings accounts, loans and other financial products to meet the needs of miners and the wider under-banked community in rural areas and mining towns through a network of outlets, agencies and automatic teller machines.

GOING CONCERN

The directors are satisfied that they are in a position to confirm in terms of Regulation 39(4) of the South African Reserve Bank Regulations to the Banks' Act and International Financial Reporting Standards, that the Bank will be able to continue within the foreseeable future as a going concern based on forecasts and available cash resources. The annual financial statements have accordingly been prepared on that basis.

SHARE CAPITAL

On incorporation of the Bank authorised share capital was 25 000 000 shares of R1 each of which 24 500 000 were issued. There were no changes to share capital during the year.

HOLDING COMPANY

The Bank's immediate holding company is the Teba Bank Controlling Company Limited, which in turn is wholly owned by Teba Fund.

DIVIDENDS

No dividend was declared for the 2009 financial year. (2008: Nil)

DIRECTORS

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

NON-EXECUTIVE DIRECTOR	APPOINTMENT DATE	RESIGNATON DATE
S.S. Moraba (Chairman)	28 June 2000	
C.B. Stofile	19 June 2001	
B.M. Hawksworth	13 February 2002	
S.W. Ndwandwe	28 June 2001	24 November 2008
J.H. De Villiers Botha	29 November 2005	
G.S. Mantashe	01 January 2007	28 May 2008
Z. Macanda	16 August 2007	
N. Erasmus	15 October 2008	
D.P. Elbrecht	15 October 2008	
A.W. Mjekula	06 November 2008	
L. Mangope	24 December 2008	
EXECUTIVE DIRECTORS		
M. Williams (Chief Executive Officer)	01 April 2007	
J. Pohl (Chief Financial Officer)	01 June 2007	

COMPANY SECRETARY	APPOINTMENT DATE
A. Ndoni	01 September 2007

INTERESTS OF DIRECTORS AND OFFICERS

No contracts were entered into in which directors and officers of the Bank had an interest and which significantly affected the business of the Bank. The directors had no interest in any third party or company responsible for managing any of the business activities of the Bank. The emoluments and services of the executive directors are determined by the Remuneration committee. All executive directors have standard letters of appointment.

SPECIAL RESOLUTIONS

None.

POST BALANCE SHEET EVENTS

The Bank's outsourced investment to Corporate Money Managers (CMM) as at 28 February 2009 was R215 million and the investment portfolio report dated 28 February 2009 was in line with the investment mandate. Interest income for the period ended 28 February 2009 was accrued and received but the March interest payment was not received on1 April 2009. This non-payment of interest triggered a flag and additional daily monitoring was instituted.

Due to liquidity pressures experienced by CMM other investors promissory notes were not honoured resulting in the fund manager (Ayanda) closing the fund to new business. On 28 April 2009 the business of CMM was placed under Curatorship.

Management, having identified the control flags of the interest non-payment and the curatorship as an indicator of impairment performed an impairment test taking into account available data. Specifically the Curators report dated 19 June 2009 was scrutinised, as well as information in the market, and that management had been made aware of during the course of legal proceedings. It is the view of Teba Bank management that based on the curator's report the investors in CMM will grant permission for the curator to continue to try to recover the underlying assets over a 30 month period such that all underlying capital exposures are recovered.

This report supports the fact that no impairment is required although significant judgement has been applied taking into account:

- the curatorship is at a preliminary stage and further work is required;
- the recovery values of the underlying assets included in the curator's report are subject to prevailing market conditions at the time of sale which may or may not be different from the conditions currently; and
- the completeness of the fund's investors or liabilities is at a preliminary stage and may be subject to further change.

Based on this impairment test, management concluded that although there are indicators of impairment, there is no objective evidence that an impairment loss exists at balance sheet date, and continue to reflect the CMM investment as held to maturity under note 15 at fair value on recognition including direct and incremental transaction costs.

Management continue to work closely with the Financial Services Board (FSB) and, in future, will work closely with the curators to recover our investment. A board committee, chaired by D. Botha, has been established to actively monitor all aspects of this matter.

INCOME STATEMENT

FOR THE YEAR ENDED 28 FEBRUARY 2009

	Notes	2009 R'000	2008 R'000
Interest income		401,717	354,284
Interest expense		(53,125)	(33,093)
Net interest income	6	**348,592**	**321,191**
Fees and commission income	7	171,270	173,013
Fees and commission expense		(37,274)	(33,242)
Net fees and commission income		**133,996**	**139,771**
Net gain/(loss) on financial assets designated at fair value through profit or loss	8	1,804	(1,273)
Other operating income	9	48,732	16,708
Total operating income		**533,124**	**476,397**
Impairment charge on financial assets	10	(51,008)	(60,957)
Net operating income		**482,116**	**415,440**
Personnel expenses	11	(224,811)	(168,911)
Depreciation of property and equipment	18	(23,229)	(17,590)
Amortisation of intangible assets	19	(833)	(301)
Other operating expenses	12	(172,808)	(151,795)
Total operating expenses		**(421,681)**	**(338,597)**
Profit before tax		**60,435**	**76,843**
Taxation	13	(9,935)	(13,711)
Profit for the year		**50,500**	**63,132**

BALANCE SHEET

AS AT 28 FEBRUARY 2009

	Notes	2009 R'000	2008 R'000
ASSETS			
Cash and cash balances	14	470,223	352,016
Investments	15	1,925,112	1,779,141
Trade receivables and other assets	16	37,349	22,093
Loans and advances to customers	17	545,014	405,683
Current tax asset		8,326	16,714
Property and equipment	18	81,092	48,782
Intangible assets	19	13,027	2,410
Deferred taxation	20	19,022	12,462
TOTAL ASSETS		3,099,165	2,639,301
LIABILITIES			
Trade payables and other liabilities	21	87,792	86,159
Deposits and savings due to customers	22	2,361,360	1,966,119
Provisions	23	34,453	22,068
TOTAL LIABILITIES		2,483,605	2,074,346
EQUITY			
Share capital and share premium	24	244,875	244,875
Available-for-sale reserve	24	1,481	1,376
Retained earnings		369,204	318,704
TOTAL EQUITY		615,560	564,955
TOTAL LIABILITIES AND EQUITY		3,099,165	2,639,301

STATEMENT OF CHANGES IN EQUITY

AS AT 28 FEBRUARY 2009

	Notes	Share capital	Share premium	Available-for-sale reserve	Retained earnings	Total
		R'000	R'000	R'000	R'000	R'000
Balance at 1 March 2007		24,500	220,375	-	255,572	500,447
Unrealised gains on available-for-sale investment		-	-	1,376	-	1,376
Profit for the year		-	-	-	63,132	63,132
Balance at 29 February 2008		24,500	220,375	1,376	318,704	564,955
Profit for the year		-	-	-	50,500	50,500
Unrealised gains on available -for-sale investment	24	-	-	105	-	105
Balance at 28 February 2009		**24,500**	**220,375**	**1,481**	**369,204**	**615,560**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 28 FEBRUARY 2009

	Notes	2009 R'000	2008 R'000
OPERATING ACTIVITIES			
Cash received from customers		534,177	485,401
Cash paid to customers and employees		(403,729)	(288,296)
Cash available from operating activities	29	130,448	197,105
Changes in operating funds: Increase in income earning assets		(334,457)	(397,490)
Increase in deposits		395,242	213,744
Cash available from operating activities after changes in operating activities		191,233	13,359
Tax paid	29	(8,107)	(27,054)
Net cash inflow/(outflow) from operating activities		**183,126**	**(13,695)**
INVESTING ACTIVITIES			
Additions to intangible assets		(11,450)	(2,410)
Additions to property and equipment (Maintaining of Operating activities)		(59,185)	(23,067)
Proceeds from disposal of property and equipment		5,716	1,884
Net cash used in investing activities		**(64,919)**	**(23,593)**
Net increase/(decrease) in cash and cash equivalents		**118,207**	**(37,288)**
Cash and cash equivalents at beginning of year		**352,016**	**389,304**
Cash and cash equivalents at end of year	14	**470,223**	**352,016**
Cash and cash equivalents comprise:			
Coins and bank notes		62,014	67,610
Balances with other banks		407,903	284,317
Effect of foreign exchange rate movements		306	89
	14	470,223	352,016

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2009

1. CORPORATE INFORMATION

Teba Bank Limited is incorporated and domiciled in South Africa and is a financial services company providing savings accounts, loans and other financial products to meet the needs of miners and the wider under-banked community in rural areas and mining towns through a network of outlets, agencies and automatic teller machines. The address of the Bank's registered office is Sanhill Park, No 1 Eglin Road, Sunninghill, 2157.

The financial statements were approved by the Board of Directors on 24 June 2009.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The annual financial statements have been prepared on the historical cost basis except for the following:

- financial assets held at fair value through profit and loss.
- financial assets and liabilities initially recognised at fair value.

STATEMENT OF COMPLIANCE

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) of those standards, as adopted by the International Accounting Standards Board and applicable legislation.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 28 February 2009 and have not been applied in preparing these financial statements:

Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and separate financial statements

The amendments to IFRS 1 allows an entity to determine the "cost" of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements do not have an impact on the consolidated financial statements.

IFRS 3R Business combinations and IAS 27R Consolidated and separate financial statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS *31 Interests in Joint Ventures*. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early applied. However, the bank does not intend to take advantage of this possibility.

2. ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

IAS 1 Revised Presentation of financial statements
The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income; it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The bank is still evaluating whether it will have one or two statements.

IAS 32 Financial instruments: Presentation and IAS 1 Presentation of financial statements – puttable financial instruments and obligations arising on liquidation
These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Bank, as the Bank has not issued such instruments.

IAS 39 Financial instruments: Recognition and measurement – eligible hedged items
These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Bank has concluded that the amendment will have no impact on the financial position or performance of the Bank, as the Bank has not entered into any such hedges.

Improvements to IFRSs
The Bank has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

IFRS 7 Financial instruments: Disclosures:
Removal of the reference to– “total interest income” as a component of finance costs.

IAS 8 Accounting policies, change in accounting estimates and errors:
Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

IAS 10 Events after the reporting period:
Clarification that dividends declared after the end of the reporting period are not obligations.

IAS 16 Property, plant and equipment:
Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

IAS 18 Revenue:
Replacement of the term “direct costs” with “transaction costs” as defined in IAS 39.

IAS 19 Employee benefits:
Revised the definition of “past service costs”, “return on plan assets” and “short term” and “other long-term” employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.

2. ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation(continued)

IAS 20 Accounting for government grants and disclosures of government assistance:
Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.

IAS 27 Consolidated and separate financial statements:
When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

IAS 29 Financial reporting in hyperinflationary economies:
Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.

IAS 34 Interim financial reporting:
Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.

IAS 39 Financial instruments: Recognition and measurement:
Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the "fair value through profit or loss" classification after initial recognition. Removed the reference in IAS 39 to a "segment" when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

IAS 40 Investment property:
Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

IAS 41 Agriculture:
Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced of the term "point-of-sale costs" with "costs to sell".

2.2 Significant accounting judgements and estimates

The preparation of annual financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Although these estimates are based on management's best knowledge of current events and actions that the Bank may undertake in the future, actual results ultimately may differ from those estimates.

The presentation of the results of operations, financial position and cash flows in the financial statements of the Bank is dependent upon and sensitive to the accounting policies, assumptions and estimates that are used as a basis for the preparation of these financial statements. Management has made certain judgements in the process of applying the Bank's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis.

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Significant accounting judgements and estimates (continued)

Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The most significant use of judgements and estimates are as follows:

Property and equipment

When deciding on depreciation rates and methods, the principal factors the Bank takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets.

When reviewing residual values, the Bank annually estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful life.

Impairment of property and equipment

Management is required to make judgement concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

Where impairment indicators exist, the determination of the recoverable amount requires management to make assumptions to determine the fair value less cost to sell or value in use. Key assumptions on which management has based its determination of value in use include projected revenues, capital expenditure, and market share. The judgements, assumptions and methodologies used can have a material impact on the fair value and ultimately the amount of any impairment.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a degree of judgement.

Financial assets

At each balance sheet date, management assesses whether there are indicators of impairment of financial assets. If such evidence exists, the estimated present value of the future cash flows of that asset is determined. Management's judgement is required when determining the expected future cash flows. Further information regarding a single investment is included in the Directors' report.

Impairment losses on loans and advances to customers

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. Impairment is raised for incurred losses on loans and advances that are deemed to contain objective evidence of impairment. The impairment is based on an assessment of the extent to which customers have defaulted on amounts already due and an assessment of their ability to make payments based on creditworthiness and historical write offs experienced. Should the financial condition of the customers change, actual write offs could differ significantly from the impairment.

Taxation

Management's judgement is exercised when determining the probability of future taxable profits, which will determine whether deferred tax assets should be recognised or derecognised. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income, taking into account any legal restrictions on the length and nature of the taxation asset. When deciding whether to recognise unutilised taxation credits, management needs to determine the extent to which future payments are likely to be available for set off. In the event that the assessment of future payments and future utilisation changes, the change in the recognised deferred taxation is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The principal accounting policies applied in the preparation of these financial statements are set out below.

3.1. Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) Interest income and expense

Interest income or expenses for all interest-bearing financial instruments classified as held to maturity, available-for-sale or other loans and receivables is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, the Bank estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. Fees, including those for early redemption are included in the calculation to the extent that they can be wholly measured and are considered to be an integral part of the effective interest rate. Cash flows arising from the direct and incremental costs of issuing financial instruments are also taken into account in the calculation.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(b) Fee and commission income

Unless included in the effective interest calculation, fees and commissions earned are recognised on an accrual basis in the period in which the services are rendered.

(c) Dividend income

Dividend income is recognised when the Bank's right to receive income is established. Dividends are reflected as a component of other operating income based on the underlying classification of the equity instrument.

3.2 Foreign currency transactions

The financial statements are presented in South African rand, which is the company's functional and presentational currency. Foreign currency transactions are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses on foreign exchange transactions are recognised in the income statement in the period in which they arise.

3.3 Operating leases

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. The total minimum lease payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Any contingent rental payments are expensed when incurred. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

3.4 Taxation

(a) Current tax

Income tax payable on taxable profits ("current tax"), is recognised as an expense in the period in which the profits arise. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

(b) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and legislation enacted or substantially enacted by the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred tax assets/liabilities are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

(c) Secondary tax on companies

STC is provided for at 10% on the net of dividends declared less dividends recovered by the company during the reporting period. STC credits that arise from dividends received and receivable that exceed dividends paid are accounted for as a deferred tax asset.

3.5 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of change in value.

3.6 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment in value, if any. Such cost includes the cost of replacing a part of equipment only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. Subsequent costs and additions are included in the asset's carrying amount or are recognised as a separate asset, as appropriate. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

3.6 Property and equipment (continued)

Depreciation is calculated on the depreciable amount of items of property and equipment, other than land, on a straight-line basis over their estimated useful lives. Land has an unlimited useful life and is therefore not depreciated although, in common with all long-lived assets, it is subject to impairment testing, if deemed appropriate. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its economic life.

When deciding on depreciation rates and methods, the principal factors the company takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the company estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful life.

Depreciation rates, methods, useful lives and the residual values underlying the calculation of depreciation of items of property and equipment are reviewed at each financial year end to take account of any change in circumstances. Changes are treated as changes in accounting estimates.

The company uses the following annual rates in calculating depreciation:

Motor vehicles	5 years
Furniture and fittings	6 years
Computers and office equipment	3 years
ATMs	7 years
Leasehold improvements	Shorter of the period of lease and useful life of the item

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement in the year the asset is derecognised.

3.7 Intangible assets

An intangible asset arising from software/system development expenditure on an individual project, is recognised only when the company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Intangible assets are measured on initial recognition at cost.

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

Following the initial recognition of the development expenditure, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised, on a straight-line basis over the period of expected future use of the asset once the asset is brought into use. The useful lives of intangible assets have been assessed as finite and are therefore amortised over the useful economic life. Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. The amortisation expense is recognised in the income statement in the expense category consistent with the function of the intangible asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

3.7 Intangible assets (continued)

The carrying value of development costs is reviewed for impairment annually, when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year. The amortisation period and method is reviewed annually. Changes in the expected useful life, amortisation period or method are treated as changes in accounting estimates.

The amortisation periods are as follows:

Computer software development costs	3 years

Intangible assets are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Any gains or losses arising from disposal or derecognition of the intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement in the year the asset is derecognised.

3.8 Impairment of property, equipment and intangible assets

At each balance sheet date or more frequently where events or changes in circumstances dictate; indicators of impairment of property and equipment and intangible assets are assessed. If there is an indication of impairment, a review is performed which comprises a comparison of the carrying amount of the asset with its recoverable amount which is the higher of the asset's or the cash-generating unit's fair value less costs to sell, and its value in use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtained as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

The carrying values of property, equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

3.9 Employee benefits

The company and employees make contributions to the following pension funds which are all defined contribution plans: Multicor, Mine Workers Provident Fund and Chamber of Mines Retirement Fund. These funds are registered under and governed by the Pension Funds Act, 1956 as amended. Contributions to any defined contribution section of a plan are recorded under personnel expenses, which is included within operating expenses, as incurred.

Short-term employee benefits, such as salaries, paid absences, and other benefits, are accounted for on an accrual basis over the period which employees have provided services in the year. Bonuses are recognised to the extent that the company has a present obligation to its employees that can be measured reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

3.10 Provisions and contingent liabilities

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

Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

3.11 Financial instruments – Initial recognition and subsequent measurement

(a) Initial recognition

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(b) Date of recognition

Financial instruments are recognised when the company becomes party to the contractual provisions of the financial instrument. All purchases and sales of financial instruments are recognised on the trade date i.e. the date that the company commits to purchase the financial asset or assume the financial liability.

(c) Financial assets

Financial assets recognised on the balance sheet include; Cash and cash balances, Investments, Trade receivables and other assets and Loans and advances to customers.

The company classifies its financial assets in the following categories: financial assets designated at fair value through profit or loss; loans and receivables; held to maturity investments and available for sale financial assets. Management determines the classification of financial assets at initial recognition.

(d) Financial liabilities

Financial liabilities recognised on the balance sheet include deposits and savings and trade and other payables. Financial liabilities, other than trading liabilities and financial liabilities designated at fair value, are carried at amortised cost using the effective interest method. Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

(e) Financial instruments at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

3.11 Financial instruments - Initial recognition and subsequent measurement (continued)

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value, changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other operating income" when the right to the payment has been established. Included in this classification is certain short-term investments.

Loans and receivables
Loans and receivables (including long-term loans, advances and trade and other assets) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Financial assets held for trading", designated as "Financial investment – available-for-sale" or "Financial assets designated at fair value through profit or loss." They arise when the company provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held to maturity investments
Held to maturity investments are non-derivative financial assets (including short-term investments) which carry fixed or determinable payments and have fixed maturities and which the company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs. They are subsequently measured at amortised cost, using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments
Available for sale investments are non-derivative financial investments that are designated as available for sale or do not qualify to be categorised as held at fair value through profit and loss, loans and receivables or held-to-maturity. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently measured at fair value. Gains and losses arising from changes in fair value are included in a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement. Interest determined using the effective interest method, impairment losses and translation differences on monetary items are recognised in the income statement. The investments are derecognised when the rights to receive cash flows have expired or the company has transferred substantially all the risks and rewards of ownership.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

3.12 Financial instruments – Derecognition of financial assets and financial liabilities

(a) Financial assets

The company derecognises financial assets (or where applicable, a part of a financial asset or part of a group of similar financial assets) where:

(i) the rights to receive cash flows from the asset has expired; or
(ii) the company retains the right to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement and the company has transferred its rights to receive cash flows from the asset and either:

- has transferred substantially all the risks and rewards of the asset; or
- has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the company could be required to repay.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

3.13 Financial instruments – Determination of fair value

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted market price or asking price (as appropriate) in an active market wherever possible, without any deduction for transaction costs. Where no such active market exists for the particular asset, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the use of prices obtained in recent arms' length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

3.14 Impairment of financial instruments

The bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets carried at amortised cost is impaired. A financial asset or portfolio of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. Objective evidence that a financial asset or a portfolio is impaired includes observable data that comes to the attention of the bank about the following loss events:

i) significant financial difficulty of the issuer or obligor;
ii) a breach of contract, such as a default or delinquency in interest or principal payments;
iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

3.14 Impairment of financial instruments (continued)

v) the disappearance of an active market for that financial asset because of financial difficulties; or

vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
- Adverse changes in the payment status of borrowers in the portfolio.
- National or local economic conditions that correlate with defaults on the assets portfolio.

(a) Loans and advances to customers

For loans and advances to customers carried at amortised cost, the bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is included in the income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to "bad debts recovered" in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflect the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

3.14 Impairment of financial instruments (continued)

(b) Held-to-maturity financial investments

For held-to-maturity investments the bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the "impairment losses on financial investments."

(c) Available-for-sale investments

For available-for-sale investments, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

Where applicable future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest and similar income.

3.15 Financial instruments – Collateral and netting

The Bank enters into master agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

(a) Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future liabilities.

The Bank also receives collateral in the form of cash or securities in respect of other credit instruments, such as advances to customers in order to reduce credit risk. Collateral received in the form of cash is recorded on the balance sheet with a corresponding liability. These items are assigned to deposits received from bank or other counterparties. Any interest payable or receivable arising is recorded as interest payable or interest income respectively.

(b) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

3.16 Share-based payment transactions

Employees of the Bank receive remuneration in the form of share-based payment transactions. Employees are granted share appreciation rights, which can only be settled in cash (cash-settled transactions).

The cost of cash settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in note 24. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

4. RISK MANAGEMENT

The Board acknowledges its ultimate responsibility for the total process of risk management, as well as for forming its own opinion on the effectiveness of the process.

The risk management culture within the Bank is embedded throughout the organisation using an enterprise-wide risk management approach, with management taking full responsibility for identifying, understanding and managing risk in pursuit of its strategy and aligning these with the overall business risk policy and approved risk appetite and tolerance levels.

The Board has therefore appointed the Board Risk Committee to assist the Board in reviewing the quality, integrity and reliability of the risk management process and reviewing the significant risks facing the Bank. The Board Risk Committee charter highlights the roles and responsibilities of this committee to ensure effective discharge of duties and segregation of duties at Board level.

There is constant cooperation and flow of information between the various Board Committees and management functions in order to increase awareness and transparency thus achieving greater effectiveness by leveraging on the knowledge pool and insight of the directors. The risk department, which is independent, ensures overall coordination, facilitation, assessment and reporting of the bank-wide risk profile. It therefore acts as the glue that binds the process and ensures that as a collective there is complete coverage of risks, with clear accountability and adequate segregation of duties as well as providing guidance, coordination and assurance.

Risk culture, appetite and tolerance

The Board has adopted a prudent risk management culture, which views risk as an inherent part of running a successful business, i.e. risks are not only mitigated but are also investigated for potential opportunities which could provide a direct linkage between risk management and maximising shareholder value. Risk appetite and tolerance levels are in place, which allows risk taking within certain parameters and are supported by the establishment and maintenance of cost-effective controls. Risk appetite is defined as the level or quantum of risk that is acceptable to the Bank in pursuit of its objectives and is dependent on the extent to which it seeks and tolerates risk as described by predetermined performance indicators, operational parameters and process controls. Risk tolerance or absorption capacity is the level of deviation from the risk limits or appetite or amount the Bank is capable of losing before its sustainability is endangered or reputation is irreparably damaged, it is therefore a function of the Bank's capital, reserves and profitability in relation to the business strategy, cost effective risk mitigation controls and effective risk transfer strategies.

4. RISK MANAGEMENT (CONTINUED)

Risk Governance

The following management committees are in place to support the EXCO and the Board Risk and Capital Committee in managing enterprise risks.

Credit Committee, responsible for:

- Credit Risk

Asset and Liability Committee (ALCO), responsible for:

- Solvency Risk
- Liquidity Risk
- Interest Rate Risk
- Counterparty Risk

Operational Risk Management Committee (ORMC), responsible for:

- All operational risk related risks including processes, IT, people, legal and compliance

In addition, a Board Large Exposures Committee was established to ensure oversight and approval of large exposures.

The Board Risk and Capital Committee approved the revised enterprise-wide risk management framework. Supporting this ERM framework, the following frameworks were approved during the year:

- Credit Risk Framework
- Capital Risk Framework
- Operational Risk Framework

Further, the credit policy was reviewed by the Credit Committee and approved by the Board Risk Committee.

The Risk Department

The Risk Department is an independent function guided by the following objectives:

- To develop and implement an effective risk governance structure and process including inculcation of a risk management culture.
- To identify the Bank's material risks and ensure that business profile and plans are consistent with risk appetite.
- To optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures.
- To ensure that business growth plans are properly supported by effective risk infrastructure.
- To manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions.
- To help executives improve the control and coordination of risk taking across the business.

The Compliance Department

Compliance risk is the risk of non-compliance with laws, regulations and codes of conduct applicable to the company's business activities and functions.

The Compliance Department's primary role is to assist management in identifying, monitoring and effectively control the compliance risk they face not only with the letter, but also with the spirit thereof. The compliance function forms part of the overall risk governance structure.

4. RISK MANAGEMENT (CONTINUED)

The Bank's compliance officer operates under an authority delegated by the board in terms of a board approved compliance charter and has unrestricted access to the chief executive officer, the chairman of the audit committee and the chairman of the board.

The compliance function also leverages off the expertise and capacity of other functions in the Bank. A compliance legal analysis function is in place to analyse and interpret new statutory requirements. A risk based compliance approach, which supports the enterprise-wide risk management framework, is followed. Business unit compliance champions have been appointed and they form the entry point into business areas whereby they are notified of the various statutory requirements, and relying on their expert knowledge of the business unit, ensure that appropriate controls are designed, introduced and maintained. Adherence to controls is tested by either internal audit or the central compliance function as specified in the risk management plans. Reliance is also placed on system controls, where appropriate, to minimise potential human intervention and possible breaches.

Regular updates or reports are submitted to the audit committee, board and the South African Reserve Bank on all compliance related matters. The audit committee reviews the work of the compliance function on a regular basis through the reports submitted to the committee. The annual compliance work plan is also approved by the Audit Committee. There were no material issues of non-compliance that had to be reported during the year under review.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank adopted a basic indicator approach to operational risk management. An Operational Risk Management Committee (ORMC) was established during the period under review. The minutes and resolutions taken by the ORMC were submitted to the Board Risk Committee to ensure effective oversight.

The Board Risk Committee approved the operational risk management framework to ensure proper governance of the operational risk management process including reporting.

The Bank has a separate and distinct Operational Risk Management unit that focuses on managing the risk of loss due to inadequate or failed internal processes, system, people and from external events.

In order to enhance operational risk management, an operational risk project was implemented. This led to the enhancement of the risk control self assessment process. Operational risk events are monitored, quantified and reported to the Operational Risk Committee. An operational risk event identification and reporting system was implemented so as to improve the loss reporting process. The system classifies operational loss events as either actual loss, near miss or potential losses and drills down further to identifying the causes, impacted areas and controls to be implemented to ensure that the reported events do not recur. The Loss Data System effectively maps each loss event according to the Basel II Framework. All material and significant loss events are analysed and reported to the ORMC and Board Risk Committee accordingly.

4. RISK MANAGEMENT (CONTINUED)

An in-house built Operational Risk Loss Data Collection system was rolled out across the entire Bank in March 2009 that effectively replaces the manual system that was used previously.

Other tools/measures implemented by the Bank in managing operational risk include, but are not limited to: Risk Control Self Assessments (RCSAs), Health Check List, periodic review of the Bank's insurance policies, Risk Registers, Operational Risk Dashboard, Teller Difference Report, review of the Key Operational Risk Report and analysis of Operational Loss Event Management Information reports.

A comprehensive report is prepared and presented at an Operational Risk Management Committee every two months and further escalated to the Board Risk Committee on a quarterly basis to ensure effective oversight of the Bank's Operational Risk Management.

The Bank intends to submit a Standardised Approach application to the South African Reserve Bank before the end of 2009, in line with Basel II requirements. The move from the current Basic Indicator Approach to the Standardised approach is expected to result in capital charge savings for the Bank.

Forensic investigations

Fraud is an inherent business risk in any institution. The Bank endeavours to combat acts of transgression and unethical behaviour through the implementation of dynamic and sound fraud prevention practices. A core team investigates all fraud related matters on a centralised basis and all matters are recorded on a fraud case management system for analysis, follow-up and reporting. Any control breakdowns are analysed and reported immediately for corrective action and where necessary improvement of controls. Internal audit are consulted to identify potential risks before implementation of new initiatives or processes.

The Board supports a zero tolerance policy on fraud and all instances involving a reportable offence are managed consistently and in a uniform manner. Staff at all levels are responsible and accountable for exercising due diligence and control to prevent, detect, and report acts or suspicion of acts of a reportable nature, as defined in the Bank's fraud policy. An external hotline manned by an independent and reputable service provider was implemented and is available for staff and the public to report matters on a confidential basis.

Internal audit

Internal audit perform comprehensive process, system and business audits utilising a risk based audit methodology across the spectrum of business entities to identify shortcomings and to augment the risk effectiveness self assessments. All audit reports are reviewed at a divisional level by the Audit committee. Major issues are escalated to higher levels for review. Action plans to address identified process weaknesses are agreed with management and progress is monitored as appropriate. The internal auditors perform comprehensive process, system and business audits utilising a risk based audit methodology across the spectrum of business entities to identify shortcomings and to augment the risk effectiveness self assessments.

Code of ethics

The code of ethics commits staff and management to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders. Staff at all levels participated in the drafting of a code of ethics, which reflects its diversity and unique culture. Staff are expected to observe their ethical obligation in such a way as to carry on business through fair commercial competitive practices and to observe the Bank's values in their interaction with others and specifically with clients.

4. RISK MANAGEMENT (CONTINUED)

The Basel capital accord (Basel II)

The Board has approved and adopted a standardised approach for credit risk, and basic indicator approach for operational risk.

4.1 Financial risk management

Introduction and overview

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Bank is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

(a) Credit risk management

Credit risk is the risk of financial loss resulting from a customer or counterparty failing to meet an obligation under a contract. Loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of the bank, including in the banking book. Credit risk inherent in the entire credit portfolio as well as the risk in individual credits or transactions is actively managed. The relationships between credit risk and other risks are considered as part of the ongoing credit risk management process within the Bank.

Potential concentration of credit risk consists principally of short-term cash investments and loans to the mining sector including mine workers. The Bank has accepted this concentration risk and manages its risk accordingly. The Bank only deposits short-term cash surpluses with financial institutions of high quality credit standing. Credit limits per financial institution are approved by the Asset and liability committee ("ALCO") in line with the credit limit methodology approved by the Board Risk Committee.

The Bank's main focus on credit risk has been on building and improving credit capabilities so as to improve in this area. In pursuit of this strategy, the Bank is, inter alia, reviewing its credit systems and models to ensure continued effective risk management.

Credit leniency leads to under-priced loans and potential client over indebtedness while the application of credit criteria that are too strict results in an inefficient underwriting model and constraints on growth. In order to optimise this balance, the Bank has made significant investments into both people processes and systems within the discipline of credit risk management.

Clients' overall indebtedness is continually monitored in conjunction with expected changes in the macro-economic environment. The Bank continues to monitor the market credit cycle and changes thereof mainly from a combination of increasingly competitive credit supply side dynamics. In response to this risk, the Bank continues to use its responsible lending strategy through the use of automated affordability tests. Credit key risk indicators have been implemented and are being monitored on a regular basis. The management credit committee and the Board risk committee closely monitor the credit risk through the credit risk reports including the risk register. The credit risk framework has been approved by the Board Risk Committee.

4. RISK MANAGEMENT (CONTINUED)

Credit risk measurement
A statistical modelling technique is used to measure credit exposure across the loan book so as to determine the probability of default. Further, the probability of default is an integral part of the impairment model. Counterparty credit risk exposure is measured through monitoring of the counterparties' credit quality and limits adjusted accordingly.

Credit risk mitigation
The Bank uses an affordability model to assess the customers' capacity to repay without distress (throughout its businesses) as part of its credit decisioning process, which is embedded in the credit system. This model, which is maintained by Credit, assists the Bank in front line credit decisions on new commitments and in managing the portfolio of existing exposures. Lending limits as approved by the Board Risk Committee are monitored for compliance. Credit risk loans, that are non-performing loans and potential problem loans are monitored by the Credit Committee who ensure that they are in line with the approved risk appetite. The loans are impaired accordingly, and the Credit Committee ensures adequate coverage.

Risk concentration of the maximum exposure to credit risk
Concentration of risk within Customer, Sector and Geography is managed by the ALCO. The maximum credit exposure to any customer as of 28 February 2009 was R710 659 (2008:R605 273).

(b) Liquidity risk management

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

A loss of confidence in the Bank or the banking sector could result in a withdrawal of deposits and funding such that the Bank cannot meet its obligations despite being adequately solvent and profitable. The Bank's liquidity risk is monitored by the ALCO that meets monthly and reviews the liquidity position of the Bank including liquidity mismatches. Its objective is to manage and limit the adverse impact of these risks on the Bank's future earnings.

Liquidity risk measurement and mitigation
Cashflow projections are used to measure liquidity risk. Further liquidity mismatches on the balance sheet are measured through maturity mismatches. Sources of funding are reviewed on a regular basis as part of the ALCO agenda. Mismatch limits are being developed to further improve liquidity risk management. A contingency funding plan is in place and the balance sheet stress tested to ensure continued liquidity. Stress scenarios including the impact of the power crisis on the mining sector are being developed as part of the liquidity contingency plan review.

(c) Market risk management

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Bank does not have a trading book but a banking book, and as such, it is mainly exposed to interest rate risk from the investment book.

The ALCO consisting of senior management meet on a monthly basis to review the balance sheet structure, including interest rate exposure and approve management strategies against the considered economic forecasts. Compliance with treasury policies and objectives and exposure limits are reviewed by ALCO on a monthly basis and by the Board Risk Committee on a quarterly basis.

4. RISK MANAGEMENT (CONTINUED)

4.1 Financial risk management (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other then those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Bank has no significant exposure to price and currency risks.

Market risk measurement

Interest rate risk is being measured through an interest rate gap model, which is the difference between rate sensitive assets and liabilities. In addition, a stress testing model using interest rate shocks, is used to determine potential losses in the event of extreme market conditions. The impact on net interest margins is monitored at the monthly ALCO meetings.

4.2 Capital management

The bank manages its capital, as an integral part of the ALCO process, to ensure that it holds adequate capital to meet the minimum regulatory requirements. In line with the Basel II requirements, a capital buffer ratio has been approved by the Board and is reviewed annually and monitored by both ALCO and the Board Risk Committee. During the past year, the Bank had complied with all its externally imposed capital requirements. No changes were made in the objectives, policies and processes from the previous years.

Basel II

The Bank has fully embraced the Basel II framework and acknowledges that it has further improved the risk management processes. The project, which ran for more than two years was successfully implemented. The Basel II capital adequacy ratio is being monitored including the internal capital buffer ratio approved by the Board Risk Committee. The bank approved and adopted a standardised approach for credit.

Minimum banking requirements

Capital adequacy and the use of regulatory capital are monitored by employing techniques based on guidelines developed by the Basel Committee on Banking Supervision and implemented by the SARB. These techniques include the capital adequacy ratio calculation, which the SARB regards as a key supervisory tool.

Risk-weighted assets are determined by applying risk weights to balance sheet assets and off Balance sheet Financial instruments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off-balance sheet financial instrument is regulated by the Banks Act, No 94 of 1990 (as amended).

4. RISK MANAGEMENT (CONTINUED)

4.2 Capital management (continued)

The Banks regulatory capital position at 28 February 2009 was as follows:

	2009 R'000	2008 R'000
Tier 1 capital		
Ordinary share capital	24,500	24,500
Share premium	220,375	220,375
Retained earnings	318,706	250,915
(Deductions) - Computer Software	(13,027)	(2,410)
Total	550,554	493,380
Tier 2 capital	8,269	9,209
Total regulatory capital	558,823	502,589
Risk weighted assets		
Credit	1,511,253	736,752
Operational	706,000	765,100
Market		
Equity	1,722	1,601
Other	198,984	144,770
Total risk weighted assets	2,417,959	1,648,223
Capital Adequacy	23.11%	30.49%

Target Capital Levels

Target capital levels have been set for the bank and are equal to the minimum regulatory requirements set by the SARB.

Total Regulatory Requirements	14.5%	14.5%

4. RISK MANAGEMENT (CONTINUED)

4.3 Credit risk measurement

(a) Gross maximum exposure

The Bank's objectives and policies in managing the credit risks that arise are set out in note 4.1 under the heading "Credit Risk Management". The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2009 R'000	2008 R'000
Cash and cash balances	470,223	352,016
Investments	1,925,112	1,779,141
Trade receivables and other assets	26,997	17,004
Loans and advances to customers	545,014	405,683
Total credit risk exposure	**2,967,346**	**2,553,844**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(b) Collateral and other credit enhancements

Home and wholesale loans offered by the Bank are fully secured and some micro loan products are 30% secured for the value of the loan limited to a R30 million guarantee.

		2009 R'000	2008 R'000
Loans and advances to customers	17	545,014	405,683

(c) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using the affordability model. The table below shows the credit quality by class of asset for balance sheet lines, based on the Bank's current credit risk framework and policies.

	Neither past due nor impaired	
	2009 R'000	2008 R'000
Cash and cash balances	470,223	352,016
Short-term investments	1,925,112	1,779,141
Trade receivables and other assets	26,997	17,004
	2,422,332	**2,148,161**

4. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

(d) Age analysis of past due but not impaired per class of financial assets

All financial assets (excluding the CMM investment, which was a post balance sheet event and reported in the Director's report) classified as past due are assessed for impairment and have an impairment raised.

(e) Analysis of impaired financial assets per class

The maturity analysis of the gross carrying value of loans and advances that are impaired have been reported below:

2009	30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
R'000					
Loans and advances to customers – impaired	29,632	17,723	33,940	115,722	197,017
Loans and advances to customers – current					475,396
Total					672,413

2008	30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
R'000					
Loans and advances to customers – impaired	11,954	14,804	30,075	62,573	119,406
Loans and advances to customers – current					387,423
Total					506,829

4.4 Liquidity risk

The Bank's objectives and policies in managing the liquidity risks that arise are set out in note 4.1 under the heading "Liquidity Risk Management". The following table provides details on the contractual maturity of all financial liabilities including future interest to be paid.(Refer to Note 30 for liquidity matching)

At 28 February 2009

R'000	On demand	< 3 months	3 - 12 months	1 to 5 years	Total
Provision for leave pay	-	-	6,453	-	6,453
Bonus provision	-	28,000	-	-	28,000
Trade payables and other liabilities	57,958	-	-	-	57,958
Deposits and savings due to customers	1,896,706	206,876	251,505	14,700	2,369,787
Total undiscounted financial liabilities	1,954,664	234,876	257,958	14,700	2,462,198

At 29 February 2008

R'000	On demand	< 3 months	3 - 12 months	1 to 5 years	Total
Provision for leave pay	-	-	6,926	-	6,926
Bonus provision	-	15,142	-	-	15,142
Trade payables and other liabilities	72,747	-	-	-	72,747
Deposits and savings due to customers	1,650,328	146,443	170,207	9,710	1,976,688
Total undiscounted financial liabilities	1,722,025	176,047	177,133	9,710	2,071,503

4. RISK MANAGEMENT (CONTINUED)

4.5 Interest rate, price and currency risk

The Bank's objectives and policies in managing the interest, price and currency risks that arise in connection with the use of financial instruments are set out in note 4.1 under the heading "Market Risk Management". The tables below demonstrate the sensitivity to a reasonable possible change in interest rate, price and currency, with all other variables held constant, of the Bank's net interest income based on forecasts.

Interest rate risk

BASIS POINT MOVEMENT	NET INTEREST INCOME		NET INTEREST INCOME	
	DECREASE %	INCREASE %	DECREASE R'0,00	INCREASE R'0,00
50bp	2.38	1.94	9,146	7,431
100bp	4.77	3.87	18,292	14,862
200bp	9.53	7.74	36,584	29,724

Price risk (Sensitivity analysis based on a 10% increase or decrease in the market price of the underlying shares)

Pre-tax impact	Carrying value after change	Carrying value before change	Underlying Currency
	R'000	**R'000**	
Increase	1,512	1,375	USD
Decrease	1,237	1,375	USD

Currency risk (Sensitivity analysis based on a 10% increase or decrease in exchange rates)

Balances subject to credit risk		Carrying value after change	Amount exposed to currency risk	Underlying currency	Pre-tax income impact	Post-tax income impact
		R'000	**R'000**		**R'000**	**R'000**
Balances with other banks	Increase	1,291	1,174	USD	117	85
Balances with other banks	Decrease	1,057	1,174	USD	(117)	(85)
Capital market instruments	Increase	1,512	1,375	USD	137	99
Capital market instruments	Decrease	1,238	1,375	USD	(137)	(99)

5. FINANCIAL ASSETS AND LIABILITIES

Fair value of financial assets and liabilities

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, in an arms-length transaction between knowledgeable willing parties.

Carrying value approximates fair value due to the minimal credit losses and short-term nature of the financial assets and liabilities. Therefore, no comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements is necessary.

6. NET INTEREST INCOME

	Note	2009 R'000	2008 R'000
Interest income			
Cash and cash balances		43,491	35,691
Loans and advances to customers		197,597	177,958
Investments		160,629	140,132
- Held-to-maturity		41,512	73,190
- Financial assets designated at fair value through profit or loss		119,117	66,942
Other		-	503
		401,717	354,284
Interest expense			
Deposits and savings due to customers		(52,880)	(32,893)
Banking facilities		(245)	(200)
Holding company loan	27	-	-
		(53,125)	(33,093)
Net interest income		348,592	321,191

7. FEE AND COMMISSION INCOME

Administration fees	30,867	34,821
Commission earnings	57,145	54,445
Service and management fees	83,258	83,747
	171,270	173,013

NOTES TO FINANCIAL STATEMENTS CONTINUED

8. NET GAIN/(LOSS) ON FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009 R'000	2008 R'000
Financial assets designated at fair value through profit or loss	1,804	(1,273)
	1,804	(1,273)

Included in this total amount are the gains and losses arising from the buying and selling, and changes in the fair value of financial assets designated upon initial recognition as held at fair value through profit or loss.

9. OTHER OPERATING INCOME

Gains from non-trading foreign exchange	247	44
Grant income	597	988
Profit on sale of property and equipment	2,120	1,194
Other	477	1,450
Investment income	45,291	13,032
	48,732	16,708

10. IMPAIRMENT CHARGE ON FINANCIAL ASSETS

	Note	Specific impairment R'000	Portfolio impairment R'000	Total R'000
2009 Net charge to the income statement				
Loans and advances to customers	17	(57,653)	6,645	(51,008)
		(57,653)	6,645	(51,008)
2008 Net charge to the income statement				
Loans and advances to customers	17	(39,467)	(21,490)	(60,957)
		(39,467)	(21,490)	(60,957)

11. PERSONNEL EXPENSES

	2009 R'000	2008 R'000
Pension costs – Defined contribution plan expense	(12,235)	(11,366)
Salaries and wages	(212,576)	(157,545)
	(224,811)	(168,911)
Personnel – Actual headcount	938	899

NOTES TO FINANCIAL STATEMENTS CONTINUED

12. OTHER OPERATING EXPENSES

Significant operating expenses comprise:		
Auditors' remuneration		
- Audit services	(3,822)	(3,969)
- Other	(720)	(2,340)
Legal fees	(479)	(376)
Loss on sale of property and equipment	(50)	(262)
Fair value (loss) on accounts receivable	(840)	(1,437)
Impairment on Property, Plant and Equipment	-	(2,312)
Professional fees	(1,633)	(6,086)
Operating lease expense	(8,600)	(8,552)
Strategic research	(2,104)	(546)
Software licence fees	(17,901)	(5,908)
Security expenses	(19,289)	(10,551)
Other	(117,370)	(109,456)
	(172,808)	(151,795)

13. TAXATION

The components of the tax expense for the years ended 28 February 2009 and 2008 are:

	2009 R'000	2008 R'000
Current tax		
Current income tax expense	(10,635)	(29,292)
Adjustment in respect of re estimation of prior year liability	(5,860)	7,587
Deferred tax		
Origination and reversal of temporary differences	6,560	7,994
Taxation expense reported in the income statement	(9,935)	(13,711)

RECONCILIATION OF THE TOTAL TAX CHARGE
A reconciliation between the tax expense and the accounting profit is as follows:

Accounting profit before tax	60,435	76,843
At domestic corporate tax rate of 28% (2008: 29%)	(16,921)	(22,284)
Non-deductable and non-taxable items	489	(2,679)
Capital gains tax impact	(322)	-
Income not subject to tax	12,679	3,779
Permanent differences	-	(114)
Adjustment in respect of re estimation of prior year liability	(5,860)	7,587
Taxation expense reported in the income statement	(9,935)	(13,711)
Effective income tax rate	(16.44%)	(17.84%)

NOTES TO FINANCIAL STATEMENTS CONTINUED

14. CASH AND CASH BALANCES

	2009 R'000	2008 R'000
Coins and bank notes	62,014	67,610
Balances with other banks	408,209	284,406
	470,223	352,016

15. INVESTMENTS

Held as available-for-sale	1,722	1,601
Held to maturity	234,518	527,759
- Money market instruments	234,518	527,759
Designated at fair value through profit and loss	1,688,872	1,249,781
- Capital market instruments	402,669	402,852
- Money market instruments	1,240,489	817,078
- Central bank securities	45,714	29,851
	1,925,112	1,779,141

16. TRADE RECEIVABLES AND OTHER ASSETS

Other accounts receivable	2,027	619
Operating account – Teba Ltd	1,631	1,631
Prepayments	10,352	5,089
Amounts due in terms of contract (Refer note 16.1)	4,031	6,678
Trade debtors	19,308	8,076
	37,349	22,093

16.1 Trade receivables and other assets

Total possible contractual receivable	15,833	17,641
Estimated impact of suspensive conditions	(11,802)	(10,963)
	4,031	6,678

This receivable relates to the present value of future cash flows associated with the sale of the discontinued operation. The right to receive these cashflows is dependent on a suspensive condition. This is an area where significant judgement has been applied using operational estimates and assessments.

17. LOANS AND ADVANCES TO CUSTOMERS

	2009 R'000	2008 R'000
Gross loans and advances to customers	672,413	506,829
- Pension backed loans	93,039	52,434
- Other loans	579,374	454,395
Less: Allowances for impairment losses	(127,399)	(101,146)
Loans and advances to customers	**545,014**	**405,683**

A reconciliation of the allowance for impairment losses for loans and advances by class is as follows:

	Note	Pension backed loans	Other loans	Total
At 1 March 2008		(2,067)	(99,079)	(101,146)
Net charge for the year	10	(3,877)	(47,131)	(51,008)
Amounts written off		-	24,755	24,755
At 28 February 2009		**(5,944)**	**(121,455)**	**(127,399)**
At 1 March 2007		(916)	(41,618)	(42,534)
Net charge for the year	10	(1,151)	(59,806)	(60,957)
Amounts written off		-	2,345	2,345
At 29 February 2008		**(2,067)**	**(99,079)**	**(101,146)**

The following is a reconciliation of the specific and portfolio allowances for impairment losses on loans and advances:

	Note	Specific impairment	Portfolio impairment	Total
Balance at 1 March 2008		(81,689)	(19,457)	(101,146)
Net charge for the year	10	(57,653)	6,645	(51,008)
Amounts written off		21,411	3,344	24,755
At 28 February 2009		**(117,931)**	**(9,469)**	**(127,399)**
Balance at 1 March 2007		(42,222)	(311)	(42,532)
Net charge for the year	10	(39,467)	(21,490)	(60,957)
Amounts written off		-	2,345	2,345
At 29 February 2008		**(81,689)**	**(19,457)**	**(101,146)**

18. PROPERTY AND EQUIPMENT

2009	Cost	Accumulated depreciation	Net carrying value
Leasehold improvements	19,976	(9,931)	10,045
Freehold land	2,080	-	2,080
Motor vehicles	3,334	(1,430)	1,904
Furniture and fittings	8,189	(4,825)	3,364
Office equipment	21,803	(14,347)	7,456
Computer equipment	120,338	(66,929)	53,409
ATMs	9,370	(6,536)	2,834
	185,090	(103,998)	81,092
2008			
Leasehold improvements	15,861	(7,072)	8,789
Freehold land	2,583	-	2,583
Motor vehicles	3,189	(1,220)	1,969
Furniture and fittings	6,924	(4,030)	2,894
Office equipment	19,521	(11,272)	8,249
Computer equipment	73,632	(52,180)	21,452
ATMs	9,073	(6,227)	2,846
	130,783	(82,001)	48,782

2009	Opening net carrying value	Acquisitions	Disposals	Impairments	Depreciation	Closing net carrying value
Leasehold improvements	8,789	4,220	(105)	-	(2,859)	10,045
Freehold land	2,583	-	(503)	-	-	2,080
Motor vehicles	1,969	457	(155)	-	(367)	1,904
Furniture and fittings	2,894	1,265	0,000	-	(795)	3,364
Office equipment	8,249	2,282	0,000	-	(3,075)	7,456
Computer equipment	21,452	50,227	(2,883)	-	(15,387)	53,409
ATMs	2,846	734	-	-	(746)	2,834
	48,782	59,185	(3,646)	-	(23,229)	81,092
2008						
Leasehold improvements	8,940	2,340	-	-	(2,491)	8,789
Freehold land	2,664	-	(81)	-	-	2,583
Motor vehicles	2,397	790	(873)	-	(345)	1,969
Furniture and fittings	2,722	837	-	-	(666)	2,894
Office equipment	9,295	1,769	-	-	(2,816)	8,249
Computer equipment	17,244	17,115	-	(2,272)	(10,635)	21,452
ATMs	3,588	213	-	(39)	(916)	2,846
	46,850	23,065	(954)	(2,312)	(17,868)	48,782

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

19. INTANGIBLE ASSETS

	Cost	Accumulated amortisation	Net carrying value
2009			
Software development cost	14,161	(1,134)	13,027
	14,161	**(1,134)**	**13,027**

	Cost	Accumulated amortisation	Net carrying value
2008			
Software development cost	2,711	(301)	2,410
	2,711	**(301)**	**2,410**

	Opening net carrying value	Acquisitions	Disposals	Impairments	Amortisation	Closing net carrying value
2009						
Software development cost	2,410	11,450	-	-	(833)	13,027
	2,410	**11,450**	**-**	**-**	**(833)**	**13,027**

	Opening net carrying value	Acquisitions	Disposals	Impairments	Amortisation	Closing net carrying value
2008						
Software development cost	-	2,711	-	-	(301)	2,410
	-	**2,711**	**-**	**-**	**(301)**	**2,410**

20. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

			2009			2008
	Assets R'000	Liabilities R'000	Net R'000	Assets R'000	Liabilities R'000	Net R'000
Provisions	7,840	-	7,840	4,240	-	4,240
Leave pay accrual	1,807	-	1,807	1,939	-	1,939
Unrealised fair value adjustment	-	(253)	(253)	356	-	356
Straight lining of lease and admin fees	8,430	-	8,430	2,966	-	2,966
Impairments – Loans and advances	1,988	-	1,988	4,035	-	4,035
Prepaid expenses	-	(659)	(659)	-	(1,012)	(1,012)
Unrealised gains on available-for-sale investment	-	(131)	(131)	-	(224)	(224)
Effect of tax rate change	-	-	-	162	-	162
Net tax assets/(liabilities)	**20,065**	**(1,043)**	**19,022**	**13,698**	**(1,236)**	**12,462**

Movements in temporary differences during the year

	2009 R'000	2008 R'000
Provisions	3,747	2,134
Unrealised gains on available-for-sale investment	85	(224)
Effect of tax rate change	(586)	162
Leave pay accrual	(66)	66
Unrealised fair value adjustment	(597)	356
Straight lining of lease and admin fees	5,566	1,989
Impairments	(1,907)	3,969
Prepaid expenses	318	(683)
Net tax assets/(liabilities)	**6,560**	**7,769**

21. TRADE PAYABLES AND OTHER LIABILITIES

	2009 R'000	2008 R'000
Unallocated deposits	4,390	173
Deferred income – DFID grant	448	1,045
PAYE and UIF accruals	(720)	1,775
Liabilities under operating leases	1,458	2,424
Deferred income – Administration fees	28,648	8,169
Sundry accruals	1,905	2,118
Trade creditors	21,121	9,693
System clearing accounts	7,408	10,210
Sundry creditors	23,134	50,553
	87,792	86,159

22. DEPOSITS AND SAVINGS DUE TO CUSTOMERS

Deposits and savings due to customers	2,348,236	1,959,221
Interest accrued	13,124	6,898
	2,361,360	1,966,119

The average interest rate during 2009 for deposits by customers was 2.39% (2008: 1.76%).

23. PROVISIONS

	Opening	Provision made during the year	Provision release during the year	Closing balance
2009	R'000	R'000	R'000	R'000
Provision for Leave Pay	6,926	-	(473)	6,453
Bonus provision	15,142	27,500	(14,642)	28,000
	22,068	27,500	(15,115)	34,453
2008				
Provision for Leave Pay	-	6,926	-	6,926
Bonus provision	7,263	15,142	(7,263)	15,142
	7,263	22,068	(7,263)	22,068

24. SHARE CAPITAL AND SHARE PREMIUM

	2009 R'000	2008 R'000
Authorised		
25 000 000 Ordinary shares of R1 each	25,000	25,000
Issued and fully paid		
24 500 000 Ordinary shares of R1 each	24,500	24,500
Share premium		
Ordinary shares	220,500	220,500
Share issue expenses written off	(125)	(125)
	220,375	220,375
Available-for-sale reserve		
Unrealised gains on available-for-sale investment	1,481	1,376

25. LONG-TERM INCENTIVE PLAN

Expense arising from long-term incentive plan	12,439	-

The long term incentive plan was approved by the Remuneration Committee as part of the overall reward framework. The plan comprises a weighted annual mix of appreciation and performance aspects and Teba Bank Limited's performance.

26. CONTINGENT LIABILITIES AND COMMITMENTS

The following tables summarise the nominal principal amount of contingent liabilities and commitments with off-balance sheet risk.

	2009 R'000	2008 R'000
Commitments		
Capital expenditure authorised but not committed	90,253	81,116
Capital expenditure authorised and committed	7,468	9,073
	97,721	90,189

Operating lease commitments

Where a company is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

	2009 R'000	2008 R'000
No later than 1 year	8,041	7,526
Later than 1 year and no later than 5 years	12,432	14,619
	20,473	22,145

27. NET FOREIGN CURRENCY EXPOSURES

	2009		2008	
	USD R'000	ZAR R'000	USD R'000	ZAR R'000
Balances with other banks (included in note 14)	118	1174	116	868
US exchange rate				
- year end	9.9845		7.4923	
- average	8.7031		7.0875	

28. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions, or one other party controls both.

Teba Limited

Teba Limited was regarded as a related party in 2008 as the companies shared a common director – Dr GR Herbert. However the status as a related party ceased to exist on the resignation of Dr GR Herbert from the Teba Bank board.

Teba Bank Controlling Company

Teba Bank Controlling Company is the 100% shareholder of Teba Bank.

Teba Fund

Teba Fund is the trust which owns Teba Bank Controlling Company and is the ultimate parent of Teba Bank.

Transactions with Directors and Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Teba Bank Limited (directly or indirectly) and comprise the Directors and Officers of Teba Bank Limited.

Details of transactions between Directors and other Key Management Personnel (and their connected persons) and the Bank are as follows:

	Directors, other Key Management Personnel and connected persons	
	2009 R'000	2008 R'000
Loans and advances: Non-executive: As director	-	-
Executive: As director	-	-
Other key management personnel (EXCO)	25	12
	25	12

Remuneration of Directors and other Key Management Personnel

	Directors, other Key Management Personnel and connected persons	
	2009 R'000	2008 R'000
Salaries and other short-term benefits		
Non-executive	856	761
Executive	5,910	8,262
Other key management personnel (EXCO)	12,157	6,106
	18,923	15,129

NOTES TO FINANCIAL STATEMENTS CONTINUED

29. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2009 R'000	2008 R'000
Profit before tax	60,435	76,843
Adjustments for non-cash flow items:		
Profit on disposal of property and equipment	(2,120)	(1,194)
Losses from foreign exchange transactions	(247)	(44)
Loss on disposal of property and equipment	50	262
Unrealised gains on available-for-sale investment	-	1,376
Amortisation	1,134	301
Straight-lining of operating lease	(966)	451
Fair value adjustment on short-term investments	(1,804)	1,273
Fair value gain on accounts receivable	840	1,437
Impairment of property and equipment	-	2,311
Straightlining of admin fees received	20,479	6,774
Depreciation	23,229	17,869
Impairment of advances	51,008	60,957
	152,038	168,616
Movement in working capital:		
Increase in trade receivables and other assets	(16,095)	(618)
(Decrease) increase in trade payables and other liabilities	(5,495)	29,107
Net increase in trade assets	130,448	197,105
Taxation:		
Income statement	(9,935)	(13,711)
Deferred taxation balance movement	(6,560)	(7,770)
Current tax asset movement	8,388	(5,573)
	(8,107)	(27,054)

30. RESIDUAL MATURITY ANALYSIS

The residual maturity (i.e. remaining maturity) for all assets and liabilities, as reported within the ALCO risk management process is summarised below:

2009	On demand R'000	Within 1 year R'000	From 1 year to 5 years R'000	More than 5 years R'000	Total R'000
Assets					
Cash and cash balances	470,223	-	-	-	470,223
Investments	201,356	1,303,729	420,027	-	1,925,112
Trade receivables and other assets	-	37,349	-	-	37,349
Loans and advances to customers	-	489,017	55,997	-	545,014
Property and equipment	-	81,092	-	-	81,092
Intangible assets	-	13,027	-	-	13,027
Current tax asset	-	8,326	-	-	8,326
Deferred taxation	-	19,022	-	-	19,022
Total assets	**671,579**	**1,951,562**	**476,024**	**-**	**3,099,165**
Liabilities					
Trade payables and other liabilities	-	87,792	-	-	87,792
Deposits and savings due to customers	1,896,706	451,982	12,672	-	2,361,360
Provisions	-	34,453	-	-	34,453
Total liabilities	**1,896,706**	**574,227**	**12,672**	**-**	**2,483,605**
Equity					
Share capital and share premium	-	-	-	244,875	244,875
Available-for -sale reserve	-	-	-	1,481	1,481
Retained earnings	369,204	-	-	-	369,204
Total equity	**369,204**	**-**	**-**	**246,356**	**615,560**
Total liabilities and equity	**2,265,910**	**574,227**	**12,672**	**246,356**	**3,099,165**

30. RESIDUAL MATURITY ANALYSIS (CONTINUED)

2008	On demand R'000	Within 1 year R'000	From 1 year to 5 years R'000	More than 5 years R'000	Total R'000
Assets					
Cash and cash balances	352,016	-	-	-	352,016
Investments	201,362	1,374,688	203,091	-	1,779,141
Trade receivables and other assets	-	22,093	-	-	22,093
Loans and advances to customers	-	295,013	110,670	-	405,683
Property and equipment	-	18,919	29,863	-	48,782
Intangible Assets		904	1,506		2,410
Current tax asset	-	16,714	-	-	16,714
Deferred taxation	-	12,462	-	-	12,462
Total assets	**553,378**	**1,740,793**	**345,130**	**-**	**2,639,301**
Liabilities					
Trade payables and other liabilities	-	93,085	-	-	93,085
Deposits and savings due to customers	-	1,957,558	8,561	-	1,966,119
Provisions	-	15,142	-	-	15,142
Total liabilities	**-**	**2,065,785**	**8,561**	**-**	**2,074,346**
Equity					
Share capital and share premium	-	-	-	244,875	244,875
Available-for-sale reserve	-	-	-	1,376	1,376
Retained earnings	318,704	-	-	-	318,704
Total equity	**318,704**	**-**	**-**	**246,251**	**564,955**
Total liabilities and equity	**318,704**	**2,065,785**	**8,561**	**246,251**	**2,639,301**

31. CLASSIFICATION OF FINANCIAL INSTRUMENTS

2009	Loans and receivables R'000	Held to Maturity R'000	Designated at fair value through profit and loss R'000	Held as Available for sale R'000	Non-financial assets R'000	Total R'000
Assets						
Cash and cash balances	470,223	-	-	-	-	470,223
Investments	-	234,518	1,688,872	1,722	-	1,925,112
Trade receivables and other assets	37,349	-	-	-	-	37,349
Loans and advances to customers	545,014	-	-	-	-	545,014
Intangible assets	-	-	-	-	8,326	8,326
Property and equipment	-	-	-	-	81,092	81,092
Current tax asset	-	-	-	-	13,027	13,027
Deferred taxation	-	-	-	-	19,022	19,022
Total assets	**1,052,586**	**234,518**	**1,688,872**	**1,722**	**121,467**	**3,099,165**

2008	Loans and receivables R'000	Held to Maturity R'000	Designated at fair value through profit and loss R'000	Held as Available for sale R'000	Non-financial assets R'000	Total R'000
Assets						
Cash and cash balances	352,016	-	-	-	-	352,016
Investments	-	527,759	1,249,781	1,601	-	1,779,141
Trade receivables and other assets	22,093	-	-	-	-	22,093
Loans and advances to customers	405,683	-	-	-	-	405,683
Intangible assets	-	-	-	-	2,410	2,410
Property and equipment	-	-	-	-	48,782	48,782
Current tax asset	-	-	-	-	16,714	16,714
Deferred taxation	-	-	-	-	12,462	12,462
Total assets	**779,792**	**527,759**	**1,249,781**	**1,601**	**80,368**	**2,639,301**

NOTES TO FINANCIAL STATEMENTS CONTINUED

ANNEXURE A: RECLASSIFICATIONS
BALANCE SHEET AS AT 28 FEBRUARY 2009

	Notes	As previously reported R'000	Reclassification R'000	Reclassified balance R'000
ASSETS				
Cash and cash balances		352,016	-	352,016
Investments		1,779,141	-	1,779,141
Trade receivables and other assets		22,093	-	22,093
Loans and advances to customers		405,683	-	405,683
Current tax asset		16,714	-	16,714
Property and Equipment		48,782	-	48,782
Intangible Assets		2,410	-	2,410
Deferred taxation		12,462	-	12,462
TOTAL ASSETS		**2,639,301**	**-**	**2,639,301**
LIABILITIES				
Trade payables and other liabilities	1	93,085	(6,926)	86,159
Deposits and savings due to customers		1,966,119	-	1,966,119
Provisions	1	15,142	6,926	22,068
TOTAL LIABILITIES		**2,074,346**	**-**	**2,074,346**
EQUITY				
Share capital and share premium		244,875	-	244,875
Available for sale reserve		1,376	-	1,376
Retained earnings		318,704	-	318,704
TOTAL EQUITY		**564,955**	**-**	**564,955**
TOTAL LIABILITIES AND EQUITY		**2,639,301**	**-**	**2,639,301**

Notes

1. Reclassification of Leave Pay provision
   The Leave Pay provision has been reclassified from Sundry Accruals to Provisions due to fair presentation.

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