

Corporate governance

The Boards of Directors of the Company and the Bank (collectively referred to as “the Board”) hold joint Board meetings. The Board aims to entrench the collective behaviours and practices in the Group that will ensure good governance. The Board subscribes to and is committed to ensuring that the Group complies with the principles and standards set out in the code of corporate practices and conduct expressed in King II and is satisfied that the Group complied in all material respects with these principles throughout the year under review.

Although the date of this report precedes the effective date of the application of King III, the Board has performed a current state assessment and statements with regard to the implementation of King III principles are included in this report. Subsequent progress will be on the Board’s agenda for 2010.

The following is a summary of the corporate governance processes of the Group for the year ended 31 December 2009:

1. Board of Directors

The Board exercises effective control over the Group and gives strategic direction to the Bank’s management.

Key responsibilities of the Board assisted by its Board Committees are to:

- approve the Group’s strategy, vision and objectives and monitor/review the implementation thereof;
- approve and annually review the Group’s limits of authorities;
- annually review corporate governance processes and assess the achievement of these against objectives set;
- annually review its charter and approve changes to the charters of the Board Committees;
- annually review and approve the non-executive Directors’ remuneration and submit such for approval and ratification by shareholders at the AGM;
- annually review and approve executive Directors’ remuneration and/or increases thereto and agree the remuneration of executive management;
- consider, approve, govern and review long-term incentive remuneration structures for the Group;
- annually approve the Group’s budget (includes capital expenditure);

- be accountable for financial, operational and internal systems of control and overall risk management;
- approve changes to the Group’s financial and accounting policies;
- review and approve the audited financial statements and interim results;
- be responsible for ensuring that the Group complies with all relevant laws, regulations and codes of business practice and codes of ethics;
- appoint appropriate Board Committees and determine the composition thereof; and
- annually approve the Board and Board Committees’ self-evaluations conducted on their effectiveness.

The Board comprises non-executive and executive Directors with different skills, professional knowledge and experience, with independent non-executive Directors comprising the majority on the Board. For detail on the composition of the Board, the frequency of meetings and attendance thereof, refer to Annexure A to this document. The roles of the Chairman of the Board and CEO, who are appointed by the Board, are separated, thereby ensuring a clear division of responsibilities at the head of the Group. The Chairman of the Board is an independent non-executive Director.

Non-executive Directors offer independent and objective judgement and, apart from their fees, there are no extraneous factors that could materially affect their judgement. If there is an actual or potential conflict of interest, the Director (executive or non-executive) concerned, after declaring his/her interest in terms of the Companies Act, is excluded from the related decision-making process.

The identification of suitable candidates to fill vacancies on the Board and to re-appoint Directors on termination of their term of office is conducted by the Directors’ Affairs Committee. This Committee’s nominations are submitted to the Board for approval, subject to the SARB having no objections to the nominations of new appointments. Any person appointed to fill a casual vacancy or as an addition to the Board, will retain office only until the next AGM unless the appointment is confirmed at that meeting.

Corporate governance (continued)

1. Board of Directors (continued)

All Directors except the CEO, who had a five-year service contract, retire on a three-year rotational basis. The service contract of the CEO was renewed for three years on expiry of his contract in March 2009. The service contract of Mr Lopes, an executive director seconded by the major shareholder, was renewed for three years upon expiry of his contract on 8 November 2008. Directors are required to retire from the Board at age 70. The Board can however decide that a Director continues in office beyond this age. Such Director is still subject to retirement by rotation provisions as explained above.

During the past year the Board commenced its search for an Executive Director Finance (whose portfolio will include other executive areas of responsibility). A suitable candidate has been identified and is expected to take up his position by 1 June 2010. The JSE has granted the Group an extension until this date to comply with its JSE Listings Requirements based on the existing skills present in the Group. This appointment will add to the skills, knowledge, judgement and experience of the Board and will ensure compliance with both the JSE Listings Requirements and King III. The Board is comfortable that the duties required from the Financial Director have been appropriately discharged for the period under review by the CEO as assisted by the head of Finance and other senior managers,

The Board operates in terms of a charter, which defines its duties, responsibilities and powers. The charter is reviewed annually. The evaluation of the performance of the Board as a whole is conducted annually by means of a self-evaluation process. An evaluation of the Chairman is conducted by the other Directors. The evaluation of individual non-executive Directors' performance is conducted on a bilateral basis between the Chairman and each Director.

At 31 December 2009, the Board, which has a unitary board structure, comprised eight Directors, of which two were executives. No changes to the composition of the Board took place during the year under review. All the non-executive Directors are classified as independent. In accordance with King III an annual evaluation of the independence of non-executive Directors will be included in the performance evaluation of these Directors. Three of the non-executive Directors are classified as black in terms of the relevant legislation, one of whom is a woman. The Board is satisfied that its composition currently reflects an appropriate balance in this respect.

The Board has unrestricted access to all company information, records, documents, property and management. If necessary, Directors are entitled to obtain independent professional advice at the Group's expense.

2. Group Secretary

The appointment and removal of the Group Secretary is a matter for consideration by the Board as a whole. The Group Secretary ensures that statutory and regulatory procedures are complied with and acts as custodian of good governance. The Group Secretary attends all Board and Board Committee meetings and has unfettered access to the Chairman. The Group Secretary provides a central source of advice and guidance on business ethics, compliance with good corporate governance and changes in legislation, assisting the Board as a whole and its members individually with guidance as to how their duties, responsibilities and powers should be adequately discharged and exercised in the best interests of the Group.

The Group Secretary also maintains and regularly updates a corporate governance manual, copies of which are distributed to all Directors, and organises and conducts a Board-approved induction programme to familiarise new Directors with the Group's operations, their fiduciary duties and responsibilities, and the Group's corporate governance processes. The Group Secretary assists the Board in developing a training framework annually to assist the non-executive Directors with continuous development as Directors and in particular in a banking environment. The Group Secretary is not a director of Mercantile.

The previous Group Secretary, Ms R van Rensburg, resigned and vacated the office on 31 July 2009 and was replaced by Ms A de Villiers with effect from 1 January 2010. An acting Secretary was appointed on contract for the period 1 September 2009 to 31 December 2009.

3. Board Committees

To assist the Board in carrying out its duties and responsibilities, a number of Board Committees exist. This does not relieve the Board of any of its responsibilities and the Board critically evaluates the recommendations and reports of these committees before approving such recommendations or accepting such reports. These Committees all operate in terms of approved charters, which define their roles. All Board Committees' charters are reviewed annually and approved by the Board.

Corporate governance (continued)

3. Board Committees (continued)

The performance of Board Committees, based on the duties and responsibilities set out in the respective charters, are evaluated annually by means of a self-evaluation process, which results are discussed at the Board Committee concerned and then reviewed and approved by the Board.

For detail on the composition of the Board Committees, frequency of meetings and attendance thereof, refer to Annexure A.

All Directors who are not members of the Board Committees may attend Board Committee meetings but will not be able to participate in the proceedings without the consent of the relevant chairman and will not have a vote.

All Directors who are not Board Committee members receive copies of the documentation sent to the Board Committees from time to time.

Further details on the Board Committees are provided below.

3.1 GAC

The GAC comprises three independent non-executive Directors, one of whom acts as Chairman, who is not the Chairman of the Board. The CEO attends GAC meetings as a permanent invitee. The Board is satisfied that the collective skills of the members of the GAC are appropriate relative to the size and circumstances of the Company.

GAC meetings are held at least four times per annum. The meetings of the GAC are attended by the head of Internal Audit, the External Auditors, the head of Risk, the Compliance Officer, the head of Finance, the head of Alliance Banking and Support Services and the head of Treasury. If a special meeting is called the attendance of non-members is at the discretion of the Chairman of the GAC. The head of Internal Audit, the Compliance Officer, the head of Finance, the Head of Risk, the CEO and the External Auditors have unrestricted access to the Chairman of the GAC. As defined in its charter, the primary objective of the GAC is to assist the Board to fulfil its responsibilities relative to:

- financial control and reporting;
- compliance with statutory and regulatory legislation which includes but is not limited to the Banks Act, Companies Act, the Listings Requirements of the JSE, common law, IFRS and tax legislation;
- corporate governance;
- risk management; and
- shareholder reporting.

Inter alia, the Committee reviews accounting policies, the audited annual financial statements, interim results, internal and external auditors' reports, regulatory public disclosures required in terms of the Bank Regulations, the adequacy and efficiency of internal control systems, the effectiveness of management information systems, the internal audit process and the Bank's continuing viability as a going concern and its complaint-handling duties in terms of the Companies Act. The Compliance Officer also gives feedback to the Committee on compliance issues and updates on changes to legislation, which could have an impact on the Group.

The External Auditors' appointment is recommended by the GAC and approved at the AGM. The GAC reviews the External Auditors' terms of engagement and fees and also pre-approves an engagement letter on the principles of what non-audit services the External Auditors' could provide. The Chairman of the GAC meets with the External Auditors separate from management at least annually.

The GAC carried out its function during the year by considering all information provided by management for discussion: decision and or recommendation to the Board for approval, at its meetings (refer to Annexure A). The GAC has fulfilled its responsibilities in terms of its charter during the year under review.

The GAC has satisfied itself as to the independence of the External Auditors.

The GAC considers the annual financial statements of the Group to be a fair presentation of its financial position and the results of operations and cash flows for the year ended 31 December 2009, in terms of IFRS, the Companies Act, the Banks Act and the JSE Listings Requirements.

Corporate governance (continued)

3. Board Committees (continued)

3.2 RMC

The RMC comprises five members, three of whom are independent non-executive Directors, the CEO and an executive Director. The Chairman of the Board currently chairs this Committee.

RMC meetings are held at least four times per annum. The RMC meetings are attended by the head of Risk, the head of Treasury Middle Office and Asset and Liability Management, the head of Finance, the head of Credit, the head of Alliance Banking and Support Services, the Compliance Officer, the head of Treasury and the head of Internal Audit.

As defined in its charter, the RMC's objectives are to:

- assist the Board fulfil its risk management and control responsibilities in the discharge of its duties relating to risk and control management, assurance, monitoring and reporting of all risks identified and managed through the Enterprise-wide Risk Management Framework;
- provide monitoring and oversight of the risk management process;
- facilitate communication between the Board, the GAC, Internal Auditors, Compliance and other parties engaged in the risk management activities;
- ensure the quality, integrity and reliability of the Group's risk management and control;
- review the Group's process and allocation of capital and the capital management policy; and
- provide an independent and objective oversight and review of the information presented by management on risk management generally and specifically, taking into account reports by management and the GAC to the Board on financial, operational and strategic risks.

The RMC has fulfilled its responsibilities in terms of its charter during the year under review.

For more detailed information relating to the risk management of the Group refer to pages 60 to 73.

3.3 Directors' Affairs Committee

This Committee comprises all the non-executive Directors on the Board. The Chairman of the Board chairs this Committee and the CEO attends the meetings by invitation. Meetings are held at least four times per annum.

As defined in its charter, the primary objectives of this Committee are to:

- assist the Board determination, evaluation and monitoring of the appropriateness and effectiveness of the corporate governance structures, processes, practices and instruments of the Group;
- assist the Board in ensuring that the Group is compliant in all material aspects with King II and other corporate governance practices;
- establish and maintain a continuity plan for the Board;
- be responsible for the process of Board nominations and appointments for recommendation to the Board and in doing so, review the skills, experience and other qualities required for the effectiveness of the Board;
- ensure that a management succession plan is in place; and
- assist the Board in determining whether the employment/appointment of any Directors should be terminated (excludes resignations).

The Directors' Affairs Committee has fulfilled its responsibilities in terms of its charter during the year under review.

3.4 Remuneration Committee

This Committee comprises all the independent non-executive Directors of the Board excluding the Chairman of the Board. Mr Njikizana was appointed a member of this Committee on 24 February 2009. An independent non-executive Director chairs this Committee and the CEO attends the meetings by invitation. The Committee must meet at least twice per annum.

Corporate governance (continued)

3. Board Committees (continued)

3.4 Remuneration Committee (continued)

As defined in its charter, this Committee's primary objectives are to:

- assist the Board in determining the broad policy for executive and senior management remuneration and the Bank's remuneration philosophy (refer to item 5 below for further detail);
- assist the Board in the consideration of share-based long-term incentive schemes;
- assist the Board in reviewing the remuneration of the executive Directors and Company Secretary; and
- assist the Board in reviewing the non-executive Directors' fees.

The Remuneration Committee has fulfilled its responsibilities in terms of its charter during the year under review.

3.5 Transformation Committee

This Committee comprises three independent non-executive Directors, one of whom acts as Chairman, and the CEO. This Committee must meet at least four times per annum.

As defined in its charter, this Committee's primary objectives are to:

- assist the Board in determining the targets to be achieved and the monitoring of the progress towards achieving these targets in respect of the following key BEE initiatives as laid down in the Broad-Based BEE Act No. 53 of 2003 and the FSC:
 - employment equity targets for the various levels of management and other employees;
 - skills development programmes to promote black skills;
 - procurement from BEE-accredited companies;
 - corporate social investment;
 - the amount of black SME loan approval;
 - the composition of the Board of Directors in relation to gender and black people; and

- assist the Board in determining which black individuals/entities should be considered for direct ownership in the Group.

The Transformation Committee has fulfilled its responsibilities in terms of its charter during the year under review.

3.6 Technology Committee

This Committee, which is a Committee of the Bank, comprises two independent non-executive Directors and two executive Directors. An independent non-executive Director chairs this Committee. This Committee was formed in 2006 to monitor and manage a special project of the Bank relating to the replacement of its core banking system. The Technology Committee fulfilled its charter for the 2009 year and will continue to fulfil its oversight role pending implementation of the new banking system. The Board recognises the strategic importance of information technology and is considering delegating the governance thereof to this Committee to assist the Board in discharging its obligations in this regard in accordance with the provisions of King III.

4. Management Committees

A number of Management Committees have been formed to assist executive management and the Board in carrying out its duties and responsibilities. These are:

- ALCO
- CREDCOM
- Employment Equity Committee
- Retail/Commercial EXCO
- Treasury EXCO
- Alliance Banking EXCO
- Human Resources Committee
- IT Steering Committee; and
- Procurement Committee

All these Committees operate in terms of their charters, which define their duties and responsibilities.

Non-executive Directors may attend any Management Committee meetings.

Corporate governance (continued)

5. Remuneration philosophy

The main purpose of the remuneration philosophy adopted in the Group is to promote performance-based and equitable remuneration practices.

In order to attract, motivate and retain staff the Group ensures that remuneration practices are fair, equitable and competitive. The three main components of remuneration are described below.

The total guaranteed package concept gives all employees a certain degree of flexibility as they can structure their packages to include a 13th cheque, select the appropriate level of travel allowance (in accordance with SARS' regulations) and choose the appropriate medical plan. External equity is ensured by comparing packages to market levels through salary surveys. This is done at least once a year prior to the annual salary review processes. Increases and movements in individual pay levels are based on performance, levels of competence and current position/pay level against market. The market median pay level for the comparative position is used as a guideline.

Short-term incentives are important to support the pay-for-performance philosophy and is an important component of variable pay. The current incentive bonus scheme was introduced in 2004. The scheme is reviewed on an annual basis.

The third element of the remuneration mix is long-term incentives. The purpose of this element is to attract and reward key staff members whose contribution within the next three to five years is viewed as critical and whose retention is regarded as a priority. A new long-term incentive scheme, the Conditional Share Plan, was introduced in 2008 to replace the previous share option scheme. If at a future date the Board wishes to use the share option scheme it would be able to do so.

In anticipation of the implementation of King III, the remuneration philosophy has been embodied in a remuneration policy which will be presented to the Board for review and approval. The policy on the remuneration of executive Directors is consistent with that of senior management. Non-executive Directors receive fees for their services as Directors of the Group and for services rendered as members of the various Board Committees. Foreign exchange impact is taken into account for Directors who are non-resident.

6. Internal Audit function

The Internal Audit function forms part of the overall risk management and governance process within Mercantile. The head of Internal Audit, who reports functionally to the Chairman of the GAC and administratively to the CEO, performs a function independent from any other function in the Group. She has direct and unrestricted access to the Chairman of the GAC, the CEO, the Chairman of the RMC and the Chairman of the Board.

The GAC must concur with any decision to appoint or dismiss the head of Internal Audit.

The Internal Audit Charter, which governs Internal Audit's activity in the Group, was reviewed and revised by the Board during the year. The charter defines the role, objectives, authority and responsibility of the Internal Audit function in line with the requirements of the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors as well as the requirements of regulation 48 of the Banks Act.

All significant operations, business activities and support functions are subject to Internal Audit review. The audit plan is risk based and is drawn up annually and approved by the GAC. Audits are conducted according to a risk-based approach and the audit plan is updated quarterly to reflect any changes in the risk profile of the Group. This updated plan is then presented to the GAC for review and approval.

Internal Audit is responsible for reviewing the adequacy and effectiveness of control and governance processes throughout the Group. Any significant or material control weaknesses are reported to management, the GAC and/or the RMC for consideration and the necessary remedial action is then taken.

Internal Audit also works closely with Risk and Compliance to ensure that audit issues of an ethical, compliance or governance nature are made known and appropriately resolved. The Compliance and Risk functions are also reviewed by Internal Audit in accordance with the annual audit plan.

To complement the Group Internal Audit function:

- the Bank has entered into a co-sourcing arrangement with KPMG, to provide specialist internal audit skills in the IT and other specialists environments; and
- CGD's Internal Audit Department carries out assignments in accordance with CGD's requirements.

Corporate governance (continued)

6. Internal Audit function (continued)

An independent review of the Internal Audit function was conducted by Deloitte & Touche during quarter three of 2009 to assess its effectiveness against the standards of the Institute of Internal Auditors. The overall assessment found that the function demonstrates some areas of good industry practice compared to local and international banking audit functions, while some areas require improvement. An action plan to implement these improvements is progressing well.

7. External Auditor's services: outsourcing policy

The Group will not contract its External Auditors on an outsourcing basis where such an engagement compromises their independence and, in particular, the following areas are specifically excluded from the services that are procured from the External Auditors:

- bookkeeping or other services related to accounting records or annual financial statements;
- financial information systems design and implementation;
- appraisal or valuation services, fairness opinions or contribution-in-kind reports for financial reporting purposes;
- actuarial services;
- internal audit outsourcing and or co-sourcing;
- performance of management functions;
- as staff-recruitment agent;
- broker-dealer, investment advisor or investment banking services; and
- legal services.

The following is a summary of the policy adopted by the GAC to ensure proper governance and approval of the use of External Auditors to provide non-audit services:

The GAC approved a "Blanket" engagement letter for non-audit services ("the Engagement Letter") on the basis that the External Auditors confirm in writing, prior to providing a service contained in the Engagement Letter, that such service does not impair their independence and that they may provide such service. The GAC has approved that non-audit services, which the External Auditors may provide in terms of the Engagement Letter, with a value of R250 000 or less, may be provided subject to the CEO's approval. A report on these services provided is submitted to the GAC meetings for notification.

The GAC requires that all non-audit services that the External Auditors may provide in terms of the Engagement Letter with a value of more than R250 000 must be submitted to the GAC for approval prior to the External Auditors providing the service.

8. Compliance function

The role of the independent Compliance function is to identify, assess and monitor the statutory and regulatory risks faced by the Group and advise and report to senior management and the Board on these risks. The Compliance function is mandated to make the Board aware of any procedural concerns that may lead to non-compliance and alert members to incidents of non-compliance whilst taking remedial action to avert such incidents. The objective of the Compliance function is to ensure that the Group continuously manages its regulatory and supervisory risks and complies with applicable laws, regulations and supervisory requirements

To ensure the independence of the Compliance function from the business activities of the Group, in accordance with Regulation 49 of the Banks Act, the Board authorised the Compliance function to:

- carry out its responsibilities on its own initiative in all areas of the Group in which regulatory risk may or may not exist;
- ensure it is provided with sufficient resources to enable it to carry out its responsibilities effectively;
- not have direct business line responsibilities; and
- report directly to the Board or a Committee of the Board, whenever necessary.

The Board approved a charter for the Compliance function. At least once a year, the Board will review the charter and its ongoing implementation to assess the extent to which the Group is managing its regulatory risks effectively.

The GAC annually reviews and approves a compliance plan. The GAC monitors the progress against the compliance plan, which sets out training, monitoring and review of compliance with the regulatory requirements in the Group.

The Compliance function keeps senior management and the Board informed about significant regulatory issues and any trends exhibited, and identifies where urgent intervention is needed. The Group's Compliance Officers are charged with developing and maintaining constructive working relationships with regulators and supervisors.

Corporate governance (continued)

8. Compliance function (continued)

Reporting to the Board is in the form of a Level of Compliance Report to both the RMC and the GAC (the same report is also submitted to the SARB, once discussed by the GAC).

The challenge of the increasing pace and organisational impact of regulatory change continued in 2009, with a veritable raft of new regulation and regulatory changes placing additional pressure on banks, and indeed their clients. Arguably, this increased workload has had a disproportionate impact on smaller banks. The focus on consumer protection continued in 2009, marking the introduction of broader and more comprehensive consumer rights in the CPA, which was signed into law in April 2009. The purpose of the CPA is to protect the interests of all consumers who are subject to abuse or exploitation in the market place and to give effect to internationally recognised best practice, while creating a strong culture of consumer rights and responsibilities. The Act is expected to be fully implemented by October 2010.

The NCA, FICA, FAIS and the OHSA, were the key areas that the Compliance Department focused on during the year under review.

The NCA has had a significant impact on credit providers throughout South Africa. The NCA imposes strict requirements on credit providers including affordability assessments, disclosure to consumers, advertising and marketing practices, complaints, pricing and reporting to the National Credit Regulator. Business processes and credit granting procedures have been reformulated to ensure compliance with this local legislation. Compliance carried out extensive training and monitoring audits throughout the year.

As required by FICA, the Compliance Department manages the ongoing monitoring and compliance with anti-money laundering and combating of terrorist financing legislation. In response to international best practice the Bank has developed and implemented a centralised electronic anti-money laundering system that is constantly enhanced. The system is primarily focused on transaction monitoring and detection of potential money laundering activity. Training of staff on anti-money laundering and related topics remains a key focus area and the training material is constantly updated to provide for any changes in legislation, internal best practice and industry trends.

The ongoing implementation of FAIS was the other major imperative for the business and the Compliance function during the year, with the majority of our retail banking staff undergoing further training in the rendering of financial advice and related services, to meet the fit and proper requirements of the legislation. In-house training is also provided to all relevant staff on a regular basis. Reports on compliance with the requirements of FAIS were also completed and submitted to the Financial Services Board during the year.

Compliance risk is managed through internal policies and processes that include legal, regulatory and business specific requirements. A compliance tool was developed to assist management reporting compliance breaches electronically and thereby supporting Compliance in fulfilling its obligations. Regular training and advice is provided to ensure that all employees are familiar with their compliance obligations. Compliance staff independently monitors the business units to ensure adherence to policies and procedures and business specific requirements.

No material incidents of non-compliance were reported during the year under review.

9. Dealing in securities of the Group

The Group's dealings in securities policy ("the policy") complies with the JSE Listings Requirements regarding dealings in the Group's securities by Directors and the Group Secretary. Should any Director and the Group Secretary or their associates wish to trade in the Group's securities, held either directly or indirectly, beneficially or non-beneficially, written clearance must be obtained in advance from the Chairman of the Board or the designated Director for this purpose. The policy also restricts trading by certain individuals employed by the Bank, which includes but is not limited to the senior managers and the Group's long-term incentive schemes participants.

All individuals bound by the policy may not trade during the following periods:

- when the company is trading under a cautionary announcement;
- the period between the end of either the financial year or half-year and release of results pertaining to that period; and
- any period when there exists any matter which constitutes unpublished price-sensitive information.

Corporate governance (continued)

9. Dealing in securities of the Group (continued)

In addition, the policy emphasises that each individual (whether a Director or an employee) is obliged to comply with the provisions of the Securities Services Act No 36 of 2004, which deals with insider trading rules.

The policy is implemented by the Group Secretary who is required to keep a written record of all written clearances given and, as soon as the trade has been executed, to ensure that disclosure is made on SENS in terms of the JSE Listings Requirements.

10. The Code

As a member of the Banking Association of South Africa the Group subscribes to the Code that promotes good banking practices by setting standards for disclosure and conduct, thereby providing valuable safeguards for its clients. The Group aims to conduct its business with uncompromising integrity and fairness to promote complete trust and confidence. In meeting this fundamental objective, the Group conducts its relationships with the regulatory authorities, clients, competitors, employees, shareholders, suppliers and the community at large, by striving for high service levels with veracity, and encourages its employees to acquaint themselves with the Code and honour its precepts.

11. Integrated sustainability reporting (additional reporting not covered elsewhere in the Annual Report)

11.1 Ethical Standards

The Group is committed to high moral, ethical and legal standards and expects all representatives of the Group to act in accordance with the highest standards of personal and professional integrity in all aspects of their activities and to comply with all applicable laws, regulations and the Group's policies.

The Group's commitment is clearly stated in the Group's Code of Ethics which contains a set of standards which the Group believes could contribute to its commercial success, as adherence thereto is a strategic business imperative.

The Board believes that the Group has adhered to the ethical standards during the year under review.

11.2 Talent Management

The initiatives implemented in 2009 are detailed below.

A second group of graduate trainees (Mercantile Trainee Programme ("MTP")) were employed on a two-year training programme.

Work continued on the identification of the Mercantile employment brand or Employee Value Proposition ("EVP"). Following extensive research, consultation with staff and voting process the chosen EVP – Personal and Career Growth was launched internally to staff. The outcome of this initiative should result in more successful and targeted recruitment, motivation and retention strategies for talent. To this end, all shortlisted applicants (internal and external) are now undergoing psychometric assessments.

A framework, guidelines and definitions for the various talent pools (namely middle management/professional, supervisor/specialist as well as an alumni talent pool) were implemented.

11.3 Employee Satisfaction and Commitment

The employee satisfaction and commitment survey that was conducted in 2008 resulted in the following action plans being implemented in 2009

- absenteeism management programme to monitor levels and reasons for absence; and
- flexible work arrangements policy providing staff with the option to work flexi-time.

The attrition rate is monitored on a quarterly basis. The annual 2009 attrition rate of 10.2% is down by approximately 5.4% compared to 2008. There has been a consistent decline in the attrition rate since 2007 (19.6%).

11.4 Brand Values and Culture Transformation

The values underpin and drive the culture transformation process and the customer experience and satisfaction.

The EVP and Employee Survey process referred to are used to shape the culture and measure progress.

Customer satisfaction is a key strategic initiative and a survey is conducted annually to gauge the levels of satisfaction. The Customer Satisfaction Index has been tracked for the past six years and new targets and action plans are implemented every year.

Corporate governance (continued)

11. Integrated sustainability reporting (additional reporting not covered elsewhere in the Annual Report) (continued)

11.5 Employee Wellness

The overall well-being of our employees is regarded as very important and we offer a comprehensive Employee Assistance Programme, provided by an external company, to all our staff. The 24-hour telephone counselling service is supplemented by face-to-face counselling (if required). Issues raised by employees are monitored by the service provider and quarterly reports are provided indicating trends and frequency of usage.

HIV/Aids is a stark reality in South Africa and initiatives are in place to ensure that this gets the required attention. Some of the initiatives are: HIV/Aids policy; awareness training to all staff; and training for managers.

11.6 Safety, Health and Environmental Principles

The Group strives on an ongoing basis to improve its facilities to ensure the safety and wellbeing of its employees during the execution of their duties and of persons who may enter any of its premises. Regular inspections of the workplace are carried out to identify potential hazards and the Group does not hesitate to take and enforce such measures that may be reasonably practicable, to eliminate or mitigate any hazard or potential hazard to the safety of its employees or other persons.

The Group acknowledges that the sound management of natural resources is a cornerstone of sustainable development. As a financial institution Mercantile recognises that its direct environmental impacts are associated primarily with the operation of the Bank's office infrastructure. Systems aimed at reducing resource consumption over time are in place. We continuously explore ways in which to reduce paper, energy and water usage. However, our business through our lending practices, also impacts indirectly on the environment. Assessment and management of environmental risks associated with a particular client or credit application is integral to the credit decision-making process. In order to apply those environmental standards Mercantile is adhering to its Environmental Risk Management Policy.

Mercantile is therefore committed to complying with relevant environmental legislation and regulations applicable to all its operations, as well as incorporating best practice where appropriate.

11.7 Fraud

Credit card fraud:

The Bank is an issuer of Visa credit cards and has, in line with the card association regulations, adopted pro-active measures to prevent fraudulent use of this product.

Monitoring fraud reports are based on a set of parameters prescribed by the card association and perused on a daily basis with the aim to identify fraudulent transactional behaviour. If fraudulent activity is evident further action is taken to prevent future use of the card/card number.

An SMS pilot was introduced in December 2009 where transactions above the floor limit are reported to cardholders to enable a cardholder to take the necessary steps should a card be used fraudulently. It is anticipated that this function will be available to the broader card base towards the end of the first quarter of 2010 and that it will assist in preventing fraud at the earliest possible opportunity.

Confirmed fraudulent transactions are reported to the card association, which determines common trends and alerts the industry accordingly.

Fraud awareness training presentations are conducted throughout the Group. These presentations are conducted at least once a year. In addition to the presentations, newsletters are compiled and disseminated to all staff. The newsletters address a wide range of topics and are not limited to credit card fraud only.

The Group continuously arranges or participates in the training of relevant staff members to keep abreast of developments of the fraud trends and the prevention thereof. They attend workshops presented by the card associations, meetings of industry role players and utilise internet-based sources to stay abreast of fraud trends and the prevention thereof. The Bank also works closely with SABRIC.

Corporate governance (continued)

11. Integrated sustainability reporting (additional reporting not covered elsewhere in the Annual Report) (continued)

11.7 Fraud (continued)

Fraud other than credit card fraud:

Mercantile has adopted a zero tolerance towards all types of fraud and theft.

The Forensic Investigator within Compliance investigates all incidents including credit card fraud.

The Group has established a good working relationship with SABRIC and the Commercial Crime Units of the South African Police Services ("SAPS") throughout South Africa.

An incident is investigated when reported and all related evidence and statements taken. If the incident was perpetrated externally, criminal charges are laid. If the incident was perpetrated internally, disciplinary action is instituted in addition to criminal charges being laid. All incidents are reported to SABRIC and the SAPS.

11.8 Whistleblowing

The Group has a comprehensive Protected Disclosures Policy based on the act bearing the same name. The policy addresses the reporting of corruption and corrupt activities in particular, as well as any improper conduct in general under the Whistleblowing section of the policy. All employees are encouraged to make disclosures in good faith and on reasonable grounds.

All branch employees and affected head office employees received training on what to report on and how to do the reporting. Training is repeated annually. The Policy caters for anonymous reporting, should the employee wish not to disclose his/her name.

An enhanced anonymous reporting system has been developed and was rolled out to employees in 2009. This allows all employees to report directly to Compliance through electronic means. This system is deemed to simplify the anonymous reporting procedure and encourage employees to make use of the process in an efficient manner.

12. Transformation

The Group is fully committed to social and economic transformation and regards it as a key business imperative. Initiatives are driven and directed by the Board and integrated into the Group's strategic business plans. The Transformation Committee monitors the progress of transformation in the Group. The Committee's charter stipulates how transformation will be implemented, monitored and integrated across the Group.

The key elements of the charter, which are based on the FSC Scorecard requirements and aligned to the strategy of the Group, are as follows:

Employment Equity

Transformation in the workplace is an important aspect of employment equity, and the Group strives to provide an environment that values and fosters diversity and equality. This includes developing a culture that supports mutual trust, respect and dignity.

Adherence to the Employment Equity Act No. 55 of 1998 and associated skills development legislation is regarded as essential. The desired results of the employment equity plan are to improve the representation of black people, women and people with disabilities to reflect the demographic profile of the country and prioritising the development and career advancement of the designated groups.

As employment equity is regarded as a key business imperative, it is included in each of the divisions' key result areas. Targets were set for 2009 to 2012 and progress monitored on a quarterly basis. Good progress has been made in the employment of black people in the skilled/junior management and semi-skilled categories and the overall level of representivity of black people has increased from 35.0% in 2004 to 55.3% in 2009. Although some progress has been made on the senior and middle management levels, the challenge remains the attraction, employment and retention of suitably experienced and skilled employment equity candidates for middle management, professional, specialist banking positions and senior management level positions.

Corporate governance (continued)

12. Transformation (continued)

The table below illustrates the number of staff per race category (as defined by the Department of Labour) as at 31 December 2009.

Occupation levels	Male			Female				Male	Foreign nationals		Total
	A	C	I	A	C	I	W	W	Male	Female	
Top management	0	0	0	0	0	0	0	1	1	0	2
Senior management	1	0	0	0	0	0	5	11	0	0	17
Professional qualified and experienced specialists and mid-management	5	2	5	3	1	5	46	36	0	0	103
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	9	4	9	20	17	4	51	16	0	0	130
Semi-skilled and discretionary decision making	31	14	4	55	35	9	22	4	0	0	174
Unskilled and defined decision making	6	0	0	0	0	0	0	0	0	0	6
TOTAL PERMANENT	52	20	18	78	53	18	124	68	1	0	432
Non-permanent employees	0	0	0	0	0	0	3	0	0	0	3
GRAND TOTAL	52	20	18	78	53	18	127	68	1	0	435

*A = African, C = Coloured, I = Indian, W = White

The identification of potential leaders and development of leadership and management skills is another strategic initiative that was identified and in addition to the existing management training, more interventions for the senior managers as well as other managers will be implemented in 2010.

Corporate governance (continued)

12. Transformation (continued)

Skills Development

Various training components were presented in-house over the last year as reflected in the schedule below:

Training programme attendance

Intervention	Number of staff attended
1. Management training	
• Performance management for managers	42
• Corrective counselling and positive discipline	19
• Absenteeism management training	53
• Mentor training for mentors involved in formal mentorship programme	18
2. Customer service and culture	
• Living the brand workshops	7
3. Functional/Technical/Legislative	
• Securities for individuals and non-individuals	11
• NCA	32
• FAIS	72
• ALM training	11
• Change management for HR professionals	5
4. Systems	
• Microsoft Office	43
• IT end-user training	2
5. Other	
• Induction	30
• First aid/Health and safety	43
• Employment Equity Committee training	16
• Mentee training for staff on formal mentorship programme	17
6. Various external training programmes	46

* Please note that these numbers exclude all training related to the implementation of the new core banking system i.e. change management skills for managers, staff and systems training.

Participation in the BANKSETA learnership programme commenced in 2004 and another two groups of learners - graduates and matriculants were employed on a one-year employment contract. The employment and retention of learners from previous programmes has been very successful.

Corporate Social Investment

The Group is committed to the upliftment and transformation of communities and has developed a comprehensive framework for its Corporate Social Investment policy and plan. The implementation of this plan will commence as part of the conclusion of a BEE ownership transaction.

Procurement

A targeted procurement strategy to enhance BEE has been adopted. The objective is to actively promote the effective

and efficient development and support of suppliers and contractors from historically disadvantaged South African enterprises. The principles are detailed in the Group's Procurement Policy.

Loan approval to black SMEs

Targets are in place aimed at identifying opportunities for loans to black SMEs.

Ownership and Control

Discussions and negotiations with two short-listed partners regarding pricing and structure for a proposed 10% BEE equity stake commenced during the year and are ongoing. Detailed information will be published as and when available.

Corporate governance (continued)

13. Annual financial statements

Accounting policies and the basis of accounting on which annual financial statements are prepared, are set out on pages 12 to 21 of this report.

14. Regulation

The Bank Supervision Division of the SARB is the lead regulator for the Group. The Financial Services Board, the National Credit Regulator, the Registrar of Companies and the JSE regulate the various activities of the Group.

15. Communication with stakeholders

The Board communicates with its shareholders in accordance with the Companies Act and JSE Listings Requirements. Appropriate communication is also sent to the employees of the Bank from time to time. The Board has delegated authority to the CEO to speak to investment analysts from time to time. Communication with the SARB, the Registrar of Companies and the JSE is done in compliance with the respective laws/guidelines.

Annexure A

Attendance of meetings by Directors

Name	Date appointed to Board	Board (joint meetings)	Board Committees					
			GAC	RMC	Directors' Affairs	Remuneration	Trans-formation	Techno-logy^
Number of meetings held during the year under review		°5	4	4	4	2	4	6
Director								
J A S de Andrade Campos	26.07.2002	§5/5	#	§3/4	§3/4	#	4/4	#
D J Brown	29.03.2004	5/5	#	4/4	#	#	4/4	6/6
G P de Kock	23.11.2000	5/5	4/4	4/4	4/4	§	2/2	6/6
L Hyne	1.06.2003	5/5	§4/4	4/4	4/4	2/2	#	#
A T Ikalafeng	16.11.2004	5/5	#	#	4/4	2/2	§4/4	#
J P M Lopes	9.11.2005	5/5	#	4/4	#	#	#	5/6
T H Njikizana*	6.11.2008	4/5	4/4	#	3/4	1/2	#	#
S Rapeti	29.07.2005	4/5	#	#	4/4	2/2	4/4	§6/6

Non-member of Committee/permanent invitee. The ad hoc attendance by a director of a meeting that he/ she is not a member of, is not disclosed.

§ Chairman of meeting

° One of which was a two-day strategy Board meeting

^ Board Committee of the Bank. All other Board Committees of the Company were also fulfilling the role of such for the Bank.

* Was appointed to the Remuneration Committee effective 24 February 2009.

Bank Regulations public disclosure

The December 2009 bi-annual disclosure required in terms of Regulation 43 of the Bank Regulations is published on the Group's website.