

## Risk management and control

### Group risk management philosophy

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

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

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

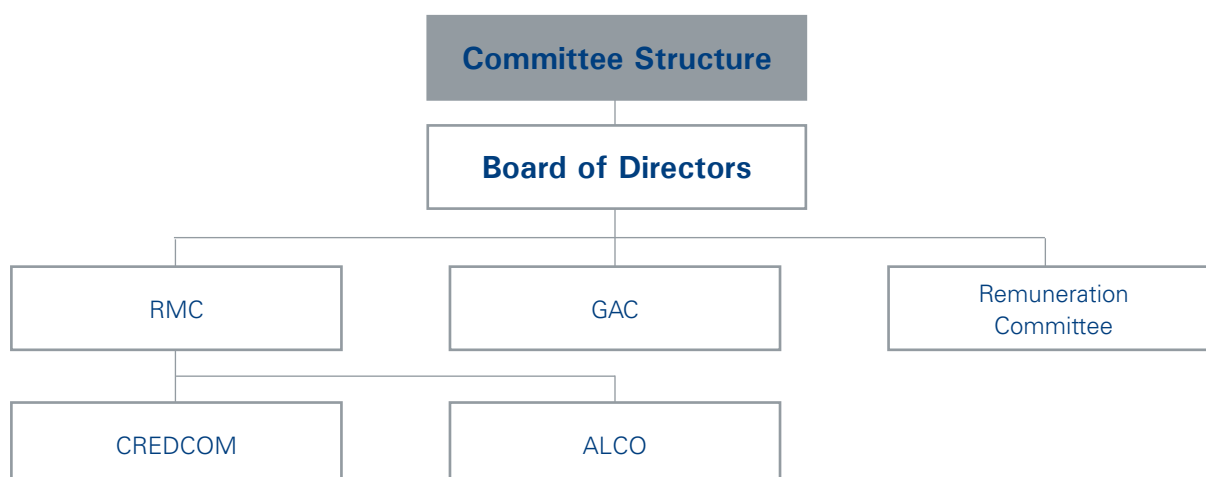
- development and partial implementation of a process of Risk Control Self Assessment across all key areas of the bank. Full implementation in all areas is scheduled for completion during the first quarter 2010;
- establishment of a Treasury Middle Office function for the dedicated management of Treasury-related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

### Enterprise-wide risk management

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

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

## Risk management and control (continued)



### Risk management life cycle/process

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

#### *Risk identification (and comprehension)*

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

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

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

#### *Risk management (as an independent function)*

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

#### *Risk monitoring (and compliance with documented policies)*

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

#### *Risk control (stress testing)*

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

## Risk management and control (continued)

### Management of risk

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

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

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

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

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

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

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

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

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

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

## Risk management and control (continued)

### Management of risk (continued)

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

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

#### Credit risk

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

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

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

At year-end, the Group did not have any significant concentration of risk which had not been adequately provided for. There were no material exposures in advances made to foreign entities at year-end, except for the deposits placed with CGD as disclosed in note 30.2.

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

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

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

## Risk management and control (continued)

### Management risk (continued)

#### Credit risk (continued)

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

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

## Risk management and control (continued)

### Management of risk (continued)

#### Operational risk

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

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

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

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

#### Market risk

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

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

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

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

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

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

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

## Risk management and control (continued)

### Management of risk (continued)

#### Foreign currency risk

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

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

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

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

#### Interest rate risk

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

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

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

## Risk management and control (continued)

### Management of risk (continued)

#### Interest rate risk (continued)

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

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

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

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

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

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

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

## Risk management and control (continued)

### Management of risk (continued)

#### Interest rate risk (continued)

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

	Up to 1 month R'000	1 - 3 months R'000	3 - 12 months R'000	1 - 5 years R'000	Over 5 years R'000	Non- interest sensitive R'000	Total R'000	Effective interest rate %
<b>2009</b>								
<b>Assets</b>								
Intangible assets	–	–	–	–	–	170 325	170 325	–
Property and equipment	–	–	–	–	–	131 483	131 483	–
Tax	–	–	–	–	–	256	256	–
Other accounts receivable	–	–	–	–	–	29 539	29 539	–
Other investments	–	–	–	–	–	23 590	23 590	–
Deferred tax assets	–	–	–	–	–	102 936	102 936	–
Non-current assets held for sale	–	–	–	–	–	5 510	5 510	–
Loans and advances	3 652 205	–	–	62 420	–	(85 051)	3 629 574	12.57
Derivative financial instruments	–	53	–	–	–	21 353	21 406	–
Negotiable securities	19 895	114 007	114 985	–	19 015	–	267 902	9.34
Bank term deposits	–	–	35 276	–	–	–	35 276	7.22
Cash and cash equivalents	1 290 685	–	–	–	–	110 252	1 400 937	7.22
<b>Total assets</b>	<b>4 962 785</b>	<b>114 060</b>	<b>150 261</b>	<b>62 420</b>	<b>19 015</b>	<b>510 193</b>	<b>5 818 734</b>	
<b>Equity and liabilities</b>								
Shareholders' equity	–	–	–	–	–	1 437 671	1 437 671	–
Deferred tax liabilities	–	–	–	–	–	18 870	18 870	–
Deposits	2 676 096	292 106	666 650	5 560	–	606 186	4 246 598	6.73
Derivative financial instruments	6 140	1 438	–	–	–	8 652	16 230	–
Provisions	–	–	–	–	–	38 142	38 142	–
Other accounts payable	–	–	–	–	–	61 153	61 153	–
Tax	–	–	–	–	–	70	70	–
<b>Total equity and liabilities</b>	<b>2 682 236</b>	<b>293 544</b>	<b>666 650</b>	<b>5 560</b>	<b>–</b>	<b>2 170 744</b>	<b>5 818 734</b>	
<b>Financial position interest sensitivity gap</b>	<b>2 280 549</b>	<b>(179 484)</b>	<b>(516 389)</b>	<b>56 860</b>	<b>19 015</b>	<b>–</b>	<b>1 660 551</b>	
<b>Derivative financial instruments</b>	<b>49 684</b>	<b>59 526</b>	<b>–</b>	<b>(70 501)</b>	<b>(38 709)</b>	<b>–</b>	<b>–</b>	
<b>Total net interest sensitivity gap</b>	<b>2 330 233</b>	<b>(119 958)</b>	<b>(516 389)</b>	<b>(13 641)</b>	<b>(19 694)</b>	<b>–</b>	<b>1 660 551</b>	

## Risk management and control (continued)

### Management of risk (continued)

#### Interest rate risk (continued)

	Up to 1 month R'000	1 - 3 months R'000	3 - 12 months R'000	1 - 5 years R'000	Over 5 years R'000	Non- interest sensitive R'000	Total R'000	Effective interest rate %
2008								
<b>Assets</b>								
Intangible assets	–	–	–	–	–	76 894	76 894	–
Property and equipment	–	–	–	–	–	128 672	128 672	–
Other accounts receivable	–	–	–	–	–	39 273	39 273	–
Other investments	–	–	–	–	–	12 315	12 315	–
Deferred tax assets	–	–	–	–	–	157 275	157 275	–
Non-current assets held for sale	–	–	–	–	–	5 289	5 289	–
Loans and advances	3 329 515	–	–	109 470	44 636	(79 832)	3 403 789	15.32
Derivative financial instruments	–	184	–	–	–	56 689	56 873	–
Negotiable securities	24 823	87 275	114 505	–	20 538	–	247 141	11.84
Bank term deposits	–	–	324 295	–	–	–	324 295	9.42
Cash and cash equivalents	947 999	410 808	–	–	–	106 152	1 464 959	9.42
<b>Total assets</b>	<b>4 302 337</b>	<b>498 267</b>	<b>438 800</b>	<b>109 470</b>	<b>65 174</b>	<b>502 727</b>	<b>5 916 775</b>	
<b>Equity and liabilities</b>								
Shareholders' equity	–	–	–	–	–	1 269 030	1 269 030	–
Deferred tax liabilities	–	–	–	–	–	15 259	15 259	–
Deposits	2 274 989	550 288	1 012 189	8 161	–	543 720	4 389 347	8.30
Derivative financial instruments	7 091	1 906	–	–	–	86 094	95 091	–
Provisions	–	–	–	–	–	48 596	48 596	–
Other accounts payable	–	–	–	–	–	98 958	98 958	–
Tax	–	–	–	–	–	494	494	–
<b>Total equity and liabilities</b>	<b>2 282 080</b>	<b>552 194</b>	<b>1 012 189</b>	<b>8 161</b>	<b>–</b>	<b>2 062 151</b>	<b>5 916 775</b>	
<b>Financial position</b>								
<b>interest sensitivity gap</b>	<b>2 020 257</b>	<b>(53 927)</b>	<b>(573 389)</b>	<b>101 309</b>	<b>65 174</b>		<b>1 559 424</b>	
<b>Derivative financial instruments</b>	<b>27 559</b>	<b>119 758</b>	<b>–</b>	<b>(106 331)</b>	<b>(40 986)</b>	<b>–</b>	<b>–</b>	
<b>Total net interest sensitivity gap</b>	<b>1 992 698</b>	<b>(173 685)</b>	<b>(573 389)</b>	<b>207 640</b>	<b>106 160</b>	<b>–</b>	<b>1 559 424</b>	

## Risk management and control (continued)

### Management of risk (continued)

#### Liquidity risk

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

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

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

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

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

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

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

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

## Risk management and control (continued)

### Management of risk (continued)

#### Liquidity risk (continued)

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

	Assets R'000	Liabilities R'000	Total mismatch R'000
<b>2009</b>			
Maturing up to one month	2 186 093	3 382 879	(1 196 786)
Maturing between one and three months	122 559	298 338	(175 779)
Maturing between three and six months	122 715	270 899	(148 184)
Maturing between six months and one year	54 218	396 940	(342 722)
Maturing after one year	2 986 362	13 137	2 973 225
Non-contractual	346 787	18 870	327 917
	<b>5 818 734</b>	<b>4 381 063</b>	<b>1 437 671</b>
<b>2008</b>			
Maturing up to one month	1 894 158	3 008 043	(1 113 885)
Maturing between one and three months	518 300	591 013	(72 713)
Maturing between three and six months	322 211	509 066	(186 855)
Maturing between six months and one year	181 561	505 792	(324 231)
Maturing after one year	2 699 350	17 152	2 682 198
Non-contractual	301 195	16 679	284 516
	<b>5 916 775</b>	<b>4 647 745</b>	<b>1 269 030</b>

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

	Up to 1 month R'000	1 - 3 months R'000	3 - 6 months R'000	6 - 12 months R'000	Over 1 year R'000
<b>2009</b>					
Deposits	3 283 724	295 726	276 889	418 630	6 066
Derivative financial instruments	1 720	5 742	1 190	–	7 578
Other accounts payable	61 153	–	–	–	–
Tax	70	–	–	–	–
Guarantees letters of credit and committed undrawn facilities	506 678	–	–	–	–
Operating lease commitments	1 487	2 974	4 452	8 431	7 011
Capital commitments	17 209	25 814	8 605	–	–
	<b>3 872 041</b>	<b>330 256</b>	<b>291 136</b>	<b>427 061</b>	<b>20 655</b>
<b>2008</b>					
Deposits	2 822 081	565 940	529 882	551 597	9 669
Derivative financial instruments	45 937	37 929	2 774	2 306	6 202
Other accounts payable	98 958	–	–	–	–
Tax	494	–	–	–	–
Guarantees letters of credit and committed undrawn facilities	670 100	–	–	–	–
Operating lease commitments	397	794	1 207	2 080	7 824
Capital commitments	24 738	11 415	17 980	30 497	8 388
	<b>3 662 705</b>	<b>616 078</b>	<b>551 843</b>	<b>586 480</b>	<b>32 083</b>

## Risk management and control (continued)

### Management of risk (continued)

#### Basel II – influencing risk management developments at the Bank

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

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

Basel II places emphasis on 3 pillars:

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

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

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

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

#### Capital management

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

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

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

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

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

## Risk management and control (continued)

### Management of risk (continued)

#### Capital management (continued)

The level of capital for the Bank is as follows:

	<b>2009</b>	2008
	<b>R'000</b>	R'000
<b>Risk weighted assets – Banking book</b>		
Credit risk	3 917 762	3 338 517
Operational risk	775 636	564 151
Market risk	1 914	3 910
Equity	23 561	22 162
Other assets	169 447	375 074
	<b>4 888 320</b>	4 303 814
Primary capital	<b>1 225 749</b>	1 157 213
Share capital and share premium	<b>1 483 299</b>	1 483 299
Reserves	<b>12 231</b>	6 734
Less: Deductions	<b>(269 781)</b>	(332 820)
Secondary capital	<b>19 331</b>	18 418
General debt provisions	<b>19 297</b>	18 384
Fifty per cent of a revaluation surplus	<b>34</b>	34
<b>Net qualifying capital and reserves</b>	<b>1 245 080</b>	1 175 631
Capital adequacy ratio (%)	<b>25.5</b>	27.3
Primary capital (%)	<b>25.1</b>	26.9
Secondary capital (%)	<b>0.4</b>	0.4