Mercantile Bank
Holdings Limited
Member of CGD Group

Annual Report **2009**

your bank, your partner, our focus

Mercantile Bank Holdings Limited

Member of CGD Group

Reg No: 1989/000164/06

Table of contents

The Group and glossary of terms

Mercantile Bank Holdings Limited is a registered bank controlling and investment holding company and its holding company is CGD. Its two principal operating subsidiaries comprise:

Mercantile Bank Limited provides a full range of international and domestic banking services. It operates in selected retail, commercial, corporate and alliance banking niches in which it offers banking, financial and investment services. It is a wholly-owned subsidiary of Mercantile Bank Holdings Limited.

Mercantile Insurance Brokers (Pty) Limited offers life assurance and short-term broking services to the Group and external parties through third-party agreements. Its products encompass the full range available in the market including short-term insurance, pension, health benefits and life assurance. It is a wholly-owned subsidiary of Mercantile Bank Holdings Limited.

Abbreviation	Definition/Description
AGM	Annual General Meeting
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
Bank Regulations	Regulations relating to Banks issued under section 90 of the Banks Act, No. 94 of 1990, as amended
Banks Act	Banks Act, No. 94 of 1990, as amended
BCM	Business Continuity Management
BEE	Black Economic Empowerment
CEO	Chief Executive Officer
CGD	Caixa Geral de Depósitos S.A., a company registered in Portugal
Companies Act	Companies Act, No. 61 of 1973, as amended
CPA	Consumer Protection Act, No. 68 of 2008
CREDCOM	Credit Committee
EXCO	Executive Committee
FAIS	The Financial Advisory and Intermediary Services Act, No. 37 of 2002
FICA	The Financial Intelligence Centre Act, No. 38 of 2001
FSC	Financial Sector Charter
GAC	Group Audit Committee
IFRS	International Financial Reporting Standards and Interpretations
JSE	JSE Limited
King II	King Report on Corporate Governance for South Africa 2002
King III	King Report on Corporate Governance for South Africa 2009
Mercantile	Mercantile Bank Holdings Limited and its subsidiaries
NCA	The National Credit Act, No. 34 of 2005
OHSA	Occupational Health & Safety Act, No 85 of 1993
RMC	Risk and Capital Management Committee
ROA	Return on average assets
ROE	Return on average equity
SABRIC	South African Banking Risk Information Centre
SARB	South African Reserve Bank
the Bank	Mercantile Bank Limited
the Board	Where applicable, the Board of Directors of Mercantile Bank Holdings Limited or collectively the Board of Directors of Mercantile Bank Holdings Limited and Mercantile Bank Limited
the Company	Mercantile Bank Holdings Limited
the Code	Code of Banking Practice
the Group	Mercantile Bank Holdings Limited and its subsidiaries

Board of Directors and administration

at 25 February 2010

Board of Directors

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

* Portuguese
^ Zimbabwean
# Executive
° Independent Non-Executive

Administration

Group Secretary
A de Villiers
(appointed 1 January 2010)

Transfer secretaries
Computershare Investor Services (Proprietary) Limited
70 Marshall Street
Johannesburg
2001 South Africa

Postal address
P O Box 61051
Marshalltown
2107 South Africa

Registered office
1st Floor
Mercantile Bank
142 West Street
Sandown
2196

Postal address
P O Box 782699
Sandton
2146

Five year Group salient features

Years ended 31 December

	2009 R'000	2008 R'000	2007 R'000	2006 R'000	2005 R'000
Statement of financial position					
Total assets	**5 818 734**	5 916 775	4 705 784	4 449 218	3 406 382
Loans and advances	**3 629 574**	3 403 789	2 814 743	2 066 432	1 458 677
Cash and cash equivalents	**1 400 937**	1 464 959	1 252 376	1 683 974	1 408 972
Shareholders' equity	**1 437 671**	1 269 030	839 914	667 418	550 179
Deposits	**4 246 598**	4 389 347	3 768 183	3 539 147	2 636 547
Statement of comprehensive income					
Profit before tax	**217 069**	257 798	165 302	100 643	66 996
Profit after tax	**162 202**	419 973	165 273	100 643	66 996
Headline earnings	**160 633**	410 107	159 684	100 643	68 025
Financial performance ratios (%)					
Return on average equity (before tax)	**17.5**	26.2	21.9	16.5	12.7
Return on average equity (after tax)	**12.0**	39.8	21.9	16.5	12.7
Return on average assets (before tax)	**3.8**	4.9	3.6	2.6	2.2
Return on average assets (after tax)	**2.8**	7.9	3.6	2.6	2.2
Cost to income	**52.7**	49.0	56.4	71.7	91.0
Share statistics (cents)					
Earnings per ordinary share (before tax)	**5.6**	6.6	4.2	2.6	1.7
Earnings per ordinary share (after tax)	**4.1**	10.7	4.2	2.6	1.7
Headline earnings per ordinary share (before tax)	**5.5**	6.3	4.1	2.6	1.7
Headline earnings per ordinary share (after tax)	**4.1**	10.5	4.1	2.6	1.7
Net asset value per share	**36.8**	32.4	21.4	17.0	14.0
Tangible net asset value per share	**32.4**	30.5	20.8	16.7	13.8

Group review

CGD, which is wholly owned by the Portuguese state, remains the Group's holding company with a shareholding of 91.75%. CGD is ranked as the world's 119th largest banking institution by assets in a current issue of "The Banker's Almanac". Its short- and long-term ratings were confirmed by the three leading international rating agencies - Fitch Ratings, Moody's and Standard & Poor's - as follows:

	Short term	**Long term**	**Date**	**Outlook**
Fitch Ratings	F1+	AA-	December 2009	Negative
Moody's	P-1	Aa2	September 2009	Negative
Standard & Poor's	A-1	A+	July 2009	Negative

Moody's confirmed the following RSA national scale issuer ratings to the Bank in September 2009:

Short term	P-1.za
Long term	A2.za
Outlook	Stable

Business focus

The Group's strategy remains unchanged, namely:

- to grow enterprise banking business by offering products and services to small and mid-sized businesses across the South African spectrum whilst retaining a key segment focus on Portuguese customers; and
- to grow existing and seek out new opportunities in the alliance banking arena, primarily in the areas of card, mobile and payment products.

Financial review

Before tax performance

Industry conditions for the banking sector during 2009 were particularly difficult being characterised by a significant drop in economic activity with GDP declining, substantial increases in bad debts and sharp reductions in interest rates with the prime rate reducing from 15.5% in early December 2008 to 10.5% in August 2009. This has resulted in most domestic banks posting significant declines in 2009 profits.

Against this background the Group recorded a decrease in HEPS of 12.7% for the 2009 financial year which is largely attributable to:

- a decrease in net interest income (before credit losses) of 17.2% as a result of the negative endowment effect of lower interest rates, a squeeze in margins due to higher cost of deposits and little change in the balance sheet with lending up 6.6% and deposits down 3.3%; and
- an increase in impairments for credit losses of R2.7 million in line with tougher market conditions. Notwithstanding this increase, impairments were still at an acceptable level of 0.3% of gross lending. Non-performing loans and advances as a percentage of gross lending was 5.4% at December 2009 (December 2008: 3.8%).

The above negative impact on earnings was partially offset by:

- growth in non-interest income (net of costs) of 9.3% from core business activities; and
- cost containment with costs declining 2.2%. Cost savings were largely achieved due to lower bonus and share plan costs in line with the decline of the Group's results partly offset by higher consulting fees in Information Technology associated with services related to the new systems infrastructure being implemented for the Group.

Cost to income increased from 49.0% in December 2008 to 52.7% in December 2009 whilst both ROE at 17.5% (December 2008: 26.2%) and ROA at 3.8% (December 2008: 4.9%) declined, reflecting the weaker market conditions and lower earnings of the Group.

After tax performance: recognition of deferred tax

In accordance with IFRS the Group deemed it appropriate to recognise deferred tax at the end of 2008 mainly in respect of tax losses incurred in the financial years prior to 2005. This recognition resulted in a once-off deferred tax credit of R162.2 million for the year ended 31 December 2008. Consequently, for the year ended 31 December 2009 there was no such deferred tax credit and the Group recognised a tax charge, making after tax performance for the two reporting periods ended 31 December 2008 and 2009 not comparable.

Company Secretary and Directorate

Ms R van Rensburg resigned as company secretary with effect 31 July 2009. An acting secretary was appointed on contract for the period 1 September 2009 to 31 December 2009. Ms A de Villiers was appointed with effect 1 January 2010.

There were no changes to the Board during the period under review. We thank the Board for their valuable contribution and support during the year.

Group review (continued)

Financial Sector Charter

The Group remains fully committed to achieving the targets (as applicable to the Group's strategy) set out in the charter and plans are in place to deliver on these targets. Good progress continues to be made in this respect in the key areas of procurement, financing of black businesses and the diversity of the Group's Board. Whilst reasonable progress has been made in respect of employment equity targets, these remain challenging in the areas of middle/senior management and the Group is behind in terms of achieving these targets, with various initiatives in place to rectify over time.

Discussions are at an advanced stage with two short-listed candidates for empowerment at shareholder level and it is anticipated that a transaction could be concluded for the sale of 10% of the Group's equity over the ensuing months.

New banking system

The implementation of the new core retail banking systems and enhancement/upgrade of current systems architecture is well underway with a go-live date planned for April 2010. Expenditure capitalised on this project as at 31 December 2009 is as follows:

- property and equipment: R20.8 million; and
- intangible assets: R164.4 million

The overall project cost has increased since the interim results report at June 2009 from an estimated R210 million to an estimated R240 million. The main reasons for the increased costs are:

- significant increase in time and resources spent on testing the system:
- higher spend on creating and implementing the infrastructure required: and
- higher costs incurred in training of users.

The project is funded from cash resources against agreed deliverables.

The pro forma effect of the transaction on the tangible net asset value per share of the Group at 31 December 2009, based on the above revised cost estimates, is expected to be a decrease of approximately 1.6 cents versus the estimated decrease previously reported for December 2008 of 2.6 cents. The pro forma effect of the transaction has not been reviewed or reported on by the Group's auditors.

The rationale for this project remains the creation of a new systems platform to support the growth of the Group in line with our strategic objectives. The project will result in a more flexible and integrated systems environment enhancing our risk management and controls whilst providing us with greater capacity to compete in the market in the areas of product and service. No profits can be directly attributed to this project but the project drivers outlined above are expected to provide a positive benefit to the Group over time.

Outlook

The slow rate of recovery in the South African economy following the global financial crisis in 2008/2009 will make 2010 a challenging year. In addition, the termination by Woolworths Financial Services of its card processing agreement in October 2009, following the sale of a controlling stake in the business to a competitor bank, will put pressure on the rate of growth in fee income during the coming year. Cost pressures will also be experienced in the short term due to the implementation and consequent depreciation charge for the new banking system. Over the medium to longer term the costs associated with this investment are expected to be offset by increased growth in volume of business.

We thank all our staff for their commitment and dedication during the year under review and to our clients and shareholders we convey our appreciation for your trust and support. We also thank the SARB and our professional advisors for their sound guidance.

J A S de Andrade Campos	D J Brown
Chairman	*Chief Executive Officer*
25 February 2010	25 February 2010

Annual financial statements

Contents

Directors' responsibility

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

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

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

The external auditors are responsible for reporting on the Company and Group annual financial statements.

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

These annual financial statements, set out on pages 10 to 73, have been approved by the Board of Mercantile Bank Holdings Limited and are signed on their behalf by:

J A S de Andrade Campos
Chairman

25 February 2010

D J Brown
Chief Executive Officer

25 February 2010

Certificate from the Company Secretary

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

A de Villiers
Company Secretary

25 February 2010

Independent auditor's report

to the members of Mercantile Bank Holdings Limited

Report on the financial statements

We have audited the Company and Group annual financial statements, which comprise the Directors' report, the statement of financial position and the consolidated statement of financial position as at 31 December 2009, the statement of comprehensive income and the consolidated statement of comprehensive income, the statement of changes in equity and the consolidated statement of changes in equity and the statement of cash flows and the consolidated statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes as set out on pages 10 to 73.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2009, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Deloitte & Touche.

Per Riaan Eksteen

Partner

25 February 2010

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

National Executive:

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

A full list of partners and directors is available on request

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

Directors' report

for the year ended 31 December 2009

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

1. Nature of business

The Company is a registered bank controlling and investment holding company incorporated in the Republic of South Africa. Through its subsidiaries, the Company is involved in the full spectrum of domestic and international banking and financial services to niche markets in retail, commercial, corporate and alliance banking.

2. Holding company

The majority shareholder of the Company is CGD (91.75%).

3. Financial results

An overview of the financial results is set out in the Group Review commencing on page 5 of the Annual Report. Details of the Company and Group financial results are set out on pages 12 to 73 and in the opinion of the Directors require no further comment.

4 Share capital

There were no changes to the authorised and issued share capital of the Company during the year (2008: nil).

The authorised and issued share capital of the Company and Group is detailed in note 16 to the annual financial statements.

5. Directors, Company Secretary and registered addresses

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

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

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

The Directors of the Company as at 25 March 2010 are shown on page 3.

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

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

6. Dividends

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

7. Subsidiary companies and companies not consolidated

All subsidiary companies are incorporated in the Republic of South Africa. A register containing details of all non-trading companies is available for inspection at the registered office of the Company.

Aggregate income after tax earned by subsidiaries amounted to R169.0 million (2008: R421.5 million) and aggregate losses amounted to R5.9 million (2008: R0.5 million).

Directors' report

for the year ended 31 December 2009 (continued)

7. Subsidiary companies and companies not consolidated (continued)

The principal consolidated subsidiary companies are as follows:

Company name	Issued share capital R'000	Effective holding %	Nature of business^	Shares at cost 2009 R'000	Shares at cost 2008 R'000	Owing to subsidiaries 2009 R'000	Owing to subsidiaries 2008 R'000
LSM (Troyeville) Properties (Pty) Limited	-	100	1	**140**	140	-	-
Mercantile Bank Limited	124 969	100	2	**1 485 448**	1 485 448	**11 946**	10 793
Mercantile Insurance Brokers (Pty) Limited	250	100	3	**294**	294	-	-
Mercantile Nominees (Pty) Limited	-	100	4	-	-	-	-
Mercantile Registrars Limited	100	100	5	-	-	-	-
Portion 2 of Lot 8 Sandown (Pty) Limited	-	100	1	**8 832**	8 832	-	-
						11 946	10 793

Notes:

^ Nature of business

1. Property holding
2. Banking
3. Insurance brokers
4. Nominee company
5. Investment company

Mercantile E-Bureau (Pty) Limited has not been consolidated into the Group's results, the impact being immaterial.

8. Going concern

The Company and Group annual financial statements have been prepared on the going concern basis.

9. Special resolutions

A special resolution was approved by shareholders at the AGM held on 28 May 2009, which related to changes to the articles of association of the Company regarding permissible minimum and maximum number of directors on the Board.

10. Subsequent events

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

Accounting policies

for the year ended 31 December 2009

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

1. Basis of presentation

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

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

- IAS 1 (revised 2007) Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) has introduced a number of terminology changes and has resulted in a number of changes in presentation and disclosure. However, the revised standard has had no impact on the reported results or financial position of the Group.
- IFRS 8 Operating segments (effective for annual periods beginning on or after 1 January 2009) which is a disclosure standard, requires operating segments within the Group to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The adoption of IFRS 8 has had no impact on the identification of the Group's reportable segments, reported results or financial position. Operating segment disclosure is set out in note 31 of the annual financial statements.
- IFRS 7 Financial instruments: Disclosures (effective for annual periods beginning on or after 1 January 2009) which is a disclosure standard, was amended with enhancements to disclosures about fair value and liquidity risk. These amendments have had no material impact on the disclosure of fair value and liquidity risk. Fair value is disclosed in note 1 of the financial statements and liquidity risk is disclosed on pages 70 to 71.
- Improvements to IFRS (issued in May 2008) include 35 amendments across 20 different standards that largely clarify the required accounting treatment where previous practice had varied, and have resulted in a number of changes in the detail of the Group's accounting policies. These amendments have had no material impact on the Group's accounting policies.

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

2. Basis of consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. Recognition of assets and liabilities

3.1 Assets

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

3.2 Liabilities

The Group recognises liabilities when it has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

3.3 Provisions

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

3.4 Contingent liabilities

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

Accounting policies

for the year ended 31 December 2009 (continued)

4. Financial instruments

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

The Group derecognises a financial asset when:

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

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

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

4.1 Derivative financial instruments

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

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

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

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

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

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

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

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

4.2 Financial assets

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

Financial assets at fair value through profit and loss

Loans and receivables with fixed interest rates and corporate bonds are classified at fair value through profit and loss. Financial assets are designated at fair value through profit and loss, primarily to eliminate or significantly reduce the accounting mismatch.

Accounting policies

for the year ended 31 December 2009 (continued)

4. Financial instruments (continued)

4.2 Financial assets (continued)

Financial assets at fair value through profit and loss (continued)

The Group seeks to demonstrate that by applying the fair value option, it significantly reduces measurement inconsistency that would otherwise arise from measuring derivatives at fair value with gains and losses in profit and loss, and the loans and receivables and corporate bonds at amortised cost.

Available-for-sale

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

Cash and cash equivalents

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

Bank term deposits

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

Other investments

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

Negotiable securities

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

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

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

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

Loans and advances

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

Other accounts receivable

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

4.3 Financial liabilities

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

Accounting policies

for the year ended 31 December 2009 (continued)

4. Financial instruments (continued)

4.4 Fair value estimation

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

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

4.5 Amortised cost

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

4.6 Impairments

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

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

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

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

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

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

5. Foreign currency transactions

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

6. Subsidiaries

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

Accounting policies

for the year ended 31 December 2009 (continued)

7. Associated companies

Associated companies are those companies in which the Group exercises significant influence, but have no control or joint control, over their financial and operating policies and holds between 20% and 50% interest therein.

The carrying values of investments in associated companies represent the aggregate of the cost of the investments plus post-acquisition equity-accounted income and reserves. These investments are accounted for using the equity method in the Group's annual financial statements. This method is applied from the effective date on which the enterprise became an associated company up to the date on which it ceases to be an associated company.

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

8. Investment properties

Investment properties are held to earn rentals and/or for capital appreciation. The Group carries investment properties in the statement of financial position at open-market fair value based on valuations by independent registered professional valuators at each reporting date. The open-market fair value is based on capitalisation rates for open market net rentals for each property. Fair value movements are included in income in the year in which they arise.

9. Property and equipment

9.1 Owner-occupied properties

Owner-occupied properties are held for use in the supply of services or for administrative purposes and are stated in the statement of financial position at open-market fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation calculated using the straight-line method and subsequent accumulated impairment losses. The open-market fair value is based on capitalisation rates for open market net rentals for each property. Revaluations are performed annually by independent registered professional valuators.

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

9.2 Equipment

All equipment is stated at historical cost less accumulated depreciation and subsequent accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to income as they are incurred.

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

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

Accounting policies

for the year ended 31 December 2009 (continued)

9. Property and equipment (continued)

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

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

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

10. Intangible assets

Computer software

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

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

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

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

11. Non-current assets held for sale

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

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

12. Tax

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

12.1 Current tax

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

Accounting policies

for the year ended 31 December 2009 (continued)

12. Tax (continued)

12.2 Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

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

12.3 Current and deferred tax for the year

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

13. Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements ("repos") are reflected in the annual financial statements as investments with the proceeds recognised in cash and cash equivalents and the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits, or deposits due to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repos") are recorded as cash and cash equivalents. Securities lent to counterparties are also retained in the annual financial statements.

Securities borrowed are not recognised in the annual financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss being included in income. The obligation to return them is recorded at fair value in other accounts payable.

Accounting policies

for the year ended 31 December 2009 (continued)

14. Instalment sales and leases

14.1 Group as the lessee

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

14.2 The Group as the lessor

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

15. Interest income and interest expense

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

16. Fee, commission and dividend income

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

17. Retirement funds

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

18. Post-retirement medical benefits

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

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

19. Equity compensation plans

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

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

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

A Share Incentive Trust is used for share option awards and its financial position and results are consolidated.

Accounting policies

for the year ended 31 December 2009 (continued)

20. General credit-risk reserve

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

21. Critical accounting estimates and judgements

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

21.1 Impairment losses on loans and advances

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

21.2 Fair value of financial instruments

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

21.3 Impairment of available-for-sale equity investments

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

21.4 Income taxes

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

22. Recent accounting developments

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

Accounting policies

for the year ended 31 December 2009 (continued)

22. Recent accounting developments (continued)

IFRS 2 (Share-based payments - Amendments relating to group cash-settled share-based payment transactions) was issued during June 2009 but is only effective for annual periods beginning on or after 1 January 2010. The Group will comply with the applicable standard from the year ending 31 December 2010.

IFRS 3 (Business combinations) was issued during 2008 but is only effective for business combinations concluded on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

IFRS 9 (Financial instruments: Classification and measurement) was issued during November 2009 but is only effective for annual periods beginning on or after 1 January 2013. The Group will comply with the applicable standard from the year ending 31 December 2013.

IAS 24 (Related-party disclosures) was issued during November 2009 but is only effective for annual periods beginning on or after 1 January 2011. The Group will comply with the applicable standard from the year ending 31 December 2011.

IAS 27 (Consolidated and separate financial statements) was issued during 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

IAS 28 (Investments in associates) was issued during 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

IAS 31 (Interest in joint ventures) was issued during 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

IAS 32 (Financial instruments: Presentation) was issued during 2009 but is only effective for annual periods beginning on or after 1 February 2010. The Group will comply with the applicable standard from the year ending 31 December 2011.

IAS 39 (Financial Instruments: Recognition and measurement) was issued during July 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

IFRIC 17 (Distributions of non-cash assets to owners) was issued during November 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

IFRIC 18 (Transfers of assets from customers) was issued during January 2009 but is only effective for annual periods beginning on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

IFRIC 19 (Extinguishing financial liabilities with equity instruments) was issued during January 2009 but is only effective for annual periods beginning on or after 1 July 2010. The Group will comply with the applicable standard from the year ending 31 December 2011.

Amendments resulting from the April 2009 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2010 to the following standards, which will be applied from the year ended 31 December 2010:

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

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

IFRS 1 (First-time adoption of IFRS: Revised and restructured) issued during November 2008 and effective for annual periods beginning on or after 1 July 2009.

IFRS 1 (First-time adoption of IFRS: Amendments relating to oil and gas assets and determining whether an arrangement contains a lease) was issued during July 2009 and is effective for annual periods beginning on or after 1 January 2010.

IFRS 1 (First-time adoption of IFRS: Limited exemption from comparative IFRS disclosures for first-time adopters) was issued during July 2009 and is effective for annual periods beginning on or after 1 January 2010.

Statements of financial position

at 31 December 2009

	Note	Group 2009 R'000	Group 2008 R'000	Company 2009 R'000	Company 2008 R'000
ASSETS					
Intangible assets	2	**170 325**	76 894	**–**	–
Property and equipment	3	**131 483**	128 672	**–**	–
Tax	4	**256**	–	**256**	–
Other accounts receivable	5	**29 539**	39 273	**4**	4
Interest in subsidiaries	6	**–**	–	**1 454 312**	1 286 608
Interest in associated company	7	**–**	–	**–**	–
Other investments	8	**23 590**	12 315	**29**	29
Deferred tax assets	9	**102 936**	157 275	**–**	–
Non-current assets held for sale	10	**5 510**	5 289	**–**	–
Loans and advances	11	**3 629 574**	3 403 789	**–**	–
Derivative financial instruments	12	**21 406**	56 873	**–**	–
Negotiable securities	13	**267 902**	247 141	**–**	–
Bank term deposits	14	**35 276**	324 295	**–**	–
Cash and cash equivalents	15	**1 400 937**	1 464 959	**224**	224
Total assets		**5 818 734**	5 916 775	**1 454 825**	1 286 865
EQUITY AND LIABILITIES					
Shareholders' equity		**1 437 671**	1 269 030	**1 454 811**	1 286 831
Share capital and share premium	16	**1 202 571**	1 202 571	**1 210 143**	1 210 143
Capital redemption reserve fund		**3 788**	3 788	**3 788**	3 788
Share-based payments reserve		**1 894**	4 650	**–**	–
General reserve		**7 478**	7 478	**–**	–
Property revaluation reserve		**52 708**	46 364	**–**	–
Available-for-sale reserve		**13 883**	13 036	**889 094**	720 236
General credit-risk reserve		**–**	–	**–**	–
Retained income/(Accumulated loss)		**155 349**	(8 857)	**(648 214)**	(647 336)
Non-current liabilities					
Deferred tax liabilities	9	**18 870**	15 259	**–**	–
Liabilities		**4 362 193**	4 632 486	**14**	34
Deposits	17	**4 246 598**	4 389 347	**–**	–
Derivative financial instruments	12	**16 230**	95 091	**–**	–
Provisions	18	**38 142**	48 596	**–**	–
Other accounts payable	20	**61 153**	98 958	**14**	34
Tax	4	**70**	494	**–**	–
Total equity and liabilities		**5 818 734**	5 916 775	**1 454 825**	1 286 865

Statements of comprehensive income

for the year ended 31 December 2009

	Note	Group 2009 R'000	Group 2008 R'000	Company 2009 R'000	Company 2008 R'000
Interest income	22	**529 584**	661 776	–	–
Interest expenditure	23	**(261 315)**	(337 813)	–	–
Net interest income		**268 269**	323 963	–	–
Net charge for credit losses	11.4	**(9 323)**	(6 618)	–	–
Net interest income after credit losses		**258 946**	317 345	–	–
Net gain on disposal of available-for-sale investments		**1 583**	9 837	–	–
Net non-interest income		**200 059**	183 035	–	–
Non-interest income	24	**287 909**	260 003	–	–
Fee and commission expenditure	25	**(87 850)**	(76 968)	–	–
Net interest and non-interest income		**460 588**	510 217	–	–
Operating expenditure	26	**(247 578)**	(253 154)	**(1 134)**	(1 028)
Operating profit		**213 010**	257 063	**(1 134)**	(1 028)
Share of income from associated company		**4 059**	735	–	–
Profit/(Loss) before tax		**217 069**	257 798	**(1 134)**	(1 028)
Tax	27	**(54 867)**	162 175	**256**	–
Profit/(Loss) after tax		**162 202**	419 973	**(878)**	(1 028)
Other comprehensive income					
Revaluation of owner-occupied properties		**8 812**	10 689	–	–
Gains on remeasurement to fair value		**2 576**	25 121	**168 858**	443 488
Release to income on disposal of available-for-sale financial assets		**(1 583)**	(9 837)	–	–
Tax relating to other comprehensive income		**(2 614)**	(20 230)	–	–
Other comprehensive income net of tax		**7 191**	5 743	**168 858**	443 488
Total comprehensive income		**169 393**	425 716	**167 980**	442 460
Profit after tax attributable to:					
Equity holders of the parent		**162 202**	419 973	**(878)**	(1 028)
Total comprehensive income attributable to:					
Equity holders of the parent		**169 393**	425 716	**167 980**	442 460
Earnings per ordinary share after tax (cents)	28.1	**4.1**	10.7		
Earnings per ordinary share before tax (cents)	28.1	**5.5**	6.6		
Diluted earnings per ordinary share after tax (cents)	28.2	**4.1**	10.7		
Diluted earnings per ordinary share before tax (cents)	28.2	**5.5**	6.6		
Dividends per share (cents)		**–**	–		

Statements of changes in equity

for the year ended 31 December 2009

	Share capital and share premium R'000	Capital redemption reserve fund R'000	Share-based payments reserve R'000	General reserve R'000	Property re-valuation reserve R'000	Available-for-sale reserve R'000	General credit-risk reserve R'000	Retained income/ Accumulated loss R'000	Total R'000
Group									
Shareholders' equity at 1 January 2008	1 207 422	3 788	7 019	7 478	53 705	(48)	19 403	(458 853)	839 914
Net movement for the year	(4 851)	–	(2 369)	–	(7 341)	13 084	(19 403)	449 996	429 116
Profit after tax	–	–	–	–	–	–	–	419 973	419 973
Other comprehensive income	–	–	–	–	10 689	15 284	–	–	25 973
Tax relating to other comprehensive income	–	–	–	–	(18 030)	(2 200)	–	–	(20 230)
Increase of treasury shares held within the Group	(4 851)	–	–	–	–	–	–	–	(4 851)
Decrease in general credit-risk reserve	–	–	–	–	–	–	(19 403)	19 403	–
Transfer from share-based payments reserve to retained income/ accumulated loss	–	–	(7 019)	–	–	–	–	7 019	–
Share-based payments expense	–	–	4 650	–	–	–	–	3 601	8 251
Shareholders' equity at 31 December 2008	**1 202 571**	**3 788**	**4 650**	**7 478**	**46 364**	**13 036**	**–**	**(8 857)**	**1 269 030**
Net movement for the year	**–**	**–**	**(2 756)**	**–**	**6 344**	**847**	**–**	**164 206**	**168 641**
Profit after tax	–	–	–	–	–	–	–	162 202	162 202
Other comprehensive income	–	–	–	–	8 812	993	–	–	9 805
Tax relating to other comprehensive income	–	–	–	–	(2 468)	(146)	–	–	(2 614)
Share-based payments expense	–	–	(2 756)	–	–	–	–	2 004	(752)
Shareholders' equity at 31 December 2009	**1 202 571**	**3 788**	**1 894**	**7 478**	**52 708**	**13 883**	**–**	**155 349**	**1 437 671**

Statements of changes in equity

for the year ended 31 December 2009 (continued)

	Share capital and share premium R'000	Capital redemption reserve fund R'000	Share-based payments reserve R'000	Available-for-sale reserve R'000	Accumu-lated loss R'000	Total R'000
Company						
Shareholders' equity at 1 January 2008	1 210 143	3 788	7 019	276 748	(653 327)	844 371
Net movement for the year	–	–	(7 019)	443 488	5 991	442 460
Loss after tax	–	–	–	–	(1 028)	(1 028)
Other comprehensive income	–	–	–	443 488	–	443 488
Transfer from share-based payments reserve to accumulated loss	–	–	(7 019)	–	7 019	–
Shareholders' equity at 31 December 2008	**1 210 143**	**3 788**	**–**	**720 236**	**(647 336)**	**1 286 831**
Net movement for the year	–	–	–	**168 858**	**(878)**	**167 980**
Loss after tax	–	–	–	–	**(878)**	**(878)**
Other comprehensive income	–	–	–	**168 858**	–	**168 858**
Shareholders' equity at 31 December 2009	**1 210 143**	**3 788**	**–**	**889 094**	**(648 214)**	**1 454 811**

Statements of cash flows

for the year ended 31 December 2009

		Group		Company	
		2009	2008	**2009**	2008
	Note	**R'000**	R'000	**R'000**	R'000
Operating activities					
Cash receipts from customers	29.1	**767 387**	993 977	**–**	–
Cash paid to customers, suppliers and employees	29.2	**(591 002)**	(637 963)	**(1 134)**	(1 028)
Cash generated from operations	29.3	**176 385**	356 014	**(1 134)**	(1 028)
Dividends received		**381**	861	**–**	–
Tax (paid)/recovered	29.4	**(211)**	307	**–**	–
Net decrease/(increase) in income earning assets	29.5	**35 506**	(725 743)	**–**	–
Net (decrease)/increase in deposits and other accounts	29.6	**(170 820)**	659 857	**1 134**	984
Net cash inflow/(outflow) from operating activities		**41 241**	291 296	**–**	(44)
Investing activities					
Purchase of intangible assets		**(100 861)**	(59 411)	**–**	–
Purchase of property and equipment		**(3 528)**	(30 552)		
Acquisition of investments		**(7 000)**	(472)	**–**	–
Proceeds on sale of property and equipment		**12**	63	**–**	–
Proceeds on disposal of investments		**2 055**	9 907	**–**	71
Dividends received from associated company		**4 059**	1 752	**–**	–
Net cash (outflow)/inflow from investing activities		**(105 263)**	(78 713)	**–**	71
Net cash (outflow)/inflow for the year		**(64 022)**	212 583	**–**	27
Cash and cash equivalents at the beginning of the year		**1 464 959**	1 252 376	**224**	197
Cash and cash equivalents at the end of the year	15	**1 400 937**	1 464 959	**224**	224

Notes to the annual financial statements

for the year ended 31 December 2009

	Group 2009 Fair value R'000	Group 2009 Carrying amount R'000	Group 2008 Fair value R'000	Group 2008 Carrying amount R'000
1. Fair values of financial instruments				
1.1 Category analysis of financial instruments				
Assets				
Available-for-sale	**34 923**	**34 923**	32 853	32 853
Other investments	**15 908**	**15 908**	12 315	12 315
Negotiable securities – Government stock	**19 015**	**19 015**	20 538	20 538
Loans and receivables	**5 215 509**	**5 215 720**	5 304 555	5 305 008
Current accounts	**593 688**	**593 688**	503 622	503 622
Credit card	**15 193**	**15 193**	14 920	14 920
Mortgage loans	**1 705 368**	**1 705 368**	1 560 921	1 560 921
Instalment sales and leases	**317 612**	**317 612**	349 480	349 480
Structured loans	**247 715**	**247 715**	254 795	254 795
Other advances	**621 249**	**621 249**	566 140	566 140
Negotiable securities – Treasury bills	**197 367**	**197 578**	226 150	226 603
Negotiable securities – Land Bank promissory notes	**51 309**	**51 309**	–	–
Bank term deposits	**35 276**	**35 276**	324 295	324 295
Cash and cash equivalents	**1 400 937**	**1 400 937**	1 464 959	1 464 959
Tax	**256**	**256**	–	–
Other accounts receivable	**29 539**	**29 539**	39 273	39 273
Designated at fair value through profit and loss	**136 431**	**136 431**	153 911	153 911
Mortgage loans	**40 130**	**40 130**	53 946	53 946
Instalment sales and leases	**24 182**	**24 182**	21 300	21 300
Other advances	**64 437**	**64 437**	78 665	78 665
Other investments	**7 682**	**7 682**	–	–
Held-for-trading	**21 406**	**21 406**	56 873	56 873
Derivative financial instruments	**21 406**	**21 406**	56 873	56 873
	5 408 269	**5 408 480**	5 548 192	5 548 645
Liabilities				
Held-for-trading	**16 230**	**16 230**	95 091	95 091
Derivative financial instruments	**16 230**	**16 230**	95 091	95 091
Other financial liabilities	**4 307 821**	**4 307 821**	4 488 799	4 488 799
Deposits	**4 246 598**	**4 246 598**	4 389 347	4 389 347
Tax	**70**	**70**	494	494
Other accounts payable	**61 153**	**61 153**	98 958	98 958
	4 324 051	**4 324 051**	4 583 890	4 583 890

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Cmpany 2009 Fair value R'000	Cmpany 2009 Carrying amount R'000	Company 2008 Fair value R'000	Company 2008 Carrying amount R'000
1. Fair values of financial instruments (continued)				
1.1 Category analysis of financial instruments (continued)				
Assets				
Available-for-sale	**1 454 341**	**1 454 341**	1 286 637	1 286 637
Other investments	**29**	**29**	29	29
Interest in subsidiaries	**1 454 312**	**1 454 312**	1 286 608	1 286 608
Loans and receivables	**484**	**484**	228	228
Tax	**256**	**256**	–	–
Cash and cash equivalents	**224**	**224**	224	224
Other accounts receivable	**4**	**4**	4	4
	1 454 825	**1 454 825**	1 286 865	1 286 865
Liabilities				
Other financial liabilities	**14**	**14**	34	34
Other accounts payable	**14**	**14**	34	34
	14	**14**	34	34

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

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

1.3 Fair value measurements recognised in the statement of financial position

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

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Group			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
1.3 Fair value measurements recognised in the statement of financial position (continued)				
2009				
Assets				
Available-for-sale				
Other investments	**15 637**	**271**	–	**15 908**
Negotiable securities – Government stock	**19 015**	–	–	**19 015**
Designated at fair value through profit and loss				
Mortgage loans	–	**40 130**	–	**40 130**
Instalment sales and leases	–	**24 182**	–	**24 182**
Other advances	–	**64 437**	–	**64 437**
Other investments	–	–	**7 682**	**7 682**
Held-for-trading				
Derivative financial instruments	**21 406**	–	–	**21 406**
	56 058	**129 020**	**7 682**	**192 760**
Liabilities				
Held-for-trading				
Derivative financial instruments	**16 230**	–	–	**16 230**
	16 230	–	–	**16 230**
2008				
Assets				
Available-for-sale				
Other investments	12 003	312	–	12 315
Negotiable securities – Government stock	20 538	–	–	20 538
Designated at fair value through profit and loss				
Mortgage loans	–	53 946	–	53 946
Instalment sales and leases	–	21 300	–	21 300
Other advances	–	78 665	–	78 665
Held-for-trading				
Derivative financial instruments	56 873	–	–	56 873
	89 414	154 223	–	243 637
Liabilities				
Held-for-trading				
Derivative financial instruments	95 091	–	–	95 091
	95 091	–	–	95 091

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Company			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
1. Categories and fair values of financial instruments (continued)				
1.3 Fair value measurements recognised in the statement of financial position (continued)				
2009				
Assets				
Available-for-sale				
Other investments	–	**29**	–	**29**
2008				
Assets				
Available-for-sale				
Other investments	–	29	–	29

	Group	
	2009 R'000	2008 R'000
1.4 Reconciliation of Level 3 fair value measurements of financial assets		
Designated at fair value through profit and loss		
Other investments – unlisted equities		
Balance at the beginning of the year	–	–
Acquisitions	**7 000**	–
Gains on remeasurement to fair value in comprehensive income	**682**	–
Balance at the end of the year	**7 682**	–

	Group/Company	
	2009 R'000	2008 R'000
1.5 Loans and receivables designated at fair value through profit and loss		
Cumulative changes in fair value attributable to credit risk	–	–
Changes in fair value attributable to changes in credit risk recognised during the year	–	–

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

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Group 2009 R'000	Group 2008 R'000
2. Intangible assets		
Computer software		
Cost at the beginning of the year	**120 987**	61 294
Additions	**100 861**	59 411
Net transfer (to)/from property and equipment	**(5)**	282
Write-off of obsolete software	**(38)**	–
Cost at the end of the year	**221 805**	120 987
Accumulated amortisation and impairment losses at the beginning of the year	**(44 093)**	(37 725)
Amortisation	**(7 428)**	(6 086)
Net transfer to/(from) property and equipment	**3**	(282)
Write-off of obsolete software	**38**	–
Accumulated amortisation and impairment losses at the end of the year	**(51 480)**	(44 093)
Net carrying amount at the end of the year	**170 325**	76 894

	Owner-occupied properties R'000	Leasehold improve-ments R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
3. Property and equipment							
Group							
2009							
Open market value/cost at the beginning of year	**89 364**	**18 917**	**93 989**	**9 341**	**27 321**	**415**	**239 347**
Revaluations	**7 100**	**–**	**–**	**–**	**–**	**–**	**7 100**
Additions	**–**	**674**	**428**	**48**	**2 301**	**77**	**3 528**
Transfer*	**–**	**–**	**(1 854)**	**583**	**1 276**	**–**	**5**
Write-off of obsolete assets	**–**	**–**	**(648)**	**(4)**	**(248)**	**–**	**(900)**
Disposals	**–**	**–**	**–**	**(1)**	**(19)**	**–**	**(20)**
Open market value/cost at the end of the year	**96 464**	**19 591**	**91 915**	**9 967**	**30 631**	**492**	**249 060**
Accumulated depreciation and impairment losses at the beginning of the year	**–**	**(14 620)**	**(68 613)**	**(8 422)**	**(18 676)**	**(344)**	**(110 675)**
Depreciation	**(1 712)**	**(790)**	**(4 247)**	**(242)**	**(2 468)**	**(46)**	**(9 505)**
Revaluation	**1 712**	**–**	**–**	**–**	**–**	**–**	**1 712**
Transfer*	**–**	**–**	**1 854**	**(568)**	**(1 289)**	**–**	**(3)**
Write-off of obsolete assets	**–**	**–**	**648**	**4**	**238**	**–**	**890**
Disposals	**–**	**–**	**–**	**1**	**3**	**–**	**4**
Accumulated depreciation and impairment losses at the end of the year	**–**	**(15 410)**	**(70 358)**	**(9 227)**	**(22 192)**	**(390)**	**(117 577)**
Net carrying amount at the end of the year	**96 464**	**4 181**	**21 557**	**740**	**8 439**	**102**	**131 483**

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Owner-occupied properties R'000	Leasehold improvements R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
3. Property and equipment (continued)							
Group							
2008							
Open market value/cost at the beginning of the year	80 064	18 325	70 593	8 567	23 666	415	201 630
Revaluations	9 300	–	–	–	–	–	9 300
Additions	–	699	24 917	439	4 497		30 552
Transfer*	–	–	(203)	348	(427)	–	(282)
Write-off of obsolete assets	–	–	(29)	(13)	(12)	–	(54)
Disposals	–	(107)	(1 289)	–	(403)	–	(1 799)
Open market value/cost at the end of the year	89 364	18 917	93 989	9 341	27 321	415	239 347
Accumulated depreciation and impairment losses at beginning of the year	–	(13 908)	(64 896)	(7 791)	(17 750)	(316)	(104 661)
Depreciation	(1 389)	(819)	(5 216)	(330)	(1 722)	(28)	(9 504)
Revaluation	1 389	–	–	–	–	–	1 389
Transfer*	–	–	203	(314)	393	–	282
Write-off of obsolete assets	–	–	28	13	11	–	52
Disposals	–	107	1 268	–	392	–	1 767
Accumulated depreciation and impairment losses at the end of the year	–	(14 620)	(68 613)	(8 422)	(18 676)	(344)	(110 675)
Net carrying amount at the end of the year	89 364	4 297	25 376	919	8 645	71	128 672

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

	Group	
	2009 R'000	2008 R'000
Historical cost of properties that have been revalued	**36 910**	36 910

Notes:

1 G J Van Zyl, a valuator with Van Zyl Valuers and a Member of The Institute of Valuers of South Africa, independently valued the properties at 31 December 2009.

2 A register containing details of owner-occupied properties and the revaluation thereof is available for inspection at the registered office of the Company.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Group		Company	
	2009	2008	**2009**	2008
	R'000	R'000	**R'000**	R'000
4. Tax				
South African Revenue Services				
Tax overpaid	**256**	–	**256**	–
Tax owing	**70**	494	–	–
5. Other accounts receivable				
Items in transit	**12 941**	2 626	–	–
Prepayments and deposits	**6 597**	6 206	**4**	4
Other receivables	**10 001**	30 441	–	–
	29 539	39 273	**4**	4

	Company	
	2009	2008
	R'000	R'000
6. Interest in subsidiaries		
Unlisted		
Shares at fair value	**1 466 259**	1 297 401
Mercantile Bank Limited	**1 465 233**	1 296 760
Mercantile Insurance Brokers (Pty) Limited	**1 026**	641
Loan – amount owing to Mercantile Bank Limited	**(11 947)**	(10 793)
	1 454 312	1 286 608

A list of principal subsidiary companies is contained in note 7 of the Directors' report. The loan is interest free and has no fixed terms of maturity.

	Group	
	2009	2008
	R'000	R'000
7. Interest in associated company		
Statman Investments (Pty) Limited*		
Shares at cost	–	675
Accumulated share of post-acquisition profits	–	7 852
Dividends received	–	(5 293)
	–	3 234
Reclassification of investment as a non-current asset held for sale (see note 10)	–	(3 234)
	–	–
Directors' valuation of the unlisted associated company	–	3 234

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Group 2009 R'000	Group 2008 R'000	Company 2009 R'000	Company 2008 R'000
8. Other investments				
Available-for-sale				
Unlisted equities	**271**	312	**29**	29
Listed equities	**15 637**	12 003	**–**	–
African Bank Investments Limited	**751**	648	**–**	–
Capitec Bank Holdings Limited	**13**	–	**–**	–
Kap International Limited	**16**	11	**–**	–
Visa Inc.	**14 857**	11 344	**–**	–
Designated at fair value through profit and loss				
Unlisted equities	**7 682**	–	**–**	–
Total	**23 590**	12 315	**29**	29
Directors' estimate of fair value	**23 590**	12 315	**29**	29

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

	Group 2009 R'000	Group 2008 R'000
9. Deferred tax		
Balance at the beginning of the year	**142 016**	–
Current year charge		
– per the statement of comprehensive income	**(55 336)**	162 246
– per the statement of changes in equity	**(2 614)**	(20 230)
Balance at the end of the year	**84 066**	142 016
Comprising		
Deferred tax assets	**102 936**	157 275
Deferred tax liabilities	**(18 870)**	(15 259)
	84 066	142 016
Deferred tax is attributable to the following temporary differences		
Assets		
Property plant and equipment	**(15 100)**	(9 621)
Intangible assets	**3**	3
Short and long-term provisions	**(4 078)**	2 576
Calculated tax losses	**106 477**	160 885
Other	**(3 236)**	3 432
	84 066	157 275
Liabilities		
Revaluations	**22 844**	20 230
Other	**(3 974)**	(4 971)
	18 870	15 259

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

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

Unlisted investment

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

Interest in associated company

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

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

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

Properties in possession

The Group has received an offer to purchase for this property and anticipates that the disposal will be concluded by March 2010. The property has been valued at the sale price less costs to sell.

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

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

All loans and advances are denominated in South African Rand.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

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

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

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

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

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

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

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Past due for: 1 - 30 days R'000	31 - 60 days R'000	61 - 90 days R'000	Total gross amount R'000	Fair value of collateral and other credit enhancements R'000
11. Loans and advances (continued)					
11.8 Category age analysis of loans that are past due but not individually impaired					
Group					
2009					
Current accounts	–	–	–	–	–
Credit card	–	–	–	–	–
Mortgage loans	**18 718**	**20 346**	**1 901**	**40 965**	**37 905**
Instalment sales and leases	**933**	**608**	**159**	**1 700**	**1 136**
Structured loans	–	–	–	–	–
Other advances	**3 353**	**1 340**	**2 962**	**7 655**	**2 963**
	23 004	**22 294**	**5 022**	**50 320**	**42 004**
2008					
Current accounts	703	–	–	703	–
Credit cards	336	254	342	932	–
Mortgage loans	17 740	7 198	–	24 938	7 203
Instalment sales and leases	731	559	–	1 290	474
Structured loans	–	–	–	–	–
Other advances	268	1 133	–	1 401	1 279
	19 778	9 144	342	29 264	8 956

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

11. Loans and advances (continued)

11.10 Collateral held as security and other credit enhancements

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

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

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

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

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

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

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

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

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Group		Company	
	2009	2008	**2009**	2008
	R'000	R'000	**R'000**	R'000
15. Cash and cash equivalents				
Cash and bank notes	**24 003**	26 764	–	–
Central Bank balances	**86 249**	79 388	–	–
Money Market funds	**493 136**	–	–	–
Domestic bank balances	**91 506**	257 251	**224**	224
Foreign bank balances	**706 043**	1 101 556	–	–
	1 400 937	1 464 959	**224**	224

16. Share capital and share premium

	Number of issued ordinary shares	Share capital R'000	Share premium R'000	Total R'000
16.1 Issued – Group				
Shares in issue net of treasury shares at 1 January 2008	3 926 538 024	36 668	1 170 754	1 207 422
Increase of treasury shares held within the Group	(15 423 900)	(4 851)	–	(4 851)
At 31 December 2008	3 911 114 124	31 817	1 170 754	1 202 571
At 31 December 2009	**3 911 114 124**	**31 817**	**1 170 754**	**1 202 571**

27 804 400 (December 2008: 27 804 400) Treasury shares have been eliminated from share capital and premium.

	Number of issued ordinary shares	Share capital R'000	Share premium R'000	Total R'000
16.2 Issued – Company				
At 31 December 2008 and 31 December 2009	**3 938 918 524**	**39 389**	**1 170 754**	**1 210 143**

16.3 Authorised

The total authorised number of ordinary shares is 4 465 955 440 shares (2008: 4 465 955 440 shares) with a par value of 1 cent each. The total authorised number of preference shares is 15 150 486 shares (2008: 15 150 486 shares) with a par value of 25 cent each.

16.4 Unissued

The unissued ordinary and preference shares are under the control of the directors until the next AGM.

16.5 Share incentive schemes

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

The Group recognised a net write back of expenses of R0.8 million (2008: R8.3 million expense) related to equity-settled share-based payment transactions (refer to note 26).

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

16. Share capital and share premium (continued)

16.5 Share incentive schemes (continued)

Share option scheme

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

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

The Mercantile Share Incentive Trust acts as agent on behalf of the Bank in respect of this scheme.

Conditional Share Plan ("CSP")

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

The tables on the following pages set out the movement in the options and conditional awards.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

16. Share capital and share premium (continued)

16.5 Share incentive schemes (continued)

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

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

[1] *Refer to note 30.3*

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

16. Share capital and share premium (continued)

16.5 Share incentive schemes (continued)

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

[1] *Refer to note 30.3*

	Group 2009 R'000	Group 2008 R'000
17. Deposits		
Call deposits and current accounts	**2 216 193**	1 707 699
Savings accounts	**181 826**	166 422
Term and notice deposits	**1 610 863**	2 326 438
Negotiable certificates of deposit	**27 576**	32 361
Foreign deposits	**210 140**	156 427
	4 246 598	4 389 347
Maturity analysis		
Repayable on demand and within one month	**3 281 792**	2 815 837
Maturing after one month but within six months	**562 306**	1 060 031
Maturing after six months but within 12 months	**396 940**	505 318
Maturing after 12 months	**5 560**	8 161
	4 246 598	4 389 347

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

18. Provisions

	Staff incentives R'000	Audit fees R'000	Post-retirement medical benefits R'000	Leave pay R'000	Other risks R'000	Total R'000
Group						
At 1 January 2008	13 002	3 190	14 343	8 664	3 236	42 435
Additional provision raised	20 788	5 810	188	3 383	308	30 477
Charged to provision	(13 181)	(5 370)	–	(2 931)	(2 834)	(24 316)
At 31 December 2008	**20 609**	**3 630**	**14 531**	**9 116**	**710**	**48 596**
Additional provision raised	**8 615**	**6 200**	–	**3 017**	**508**	**18 340**
Charged to provision	**(19 035)**	**(6 130)**	**(668)**	**(2 611)**	**(350)**	**(28 794)**
At 31 December 2009	**10 189**	**3 700**	**13 863**	**9 522**	**868**	**38 142**

Post-retirement medical benefits

Refer to note 19 for detailed disclosure of this provision.

Leave pay

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

Other risks

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

19. Post-retirement medical benefits

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

	Group				
	2009	2008	2007	2006	2005
	R'000	R'000	R'000	R'000	R'000
The amounts recognised in the statement of financial position are as follows (refer to note 18):					
Present value of total service liabilities	**19 370**	19 664	20 223	18 989	16 651
Fair value of plan assets	**(5 507)**	(5 133)	(5 880)	(6 136)	(6 237)
– Provident fund	**(1 674)**	(922)	(838)	(1 457)	(1 624)
– Endowment bond	**(2 718)**	(3 118)	(3 446)	(3 729)	(4 104)
– Annuities	**(1 115)**	(1 093)	(1 596)	(950)	(509)
Liability in the statement of financial position	**13 863**	14 531	14 343	12 853	10 414
The amounts recognised in the income statement are as follows (refer to note 26):					
Current service cost	**92**	89	116	115	414
Interest costs	**1 785**	1 568	1 539	1 365	1 659
Expected return on plan assets	**(526)**	(529)	(549)	(396)	(575)
Actuarial loss	**(660)**	368	936	1 957	1 736
Employer benefit payments	**(1 359)**	(1 308)	(1 202)	(1 168)	(1 085)
Payments from plan assets	**–**	–	650	846	540
Effect on curtailment	**–**	–	–	(280)	(455)
Total included in staff costs	**(668)**	188	1 490	2 439	2 234
Reconciliation of the movement in the present value of total service liabilities:					
At the beginning of year	**19 664**	20 223	18 989	16 651	22 277
Current service cost	**92**	89	116	115	414
Interest costs	**1 785**	1 568	1 539	1 365	1 659
Actuarial (loss)/gain	**(812)**	(908)	781	2 306	1 610
Employer benefit payments	**(1 359)**	(1 308)	(1 202)	(1 168)	(1 085)
Net effect of settlements	**–**	–	–	–	(7 769)
Effect of curtailment	**–**	–	–	(280)	(455)
At the end of the year	**19 370**	19 664	20 223	18 989	16 651
Reconciliation of the movement in the fair value of plan assets:					
At the beginning of year	**5 133**	5 880	6 136	6 237	6 328
Expected return on plan assets	**526**	529	549	396	575
Actuarial (loss)/gain	**(152)**	(1 276)	(155)	349	(126)
Payments from plan assets	**–**	–	(650)	(846)	(540)
At the end of the year	**5 507**	5 133	5 880	6 136	6 237

The principal actuarial assumptions used were as follows:

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

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Group 2009 R'000	Group 2008 R'000	Company 2009 R'000	Company 2008 R'000
20. Other accounts payable				
Accruals	**16 702**	22 830	**14**	11
Product-related credits	**18 613**	21 068	–	14
Sundry creditors	**25 838**	55 060	–	9
	61 153	98 958	**14**	34

	Group 2009 R'000	Group 2008 R'000
21. Contingent liabilities and commitments		
21.1 Guarantees, letters of credit and committed undrawn facilities		
Guarantees	**303 514**	331 494
Lending related	**15 983**	16 022
Mortgage	**27 925**	74 051
Performance	**259 606**	241 421
Letters of credit	**12 330**	6 886
Committed undrawn facilities	**190 834**	331 720
	506 678	670 100
21.2 Commitments under operating leases		
The total minimum future lease payments under operating leases are as follows:		
Property rentals:		
Due within one year	**17 344**	16 244
Due between one and five years	**7 011**	7 824
	24 355	24 068
After tax effect on operating leases	**17 536**	17 329

A register containing details of the existence and terms of renewal and escalation clauses is available for inspection at the registered office of the Company.

	Group 2009 R'000	Group 2008 R'000
21.3 Capital commitments		
Contracted for	**51 628**	79 383
Authorised but not yet contracted for	–	13 635
	51 628	93 018

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Group 2009 R'000	Group 2008 R'000
22. Interest income		
Loans and receivables	**511 271**	631 982
Cash and cash equivalents and bank term deposits	**84 747**	154 375
Negotiable securities	**24 212**	23 166
Loans and advances	**402 312**	454 441
Loans and receivables designated at fair value through profit and loss	**17 689**	26 680
Negotiable securities	**–**	1 442
Loans and advances	**17 689**	25 238
Held-for-trading		
Interest rate swaps	**624**	3 114
	529 584	661 776
23. Interest expenditure		
Deposits	**257 332**	335 839
Held-for-trading		
Interest rate swaps	**3 983**	1 974
	261 315	337 813
24. Non-interest income		
Fee and commission income	**214 801**	177 554
Loans and receivables at fair value through profit and loss	**–**	273
Loans and receivables	**212 732**	175 464
Other	**2 069**	1 817
Trading income	**72 657**	81 441
Held-for-trading	**72 619**	75 960
Foreign currency	**61 991**	71 138
Foreign currency commissions	**10 156**	10 007
Derivative assets	**(48)**	(4 063)
Derivative liabilities	**520**	(1 122)
Designated at fair value through profit and loss	**38**	5 481
Loans and advances	**(644)**	5 030
Other investments	**682**	–
Corporate bonds	**–**	451
Investment income	**451**	1 008
Dividends	**381**	861
Rental income	**70**	147
	287 909	260 003
25. Fee and commission expenditure		
Foreign currency	**20 618**	24 214
Commissions and transactions	**67 232**	52 754
	87 850	76 968

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Group		Company	
	2009	2008	**2009**	2008
	R'000	R'000	**R'000**	R'000
26. Operating expenditure				
Amortisation (refer to note 2)	**7 428**	6 086	–	–
Auditors' remuneration				
Audit fees – Current year	**6 200**	6 030	–	–
– Prior year	**20**	(240)	–	–
Fees for other services – Tax advisory fees	–	102	–	–
– Review of regulatory returns	–	575	–	–
– Secondment of administrative staff	**403**	–	–	–
– Quality assessment review of internal audit	**203**	–	–	–
– Other	–	20	–	–
	6 826	6 487	–	–
Depreciation (refer to note 3)	**9 505**	9 504	–	–
Directors' emoluments (refer to note 30.3)				
Executive directors	**7 365**	8 738	–	–
Non-executive directors fees	**3 758**	3 134	–	–
	11 123	11 872	–	–
Indirect tax				
Non-claimable Value-Added Tax	**4 600**	8 067	–	–
Skills development levy	**718**	565	–	–
	5 318	8 632	–	–
Lease charges – equipment	**3**	14	–	–
Loss/(Profit) on sale of property and equipment	**14**	(29)	–	–
Marketing and communication	**7 251**	7 661	**665**	578
Operating leases – premises	**7 733**	7 082	–	–
Other operating costs	**28 502**	31 828	**469**	436
Professional fees				
Collections	–	88	–	–
Consulting	**3 932**	2 203	–	14
Legal	**325**	1 049	–	–
Computer consulting and services	**34 405**	27 015	–	–
	38 662	30 355	–	14
Staff costs				
Salaries wages and incentives	**114 883**	109 163	–	–
Post-retirement medical benefits (refer to note 19)	**(668)**	188	–	–
Contributions to retirement funds	**7 989**	7 073	–	–
Share-based payments expense including directors	**(752)**	8 253	–	–
Other	**3 761**	8 985	–	–
	125 213	133 662	–	–
Total operating expenditure	**247 578**	253 154	**1 134**	1 028
Number of persons employed by the Group at year-end	**435**	445		

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Group		Company	
	2009	2008	**2009**	2008
	R'000	R'000	**R'000**	R'000
27. Tax				
South African normal tax	**469**	(71)	**256**	–
– Current year	**(129)**	(6)	**–**	–
– Prior year	**598**	(65)	**256**	–
Deferred tax	**(55 336)**	162 246	**–**	–
– Current year	**(60 080)**	(72 055)	**–**	–
– Prior year	**4 744**	234 301	**–**	–
	(54 867)	162 175	**256**	–
Direct tax				
South African normal tax	**(469)**	71	**–**	–
South African tax rate reconciliation				
South African standard tax rate (%)	**28.00**	28.00	**28.00**	28.00
Exempt income (%)	**(0.55)**	(0.17)	**0.00**	0.00
Expenses not deductible for tax purposes (%)	**0.54**	0.55	**0.00**	0.00
Additional allowances for tax purposes (%)	**(0.15)**	0.00	**0.00**	0.00
Capital gain – 50% portion not taxed	**(0.10)**	(0.53)	**0.00**	0.00
(Over) provision prior years (%)	**(2.46)**	0.01	**(22.57)**	0.00
Other timing differences recognised for the first time (%)	**0.00**	(6.05)	**0.00**	0.00
Tax losses recognised for the first time (%)	**0.00**	(84.70)	**0.00**	0.00
Tax losses (utilised) (%)	**0.00**	0.00	**(28.00)**	(28.00)
Effective tax rate (%)	**25.28**	(62.89)	**(22.57)**	0.00
Estimated tax losses available for set-off against future taxable income	**384 462**	581 743	**4 062**	7 156

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Group 2009 R'000	2008 R'000
28. Earnings, diluted earnings, headline earnings and diluted headline earnings per ordinary share		
28.1 Earnings per ordinary share		
Profit after tax	**162 202**	419 973
Profit before tax	**217 069**	257 798
Weighted number of ordinary shares in issue ('000)	**3 911 114**	3 924 414
Earnings per ordinary share after tax (cents)	**4.1**	10.7
Earnings per ordinary share before tax (cents)	**5.6**	6.6
28.2 Diluted earnings per ordinary share		
Profit after tax	**162 202**	419 973
Profit before tax	**217 069**	257 798
Weighted diluted number of ordinary shares in issue ('000)	**3 928 895**	3 924 414
Earnings per ordinary share after tax (cents)	**4.1**	10.7
Earnings per ordinary share before tax (cents)	**5.5**	6.6
28.3 Headline and diluted headline earnings per ordinary share		
Restated reconciliation between profit before tax and headline earnings*		
Profit before tax	**217 069**	257 798
Adjustment for non-headline items:		
Realisation of available-for-sale reserve on disposal of investments	**(1 583)**	(9 837)
Loss/(Profit) on disposal of property and equipment	**14**	(29)
Headline earnings before tax	**215 500**	247 932
Tax	**(54 867)**	162 175
Tax on non-headline items*	**218**	1 385
Restated headline earnings after tax*	**160 851**	411 492
Headline earnings per ordinary share after tax (cents)	**4.1**	10.5
Headline earnings per ordinary share before tax (cents)	**5.5**	6.3
Diluted headline earnings per ordinary share after tax (cents)	**4.1**	10.5
Diluted headline earnings per ordinary share before tax (cents)	**5.5**	6.3

*The tax effect on non-headline items was omitted for 2008 but reported HEPS after tax remained unchanged.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Group		Company	
	2009	2008	**2009**	2008
	R'000	R'000	**R'000**	R'000
29. Cash flow notes				
29.1 Cash receipts from customers				
Interest income	**529 584**	661 776	–	–
Non-interest income and gain on disposal and revaluation of available-for-sale investments	**289 492**	269 840	–	–
Adjusted for: Dividends received	**(381)**	(861)	–	–
Net (gain) on disposal of available-for-sale investments	**(1 583)**	(9 837)	–	–
Revaluation of fair value financial instruments	**(50 636)**	72 157	–	–
Recoveries in respect of amounts previously written off	**911**	902	–	–
Total cash receipts from customers	**767 387**	993 977	–	–
29.2 Cash paid to customers suppliers and employees				
Interest expenditure	**(261 315)**	(337 813)	–	–
Operating expenditure and fee and commission expenditure	**(335 428)**	(330 122)	**(1 134)**	(1 028)
Adjusted for: Amortisation	**7 428**	6 086	–	–
Depreciation	**9 505**	9 504		
Loss/(Profit) on sale of property and equipment	**14**	(29)	–	–
Share-based payments	**(752)**	8 250	–	–
Decrease)/Increase in provisions	**(10 454)**	6 161	–	–
Total cash paid to suppliers and employees	**(591 002)**	(637 963)	**(1 134)**	(1 028)
29.3 Reconciliation of profit before tax to cash generated from operations				
Profit/(Loss) before tax	**217 069**	257 798	**(1 134)**	(1 028)
Profit before tax adjusted for:				
Dividends received	**(381)**	(861)	–	–
Net (gain) on disposal of available-for-sale investments	**(1 583)**	(9 837)	–	–
Revaluation of fair value financial instruments	**(50 636)**	72 157	–	–
Net impairments raised	**10 234**	7 520	–	–
Amortisation	**7 428**	6 086	–	–
Depreciation	**9 505**	9 504	–	–
Loss/(Profit) on sale of property and equipment	**14**	(29)	–	–
Share-based payments	**(752)**	8 250	–	–
(Decrease)/Increase in provisions	**(10 454)**	6 161	–	–
Share of income from associated company	**(4 059)**	(735)	–	–
Cash generated from operations	**176 385**	356 014	**(1 134)**	(1 028)

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

	Group		Company	
	2009	2008	**2009**	2008
	R'000	R'000	**R'000**	R'000
29. Cash flow notes (continued)				
29.4 Tax				
Amounts (unpaid) at the beginning of the year	**(494)**	(116)	–	–
Income statement charge	**469**	(71)	**256**	–
Less: Amounts (overpaid)/unpaid at the end of the year	**(186)**	494	**(256)**	–
Total tax (paid)/recovered	**(211)**	307	–	–
29.5 Net movement in income earning assets				
(Increase)/Decrease in negotiable securities	**(21 778)**	30 432	–	–
(Increase) in loans and advances	**(231 735)**	(602 498)	–	–
Decrease/(Increase) in bank term deposits	**289 019**	(153 677)	–	–
Net decrease/(increase) in income earning assets	**35 506**	(725 743)	–	–
29.6 Net movement in deposits and other accounts				
(Decrease)/Increase in deposits	**(142 749)**	621 164	–	–
(Increase) of treasury shares held within the Group	–	(4 851)	–	–
Increase in loan from subsidiary	–	–	**1 154**	968
Decrease/(Increase) in other accounts receivable	**9 734**	(15 634)	–	15
(Decrease)/Increase in other accounts payable	**(37 805)**	59 178	**(20)**	1
Net (decrease)/increase in deposits and other accounts	**(170 820)**	659 857	**1 134**	984

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

30. Related-party information

30.1 Identity of related parties with whom transactions have occurred

The holding Company and material subsidiaries of the Group are identified on page 11 in the Directors' report and the associated company is disclosed in notes 7 and 10 to the annual financial statements. All of these entities and the directors are related parties. There are no other related parties with whom transactions have taken place, other than as listed below.

30.2 Related-party balances and transactions

The Company, its subsidiaries and associated company, in the ordinary course of business, enter into various financial services transactions with the ultimate holding company and its subsidiaries, other entities within the Group and the associated company. These transactions are governed by terms no less favourable than those arranged with third parties.

	2009 R'000	2008 R'000
Balances between the ultimate holding company (CGD) and the Bank:		
CGD – Lisbon (Branch of CGD)	614 171	1 348 916
Nostro accounts	3 698	4 316
Vostro accounts	(1 568)	(2 142)
Deposit accounts	612 041	1 346 742
CGD – Paris (Branch of CGD)	68	(3 191)
Nostro accounts	92	84
Vostro accounts	(24)	(3 275)
CGD – London (Branch of CGD)		
Vostro accounts	(17)	(18)
CGD	614 222	1 345 707
Banco Comercial e de Investimentos – Mozambique (BCI) (Subsidiary of CGD)	(37 215)	(63 781)
Vostro accounts	(4)	(4 032)
Fixed deposits	(37 100)	(59 730)
Call and notice deposits	(111)	(19)
Total CGD	577 007	1 281 926
Transactions between the ultimate holding company (CGD) and the Bank:		
Interest paid by CGD to the Bank	10 518	41 063
Interest paid by BCI to the Bank	268	–
Interest paid by the Bank to BCI	3 084	3 424

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

30. Related-party information (continued)

30.2 Related-party balances and transactions (continued)

		2009 R'000	2008 R'000
Balances with the Company, its subsidiaries and associated company:			
Loan to:	**Loan from:**		
Mercantile Bank Holdings Limited	Mercantile Bank Limited	**11 947**	10 793
Portion 2 of Lot 8 Sandown (Pty) Limited	Mercantile Bank Limited	**40 390**	44 832
LSM (Troyeville) Properties (Pty) Limited	Mercantile Bank Limited	**6 494**	6 265
Mercantile Insurance Brokers (Pty) Limited	Mercantile Bank Limited	**290**	467
Mercantile Registrars Limited	Mercantile Bank Limited	**–**	3 042
Statman Investments (Pty) Limited	Mercantile Bank Limited	**–**	544
Deposit with:	**Deposit by:**		
Mercantile Bank Limited	Mercantile Insurance Brokers (Pty) Limited	**1 912**	1 973
Mercantile Bank Limited	Mercantile Bank Holdings Limited	**224**	224
Mercantile Bank Limited	Statman Investments (Pty) Limited	**3 636**	75
Transactions with the Company, its subsidiaries and associated company:			
Interest received by:	**Interest paid by:**		
Mercantile Bank Limited	Portion 2 of Lot 8 Sandown (Pty) Limited	**5 121**	6 527
Mercantile Bank Limited	LSM (Troyeville) Properties (Pty) Limited	**759**	918
Mercantile Insurance Brokers (Pty) Limited	Mercantile Bank Limited	**96**	100
Mercantile Bank Limited	Statman Investments (Pty) Limited	**25**	81
Statman Investments (Pty) Limited	Mercantile Bank Limited	**86**	–
Non-interest income earned by:	**Operating expenditure paid by:**		
Portion 2 of Lot 8 Sandown (Pty) Limited	Mercantile Bank Limited	**11 813**	10 680
LSM (Troyeville) Properties (Pty) Limited	Mercantile Bank Limited	**1 072**	1 018
Mercantile Bank Limited	Mercantile Insurance Brokers (Pty) Limited	**190**	164
Portion 2 of Lot 8 Sandown (Pty) Limited	Mercantile Insurance Brokers (Pty) Limited	**153**	142
Dividends earned by:	**Dividends paid by:**		
Mercantile Bank Limited	Statman Investments (Pty) Limited	**4 059**	1 752

Other

Post-retirement medical plan

Details of the post-retirement medical plan are disclosed in note 19.

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

30. Related-party information (continued)

30.3 Director and director-related activities

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

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

	2009 R'000	2008 R'000
Share-based payments expense relating to Directors:		
D J Brown	**94**	2 273
Amounts paid by CGD to:		
J P M Lopes	**585**	666

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

30. Related-party information (continued)

30.3 Director and director-related activities (continued)

Service agreements

D J Brown, CEO

Mr Brown's employment as CEO commenced on 31 March 2004 and was renewed for a further three years from 29 March 2009. The re-appointment of Mr Brown as an executive director was confirmed at the AGM held on 28 May 2009.

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

J P M Lopes, Executive Director

Mr Lopes has been seconded to Mercantile by CGD.

Mr Lopes's employment in Mercantile commenced on 9 November 2005, and his contract was renewed by the Board for a further three years from 9 November 2008. In terms of his service agreement Mr Lopes agreed to perform such duties, functions and services as are assigned to him from time to time by the Board of Directors and which are consistent and commensurate with his position as Executive Director.

Mr Lopes was re-elected at the AGM held on 28 May 2009 in accordance with the Company's articles of association.

Share options and conditional share awards

In terms of the share option scheme the following share options in the Company have been granted to Mr Brown (refer to note 16.5):

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

In terms of the CSP, the following conditional share awards were granted to Mr Brown (refer to note 16.5):

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

Directors' interests

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

Notes to the annual financial statements

for the year ended 31 December 2009 (continued)

31. Segment information

The Group has adopted IFRS 8 Operating segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The adoption of IFRS 8 has had no impact on the identification of the Group's reportable segments, reported results or financial position. The reportable segments of the Group are as follows:

Segment	**Scope of products and services**
Retail banking and Commercial Banking*	Banking, investment and other financial services offered to banking customers.
Treasury*	Managing internal liquidity, foreign exchange services as well as serving retail and alliance banking customers.
Alliance banking and MBL credit card*	Card processing services and electronic banking offered to banking customers.
Support and other services	Support services for the above segments, insurance brokers, surplus capital and intergroup eliminations.

**Excludes the allocation of attributable support costs and tax. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.*

All operations are located in South Africa.

	Retail and Commercial banking		Treasury		Alliance banking, MBL credit card and electronic banking		Support and other services		Total	
	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000	**2009 R'000**	2008 R'000	**2009 R'000**	2008 R'000	**2009 R'000**	2008 R'000
Segment revenue	**291 779**	347 155	**45 224**	59 612	**63 055**	53 799	**69 853**	56 269	**469 911**	516 835

Segment revenue consists of net interest income, net profit/(loss) on disposal and revaluation of assets and non-interest income net of fee and commission expenditure

Revenue is earned from external customers

	Retail and Commercial banking 2009 R'000	2008 R'000	Treasury 2009 R'000	2008 R'000	Alliance banking, MBL credit card and electronic banking 2009 R'000	2008 R'000	Support and other services 2009 R'000	2008 R'000	Total 2009 R'000	2008 R'000
Segment profit										
Operating profit	**197 583**	268 249	**25 888**	41 638	**39 583**	30 801	**(50 044)**	(83 625)	**213 010**	257 063
Share of income from associated company									**4 059**	735
Profit before tax									**217 069**	257 798
Tax									**(54 867)**	162 175
Profit after tax									**162 202**	419 973
Net interest income	**202 992**	268 467	**(3 025)**	3 253	**7 080**	6 343	**61 222**	45 900	**268 269**	323 963
Depreciation and amortisation	**7 316**	4 804	**1 849**	201	**3 150**	5 626	**4 618**	4 959	**16 933**	15 590
Segment assets	**3 986 816**	4 346 828	**746 313**	660 768	**127 165**	195 281	**958 440**	713 898	**5 818 734**	5 916 775
Segment liabilities	**3 486 095**	3 732 945	**712 768**	608 165	**73 780**	160 396	**108 420**	146 239	**4 381 063**	4 647 745
Additions to non-current assets	**90 312**	82 432	**5 325**	100	**6 748**	458	**9 004**	5 120	**111 389**	88 110
Interest in associated company									**3 234**	3 234

Except for interest earned from CGD which is disclosed in note 30.2, there are no other large clients of the Group that individually significantly contribute to revenue.

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:

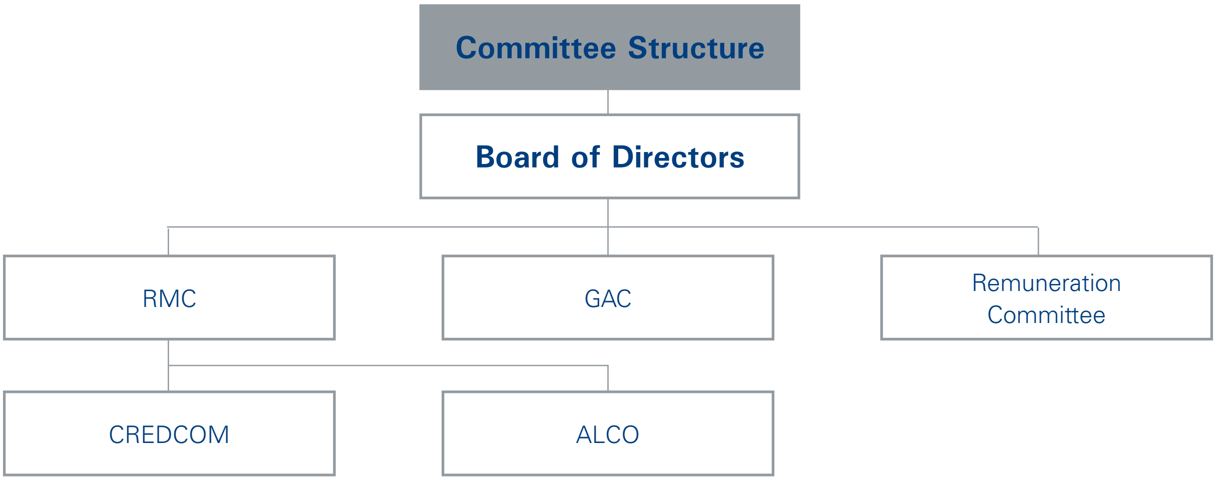
- development and partial implementation of a process of Risk Control Self Assessment across all key areas of the bank. Full implementation in all areas is scheduled for completion during the first quarter 2010;
- establishment of a Treasury Middle Office function for the dedicated management of Treasury-related 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:

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

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

Risk management and control (continued)

Management of risk (continued)

Operational risk

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

Interest rate risk

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

The 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 %
2009								
Assets								
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
Total assets	4 962 785	114 060	150 261	62 420	19 015	510 193	5 818 734	
Equity and liabilities								
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	–
Total equity and liabilities	2 682 236	293 544	666 650	5 560	–	2 170 744	5 818 734	
Financial position interest sensitivity gap	2 280 549	(179 484)	(516 389)	56 860	19 015	–	1 660 551	
Derivative financial instruments	49 684	59 526	–	(70 501)	(38 709)	–	–	
Total net interest sensitivity gap	2 330 233	(119 958)	(516 389)	(13 641)	(19 694)	–	1 660 551	

Risk management and control (continued)

Management of risk (continued)

Interest rate risk (continued)

	Up to 1 month R'000	1 - 3 months R'000	3 - 12 months R'000	1 - 5 years R'000	Over 5 years R'000	Non-interest sensitive R'000	Total R'000	Effective interest rate %
2008								
Assets								
Intangible assets	–	–	–	–	–	76 894	76 894	–
Property and equipment	–	–	–	–	–	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
Total assets	4 302 337	498 267	438 800	109 470	65 174	502 727	5 916 775	
Equity and liabilities								
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	–
Total equity and liabilities	2 282 080	552 194	1 012 189	8 161	–	2 062 151	5 916 775	
Financial position interest sensitivity gap	2 020 257	(53 927)	(573 389)	101 309	65 174		1 559 424	
Derivative financial instruments	27 559	119 758	–	(106 331)	(40 986)	–	–	
Total net interest sensitivity gap	1 992 698	(173 685)	(573 389)	207 640	106 160	–	1 559 424	

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
2009			
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**
	5 818 734	**4 381 063**	**1 437 671**
2008			
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
	5 916 775	4 647 745	1 269 030

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
2009					
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**	–	–
	3 872 041	**330 256**	**291 136**	**427 061**	**20 655**
2008					
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
	3 662 705	616 078	551 843	586 480	32 083

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:

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

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 asist 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	Remu-neration	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.

Analysis of shareholders

at 31 December 2009

SHAREHOLDERS' SPREAD

	2009	2008
Number of public shareholders	**6 471**	6 402

Percentage of shares held by:

	2009		2008	
	Number	**%**	Number	%
Public	**296 985 329**	**7.54**	296 985 329	7.54
Non-public	**3 641 933 195**	**92.46**	3 641 933 195	92.46
– Directors	–	–	–	–
– Employees	**110 600**	**0.003**	110 600	0.003
– Trustees of share incentive scheme	**27 804 400**	**0.71**	27 804 400	0.71
– Holders of 10% or more of shares	**3 614 018 195**	**91.75**	3 614 018 195	91.75
	3 938 918 524	**100.0**	3 938 918 524	100.0

MAJOR SHAREHOLDERS HOLDING IN EXCESS OF 5% OF THE COMPANY'S SHARE CAPITAL

	Number of shares	%
2009		
Caixa Geral de Depósitos SA	**3 614 018 195**	**91.75**
2008		
Caixa Geral de Depósitos SA	3 614 018 195	91.75

PERFORMANCE ON THE JSE DURING THE YEAR

	2009	2008
Number of shares issued	**3 938 918 524**	3 938 918 524
Share price (cents)		
Year-end	**23**	28
Highest	**28**	38
Lowest	**19**	21
Number of shares traded	**57 768 353**	106 408 606
Value of shares traded (R'000)	**13 134**	31 946
Average price (cents)	**23**	30
Market capitalisation (R'000)	**899 556**	1 095 112

Group addresses

Mercantile Bank Group Head Office
142 West Street, Sandown, 2196
PO Box 782699, Sandton, 2146
Tel: +27 11 302 0300
Fax: +27 11 883 7765

Mercantile Insurance Brokers Head Office
Mercantile Bank, 142 West Street, Sandown, 2196
PO Box 782699, Sandton, 2146
Tel: +27 11 302 0300
Fax: +27 11 883 7765

Mercantile Bank Branches

Boksburg Branch
North Atlas Centre, cnr Atlas and North Rand Roads, Boksburg, 1459
PO Box 31558, Braamfontein, 2017
Tel: +27 11 918 5276
Fax: +27 11 918 4159

Bruma Branch
11 Ernest Oppenheimer Boulevard
Bruma, 2198
PO Box 31558, Braamfontein, 2017
Tel: +27 11 622 0916
Fax: +27 11 622 8833

Cape Town City Branch
Ground Floor, M&B House, Pier Place
Foreshore, Cape Town, 8001
PO Box 51, Cape Town, 8000
Tel: +27 21 419 9402
Fax: +27 21 419 5929

Cape Town Tygerberg Branch
Ground Floor, Tygerpoort Building
7 Mispel Street, Belville, 7530
PO Box 5436, Tygervalley, 7536
Tel: +27 21 910 0161
Fax: +27 21 910 0163

Comaro Crossing Branch
Shop FF9, Comaro Crossing Shopping Centre, Orpen and Comaro Roads, Oakdene, 2190
PO Box 31558, Braamfontein, 2017
Tel: +27 11 435 0640
Fax: + 27 11 435 1586

Durban Branch
Cowey Shopping Centre
123 Cowey Road,
Berea, Durban, 4001
PO Box 519, Durban,4000
Tel: +27 31 209 9048
Fax: +27 31 209 9446

Germiston Branch
The Lake Shopping Centre
cnr William Hill and Lake Street,
Germiston, 1401
PO Box 31558, Braamfontein, 2017
Tel: +27 11 824 5813
Fax: +27 11 824 5823

Horizon Branch
153 Ontdekkers Road, Horizon, 1730
PO Box 31558, Braamfontein, 2017
Tel: +27 11 763 6000
Fax: +27 11 763 8742

Pretoria Hatfield Branch
Pro-Equity Court, cnr Pretorius and Gordon Street, Hatfield, Pretoria, 0083
PO Box 31558, Braamfontein, 2017
Tel: +27 12 342 1151
Fax: +27 12 342 1191

Pretoria West Branch
477 Mitchell Street
Pretoria West, 0183
PO Box 31558, Braamfontein, 2017
Tel: +27 12 327 4671
Fax: +27 12 327 4645

Sandton Branch
Ground Floor, 142 West Street
Sandown, 2196
PO Box 31558, Braamfontein, 2017
Tel: +27 11 302 0775
Fax: +27 11 884 1821

Strijdompark Branch
Shop 2, Homeworld Centre
cnr Malibongwe Drive and CR Swart Road, Strijdom Park, Randburg, 2194
PO Box 31558, Braamfontein, 2017
Tel: +27 11 791 0854
Fax: +27 11 791 2387

Troyeville Branch
77 Bezuidenhout Street, Bertrams, 2094
PO Box 31558, Braamfontein, 2017
Tel: +27 11 624 1450
Fax: +27 11 614 9611

Vanderbijlpark Branch
Shop 1 & 2, Russell's Building
54 President Kruger Street,
Vanderbijlpark, 1911
PO Box 31558, Braamfontein, 2017
Tel: +27 16 981 4132
Fax: +27 16 981 0767

Welkom Branch
Tulbagh House, 11 Tulbagh Street
Welkom, 9459
PO Box 2207, Welkom, 9460
Tel: +27 57 357 3143
Fax: +27 57 352 7879

Notice of Annual General Meeting

Mercantile Bank
Holdings Limited
Member of CGD Group

Registration number: 1989/000164/06
(Incorporated in the Republic of South Africa)
Share code: MTL ISIN: ZAE000064721
("Mercantile " or "the Company")

Notice is hereby given that an Annual General Meeting ("the meeting") of the shareholders of the Company will be held at 12:30 on Thursday, 27 May 2010 in the Boardroom, First Floor, Mercantile Bank, 142 West Street, Sandown, Sandton for the following purposes:

ORDINARY RESOLUTIONS

1. ADOPTION OF ANNUAL FINANCIAL STATEMENTS

To receive and adopt the annual financial statements of the Company and of the Mercantile Group for the year ended 31 December 2009.

Explanatory note:

At the Annual General Meeting the Directors must present the audited annual financial statements for the year ended 31 December 2009 to shareholders together with the reports of the Directors and auditors as contained in the 2009 Annual Report.

2. NON-EXECUTIVE DIRECTORS' REMUNERATION

To approve and ratify the proposed fees payable on a monthly basis to the non-executive Directors of the Mercantile Group from time to time for the period 1 April 2010 to 31 March 2011 for serving as a Director on the Board and Board Committees.

2.1 Chairman of the Mercantile Board: R 1 491 000 per annum

2.2 Director of the Mercantile Board: R 204 000 per annum

2.3 Director of Mercantile Bank Limited ("the Bank"), the major subsidiary of the Company: R 44 000 per annum

2.4 Chairman of the Group Audit Committee: R 81 000 per annum

2.5 Member of the Group Audit Committee: R 62 000 per annum

2.6 Chairman of the Remuneration Committee: R 54 000 per annum

2.7 Member of the Remuneration Committee: R 62 000 per annum

2.8 Member of the Risk and Capital Management Committee: R 62 000 per annum

2.9 Chairman of the Transformation Committee: R 54 000 per annum

2.10 Member of the Transformation Committee: R 62 000 per annum

2.11 Member of the Directors' Affairs Committee: R 62 000 per annum

2.12 Chairman of the Technology Committee (Committee of the Bank): R 54 000 per annum

2.13 Member of the Technology Committee (Committee of the Bank): R 62 000 per annum

Notice of Annual General Meeting (continued)

2. NON-EXECUTIVE DIRECTORS' REMUNERATION (continued)

Explanatory note:

Shareholders are requested to approve the remuneration payable to non-executive Directors for serving on the Boards and Board Committees of the Company and the Bank. The Chairman of the Mercantile Board's fee includes remuneration for the Chairman's participation on other Boards and Board Committees. The Board members' total fees are dependent on their participation on Board Committees. Refer to Annexure A on page 87 for the Board and Board Composition as at 31 December 2009.

3. RE-ELECTION OF DIRECTORS RETIRING BY ROTATION

To re-elect by way of separate resolutions Directors in the place of those retiring in accordance with the Company's articles of association. The Directors retiring are:

J A S de Andrade Campos (appointed 27 June 2002)
G P de Kock (appointed 23 November 2000)
S Rapeti (appointed 29 July 2005)

and being eligible offer themselves for re-election.

An abbreviated curriculum vitae of each Director offering themselves for re-election is contained on page 94 of the Annual Report.

Explanatory note:

In accordance with the articles of association of the Company one-third of the Directors is required to retire at each meeting and may offer themselves for re-election. During the period of his service contract, the CEO is not considered for retirement by rotation.

4. AUDITORS

To recommend the re-appointment of Deloitte & Touche as independent auditors of the Company and to appoint R Eksteen as the designated auditor to hold office for the ensuing year.

Explanatory note:

Deloitte & Touche has indicated their willingness to continue as the Company's auditors until the next Annual General Meeting. The Group Audit Committee has satisfied itself as to the independence of Deloitte & Touche. The Group Audit Committee has the power in terms of the SA Corporate Laws Amendment Act, 2006 to approve the remuneration of the external auditors. The remuneration and non-audit fees paid to the auditors during the year ended 31 December 2009 are contained on page 50.

As special business and requiring shareholder approval, shareholders are requested to consider and if deemed fit, pass with or without modification the following resolutions numbers 5, 6 and 7.

Notice of Annual General Meeting (continued)

5. CONTROL OF AUTHORISED BUT UNISSUED SHARES

"RESOLVED as an ordinary resolution that all the unissued shares in the authorised share capital of the Company be and are hereby placed under the control of the Directors of the Company, who are authorised to allot and issue the same to such persons and on such terms and conditions as they may determine in their sole and absolute discretion, subject to the provisions of the Companies Act, No. 61 of 1973 (as amended), the provisions of the Banks Act, No. 94 of 1990 (as amended) and the Listings Requirements of JSE Limited."
The approval is given in the form of a general authority and accordingly:

- is only valid until the next Annual General Meeting of the Company; and
- may be varied or revoked by any General Meeting of the Company prior to such Annual General Meeting.

6. GENERAL AUTHORITY TO ISSUE SHARES FOR CASH

"RESOLVED that the Directors be given the general authority to issue unissued shares of a class already in issue held under their control, for cash, when the Directors consider it appropriate in the circumstances, subject to the provisions of the Companies Act, No. 61 of 1973 (as amended), the provisions of the Banks Act, No. 94 of 1990 (as amended), the Listings Requirements of JSE Limited and to the following limitations, that:

- the authority shall be valid until the next Annual General Meeting of the Company (provided it shall not extend beyond 15 months from the date of this resolution);
- a paid press announcement giving full details, including the impact on net asset value, net tangible asset value, earnings and headline earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of shares in issue prior to such issue;
- issues for cash in any one financial year may not exceed 15% of the Company's issued share capital;
- the issues must be made to public shareholders as defined by the Listings Requirements of JSE Limited; and
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% of the volume weighted average traded price as determined over the 30 business days prior to the date that the price of the issue is determined or agreed by the Directors of the Company."

The approval of a 75% majority of the votes cast by shareholders present or represented by proxy at this meeting is required for this resolution to become effective.

7. SIGNATURE OF DOCUMENTS

"RESOLVED that any one Director or the Company Secretary of the Company be and is hereby authorised to do all such things and sign all documents and take all such action as they consider necessary to implement the resolutions set out in the notice convening this Annual General Meeting at which this ordinary resolution will be considered."

VOTING AND PROXIES

A member entitled to attend, speak and vote at this meeting is entitled to appoint a proxy (who need not be a member of the Company) to attend, vote and speak in his/her stead.

Members which are companies or other body corporates, may, in terms of section 188 (1) of the Companies Act, No. 61 of 1973 (as amended), by resolution of their Directors or other governing body, authorise any person to act as its representative at the meeting.

Notice of Annual General Meeting (continued)

Certificated shareholders and own-name dematerialised shareholders, who are unable to attend this meeting but wish to be represented thereat, must complete and return the attached form of proxy in accordance with the instructions contained therein. A form of proxy is attached for this purpose and must be lodged at the Company's transfer secretaries or the Company's registered address by no later than 12:30 on Tuesday 25 May 2010. The detail of these addresses are on page 3.

Dematerialised shareholders, excluding own-name dematerialised shareholders, who wish to attend this meeting, must request their Central Securities Depository Participant ("CSDP") or broker to provide them with a Letter of Representation or must instruct their CSDP or broker to vote by proxy on their behalf in terms of the agreement entered into between the shareholder and their CSDP or broker.

By order of the Board

Ms A de Villiers
Company Secretary
Sandton
12 March 2010

Registered office
First Floor
Mercantile Bank
142 West Street
Sandown, 2196
(P O Box 782699, Sandton, 2146)

Transfer Secretaries
Computershare Investor Services (Pty) Limited
Ground Floor
70 Marshall Street
Johannesburg 2001
(P O Box 61051, Marshalltown, 2107)

Brief *curriculum vitae* of each Director standing for re-election or re-appointment

G P de Kock, age 55, attended Executive Programmes at the Universities of Cape Town and Stanford, California. He retired in 2004 as Managing Director of Woolworths Financial Services (Pty) Limited and as an executive Director of Woolworths Holdings Limited. Before that he was the General Manager of the Credit Card Division of Edgars Stores Limited. He is currently operating as an independent consultant in the retail and financial services industries.

J A S de Andrade Campos, age 72, holds a degree in Law from Coimbra University in Portugal. Having started his career as Public Prosecutor, he later held senior positions in various banks and other companies in Europe and Africa, including Chairman of Banque Franco Portugaise in Paris (part of the CGD group).

S Rapeti, age 45, holds an MBA (cum laude) from the University of Wales and is currently studying for a Masters degree in Electronic Engineering through the University of the Witwatersrand. She served as the Vice-president of the Engineering Council of South Africa and Deputy Chairperson of the Council of the Built Environment from 2001 - 2005. Ms Rapeti currently heads up Products and Services development for MTN South Africa after a career spanning two decades with the SABC where her last position was Group Executive: Technology.

Form of proxy

Mercantile Bank Holdings Limited
Member of CGD Group

Registration number: 1989/000164/06
(Incorporated in the Republic of South Africa)
Share code: MTL ISIN: ZAE000064721
("the Company")

for use by certificated and own-name dematerialised ordinary shareholders at the Annual General Meeting of the Company to be held at 12:30 on Thursday, 27 May 2010 ("the meeting") in the Boardroom, First Floor, Mercantile Bank, 142 West Street, Sandown, Sandton.

I/We (please print) full name/(s)

of (please print) address

being (a) member(s) of the Company, holding ______ ordinary shares in the Company, hereby appoint:

1. or failing him/her,

2. or failing him/her,

3. the Chairman of the meeting

as my/our proxy to attend, speak and vote on my/our behalf at the Annual General Meeting to be held at the registered office of the Company, in Sandton, on Thursday, 27 May 2010 at 12:30 and at any adjournment thereof, and to vote or abstain from voting on the ordinary resolutions to be proposed at the meeting, as follows:

Resolutions	For	Against	Abstain
1. Ordinary resolution number 1: Adoption of annual financial statements			
2. Ordinary resolution number 2: Non-executive Directors' remuneration			
3. Re-election of Directors			
3.1 Ordinary resolution number 3: J A S de Andrade Campos			
3.2 Ordinary resolution number 4: G P de Kock			
3.3 Ordinary resolution number 5: S Rapeti			
4. Ordinary resolution number 6: Re-appointment of auditors			
5. Ordinary resolution number 7: Control of authorised but unissued shares			
6. Ordinary resolution number 8: General authority to issue shares for cash			
7. Ordinary resolution number 9: Signature on documents			

Signed this ______ day of ______ 2010

Signature of member(s)

Assisted by me (where applicable)

Please read the notes and instructions on the reverse hereof.

Form of proxy (continued)

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.
2. Every person present and entitled to vote at the meeting as a member or as a proxy or as a representative of a body corporate shall, on a show of hands, have one vote only, irrespective of the number of shares such person holds or represents, but in the event of a poll, a member shall be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of the shares held by him/her/it bears to the aggregate amount of the nominal value of all the shares issued by the Company. It is the intention of the Company to request for a vote on a poll.
3. Please insert the relevant number of shares/votes in the appropriate spaces on the face hereof and how you wish your votes to be cast. If you return this form of proxy duly signed without any specific directions, the proxy will vote or abstain from voting at his/her/its discretion.

Instructions on signing and lodging this form of proxy:

1. A deletion of any printed matter and the completion of any blank spaces need not be signed or initialled. Any alteration or correction must be initialled by the authorised signatory/ies.
2. The Chairman shall be entitled to decline or accept the authority of a person signing this form of proxy:

   (a) under a power of attorney; or

   (b) on behalf of a company,

   unless that person's power of attorney or authority is deposited at the registered office of the Company not later than 12:30 on Tuesday, 25 May 2010.
3. You may insert the name of any person(s) whom you wish to appoint as your proxy in the blank space(s) provided for that purpose.
4. When there are joint holders of shares, all joint shareholders must sign this form of proxy.
5. The completion and lodging of this form of proxy will not preclude the member who grants this proxy from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such member wish to do so.
6. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the transfer secretaries of the Company or waived by the Chairman of the meeting. The Chairman of the meeting may reject any form of proxy not completed and/or received in accordance with these notes and/or instructions, or with the articles of association of the Company.
7. Completed forms of proxy should be returned to the registered office, First Floor, Mercantile Bank, 142 West Street, Sandown, 2196 (PO Box 782699, Sandton, 2146) or faxed to the Company Secretary (fax number +27 11 883-7765) or faxed to the transfer secretaries (fax number +27 11 688 5238) by no later than 12:30 on Tuesday, 25 May 2010.

Mercantile Bank
Holdings Limited
Member of CGD Group

142 West Street, Sandown, 2196, South Africa
Tel +27 (0)11 302 0300, Fax +27 (0)11 302 0729
www.mercantile.co.za

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