ANNUAL FINANCIAL STATEMENTS

DIRECTORS' APPROVAL

The directors whose names appear on page 3 of the annual financial statements are collectively and individually responsible for the preparation, integrity and objectivity of the annual financial statements and the related financial information included in this report, which fairly present the state of affairs of the Bank at the end of the financial year. In meeting this obligation, they are assisted by management, the internal and external auditors of the Bank. The external auditors are responsible for reporting on the financial statements. Internal control and administrative systems, designed to provide reasonable assurance as to the integrity of the financial statements, that assets are adequately safeguarded and that transactions are executed in terms of the Bank's policy and procedures, are in place and duly maintained in a cost-effective manner.

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

It was confirmed that there were no capital commitments in respect of transactions that have been authorised but not yet paid, the only commitments related to fixed assets and leasehold agreements. It was further confirmed that there were no material transactions which were off balance sheet. It was confirmed further that nothing had come to the attention of the directors to indicate that any breakdown in the functioning of the controls has resulted in material loss to the holding company and the Bank during the year up to the date of this report. It was highlighted that the Directors of the Bank have given the assurance in this regard to the South African Reserve Bank in terms of regulation 40 (4). It was noted that the members require an addendum to the annual financial statements confirming the absence of material losses in line with regulation 40 (4).

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

APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements set out on pages 4 to 52 were approved by the Board of Directors of Teba Bank Limited and are signed on their behalf by:

Director

Director

Johannesburg, 29 July 2010

CERTIFICATE OF THE COMPANY SECRETARY

In my capacity as company secretary I certify that in terms of the Companies Act, No.61 of 1973 (as amended), this Bank submitted all returns for the year ended 28 February 2010, as required by a public company, in terms of the Companies Act, and that all returns are correct and up to date.

Company secretary

Johannesburg, 29 July 2010

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual financial statements of Teba Bank Limited, which comprise the statement of financial position as at 28 February 2010, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 4 to 52.

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 the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, these financial statements present fairly, in all material respects, the financial position of Teba Bank Limited as at 28 February 2010, and its financial performance and 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.

Ernst & Young Inc.

Ernst & Young Inc.
29 July 2010
Johannesburg

DIRECTORS' REPORT

FOR THE YEAR ENDED 28 FEBRUARY 2010

NATURE OF ACTIVITIES

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

GOING CONCERN

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

SHARE CAPITAL

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

HOLDING COMPANY

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

DIRECTORS

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

NON-EXECUTIVE DIRECTORS	APPOINTMENT DATE	RESIGNATION DATE
S.S. Moraba (Chairperson)	28 June 2000	3 December 2009
C.B. Stofile	19 June 2001	
B.M. Hawksworth	13 February 2002	3 December 2009
J.H. De Villiers Botha	29 November 2005	
Z. Macanda	16 August 2007	
N. Erasmus	15 October 2008	
D.P. Elbrecht	15 October 2008	
A.W. Mjekula	06 November 2008	
L. Mangope	24 December 2008	
EXECUTIVE DIRECTORS		
M. Williams (Chief Executive Officer)	01 April 2007	
J. Pohl (Chief Financial Officer)	01 June 2007	

COMPANY SECRETARY	APPOINTMENT DATE
A. Ndoni	01 September 2007

INTERESTS OF DIRECTORS AND OFFICERS

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

SPECIAL RESOLUTIONS

None.

KEY AREAS OF SIGNIFICANT JUDGEMENT – INVESTMENT IMPAIRMENT

The details concerning the investment in Corporate Money Managers Fund (CMM) was reported in the prior years' Directors' Report as a post balance sheet event. During the current financial year further clarity has been obtained regarding this investment and the curatorship process that is currently underway. The Bank's outsourced investment to CMM as at 28 February 2010 was R220 million and reported as Investments (Note 15) under the available for sale designation, having been reclassified from the held to maturity designation due to these events, which are outside of the Bank's control.

Management, reassessed the impairment indicators in the current year and observed objective evidence of impairment (February 2009: Based on an impairment test, management concluded that although there were indicators of impairments, there was no objective evidence that an impairment loss existed as at 28 February 2009) and calculated an impairment estimate taking into account the following significant judgements:

Realisable amount

The Curators remain confident of a partial recovery of the assets within the Fund, taking into account the underlying assets, the difficulty in validating security of the assets, the validity if the liability listing excluding opportunistic claims and the risks associated with a Curatorship process, management estimated this recoverable amount at 57%. This percentage is highly judgemental as it estimates the costs to complete certain developments, the costs to market, the costs to sell, the effects of the conclusion of the Curator investigations into exposures and underlying cash flows.

Discount rate

The discount rate of 14.5% applied to the realisable amount is based on the estimate of an appropriate rate to discount the cash flows taking into account the specific risks from the type of underlying assets.

Realisation period

The realisation period for the final payment of the realisable amount (excluding short-term payments as indicated by the Curator) is estimated at six years taking into account market experience in the length of time this process takes to be resolved.

These significant judgements resulted in an impairment of R166,7 million (February 2009: Nil) compared to the gross investment of R220 million (February 2009: R220 million). This impairment is reported on the face of the Statement of Comprehensive Income. Since this is a tax capital loss and the current opportunities for similar capital tax profits are remote, no deferred tax asset for the tax capital loss was recognised. Management remain hopeful of a better recovery rate and are actively engaged with the Curators through the Investor Forum to explore all remaining recovery opportunities.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 28 FEBRUARY 2010

	Notes	2010 R'000	2009 R'000
Interest income		303,335	401,717
Interest expense		(56,044)	(53,125)
Net interest income	6	**247,291**	**348,592**
Fees and commission income	7	297,483	171,270
Fees and commission expense		(45,747)	(37,274)
Net fees and commission income		**251,736**	**133,996**
Net (loss)/gain on financial assets designated at fair value through profit or loss	8	(124)	1,804
Other operating income	9	45,310	48,682
Total operating income		**544,213**	**533,075**
Impairment charge on financial assets	10	(208,877)	(51,008)
Impairment charge on loans and advances		(42,177)	(51,008)
Impairment charge on investments		(166,700)	-
Net operating income		**335,336**	**482,066**
Personnel expenses	11	(231,447)	(224,811)
Depreciation of property and equipment	18	(36,629)	(23,229)
Amortisation of intangible assets	19	(1,153)	(833)
Other operating expenses	12	(184,467)	(172,758)
Total operating expenses		**(453,696)**	**(421,631)**
(Loss)/Profit before tax		**(118,360)**	**60,435**
Taxation	13	39,393	(9,935)
(Loss)/Profit for the year		**(78,967)**	**50,500**
Other comprehensive income:			
Fair value adjustment on available for sale investments		247	120
Taxation	13	(35)	(15)
Total comprehensive income for the year		**(78,755)**	**50,605**

STATEMENT OF FINANCIAL POSITION

AS AT 28 FEBRUARY 2010

	Notes	2010 R'000	2009 R'000
ASSETS			
Cash and cash balances	14	594,540	470,223
Trade receivables and other assets	16	56,129	37,349
Investments	15	2,005,973	1,925,112
Loans and advances to customers	17	437,969	545,014
Current tax asset		14,749	8,326
Property and equipment	18	92,006	81,092
Intangible assets	19	50,630	13,027
Deferred taxation	20	61,092	19,022
TOTAL ASSETS		3,313,088	3,099,165
LIABILITIES			
Trade payables and other liabilities	21	82,045	87,792
Deposits and savings due to customers	22	2,656,296	2,361,360
Lease liability	32	8,580	-
Provisions	23	29,362	34,453
TOTAL LIABILITIES		2,776,283	2,483,605
EQUITY			
Share capital and share premium	24	244,875	244,875
Available-for-sale reserve	24	1,693	1,481
Retained earnings		290,237	369,204
TOTAL EQUITY		536,805	615,560
TOTAL LIABILITIES AND EQUITY		3,313,088	3,099,165

STATEMENT OF CHANGES IN EQUITY

AS AT 28 FEBRUARY 2010

	Notes	Share capital	Share premium	Available-for-sale reserve*	Retained earnings	Total
		R'000	R'000	R'000	R'000	R'000
Balance at 1 March 2008		24,500	220,375	1,376	318,704	564,955
Profit for the year		-	-	-	50,500	50,500
Other comprehensive income for the year		-	-	105	-	105
Total comprehensive income for the year		-	-	105	50,500	50,605
Balance at 28 February 2009		24,500	220,375	1,481	369,204	615,560
Loss for the year		-	-	-	(78,967)	(78,967)
Other comprehensive income for the year		-	-	212	-	212
Total comprehensive income for the year		-	-	212	(78,967)	(78,755)
Balance at 28 February 2010		**24,500**	**220,375**	**1,693**	**290,237**	**536,805**

NATURE AND PURPOSE OF RESERVES

Available-for-sale (AFS) reserve

This reserve records fair value changes on available for sale financial assets.

* Gains and losses arising from changes in fair value of available for sale investments are included in the available for sale reserve until sale or impairment when the cumulative gain loss is transferred to the income statement.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 28 FEBRUARY 2010

	Notes	2010 R'000	2009 R'000
OPERATING ACTIVITIES			
Cash received from customers		511,416	534,177
Cash paid to customers and employees		(403,820)	(403,729)
Cash available from operating activities	29	107,596	130,448
Changes in operating funds: Increase in income earning assets		(182,918)	(334,457)
Increase in deposits		294,936	395,242
Cash available from operating activities after changes in operating activities		219,614	191,233
Tax paid	29	(9,100)	(8,107)
Net cash inflow from operating activities		210,514	183,126
INVESTING ACTIVITIES			
Additions to intangible assets		(38,756)	(11,450)
Additions to property and equipment (Maintaining of operating activities)		(47,678)	(59,185)
Proceeds from disposal of property and equipment		237	5,716
Net cash used in investing activities		(86,197)	(64,919)
Net increase in cash and cash equivalents		124,317	118,207
Cash and cash equivalents at beginning of year		470,223	352,016
Cash and cash equivalents at end of year	14	594,540	470,223
Cash and cash equivalents comprise:			
Coins and bank notes		58,107	62,014
Balances with other banks		536,433	407,903
Effect of foreign exchange rate movements		-	306
	14	594,540	470,223

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2010

1. CORPORATE INFORMATION

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

The financial statements were approved by the Board of Directors on 29 July 2010.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The annual financial statements have been prepared on the historical cost basis except for certain financial instruments that are held at fair value.

– financial assets classified as available for sale or held at fair value through profit and loss

STATEMENT OF COMPLIANCE

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

CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the prior year except as follows:

The following standards, amendments and interpretations were adopted by the Bank during the year (being standards, amendments and interpretations effective in 2009):

IAS 1 (Revised) – Presentation of financial statements (effective from 1 January 2009)

The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning comparative period in addition to the current requirement to present a statement of financial position at the end of the current period and the end of the comparative period. The Bank's statements have been amended to allow for these changes; the Bank has chosen to present one performance statement, the statement of comprehensive income.

IFRS 2 (Amendment) – Share-based payment (effective from 1 January 2009)

The amendment deals with vesting conditions and cancellations: It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. The amendment did not have any impact on the Bank's financial statements.

IFRS7 – The amended standard requires additional disclosures about fair value measurement and liquidity risk (effective from 1 January 2009)
Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. Additional disclosure has been added to the Bank's accounts in this regard.

Amendments to IAS 39 Financial instruments: Recognition and measurement and IFRS 7 Financial instruments: Reclassification of financial assets (effective 1 July 2008)
The amended standard allows entities to reclassify financial instruments previously classified as held for trading as available for sale instruments. The amendment did not have any impact on the Bank's financial statements.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED
The Bank has not applied the following IFRSs or amendments to IFRSs and IFRIC interpretations that have been issued and could be applicable to the Bank but are not yet effective. The Bank does not intend to adopt and rectify any of these early:

IFRS2 – Group Cash-settled Share-based Payment Arrangements
These amendments deal with changes to the definitions of share based payment transactions and arrangements. Furthermore the scope of IFRS2 has been amended and guidance on accounting for group cash-settled share-based payment transactions has been provided. The standard is effective for years starting on or after 1 January 2010 and is not expected to impact the Bank.

IFRS 3 (Revised) – Business combinations (effective from 1 July 2009)
The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

IFRS 9 Financial Instruments (effective 1 January 2013)
This statement specifies how an entity should classify and measure financial assets, including some hybrid contracts. The standard requires all financial assets to be:
(a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.
(b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs.
(c) subsequently measured at amortised cost or fair value.

The standard is expected to impact the classification and measurement of financial assets in future periods.

IAS 24 (Revised) – Related party disclosures (effective 1 January 2011)
The revised standard simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. The revised standard also provides partial exemption from the disclosure requirements for government related entities.

IAS 32 (Revised) – Financial Instruments: Presentation – Classification of Rights Issues (effective from 1 February 2010)

The definition of a financial liability has been amended to classify rights issues (and certain options or warrants) as equity instruments if:

- The rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments.
- They are used to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

This amendment will not have any impact on the Bank's financial statements.

2.2 Significant accounting judgements and estimates

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

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

The most significant use of judgements and estimates are as follows:

Property and equipment

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

Impairment of property and equipment

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

Where impairment indicators exist, the determination of the recoverable amount requires management to make assumptions to determine the fair value less cost to sell or value in use. Key assumptions on which management has based its determination of value in use include projected revenues, capital expenditure, and market share. The judgements, assumptions and methodologies used can have a material impact on the fair value and ultimately the amount of any impairment. No impairment was recognised during the year (2009 : nil).

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a degree of judgement to estimate probable future cash flows. Future cash flows are discounted using a risk adjusted discount rate. Fair values are disclosed within the valuation hierarchy determined under IFRS 7 in note 15.

The following significant judgements were made in the calculation of impairment of the CMM investment (refer to note 15):

Realisable amount
The Curators remain confident of a partial recovery of the assets within the Fund, taking into account the underlying assets, the difficulty in validating security of the assets, the validity if the liability listing excluding opportunistic claims and the risks associated with a Curatorship process, management estimated this recoverable amount at 57%. This percentage is highly judgemental as it estimates the costs to complete certain developments, the costs to market, the costs to sell, the effects of the conclusion of the Curator investigations into exposures and underlying cash flows.

Discount rate
The discount rate of 14.5% applied to the realisable amount is based on the estimate of an appropriate rate to discount the cash flows taking into account the specific risks from the type of underlying assets.

Realisation period
The realisation period for the final payment of the realisable amount (excluding short-term payments as indicated by the Curator) is estimated at six years taking into account market experience in the length of time this process takes to be resolved.

These significant judgements resulted in an impairment of R166,7 million (February 2009: Nil) compared to the gross investment, excluding accrued interest, of R220 million (February 2009: R220 million). This impairment is reported on the face of the Statement of Comprehensive Income. Since this is a tax capital loss and the current opportunities for similar capital tax profits are remote, no deferred tax asset for the tax capital loss was recognised. Management remain hopeful of a better recovery rate and are actively engaged with the Curators through the Investor Forum to explore all remaining recovery opportunities.

Financial assets
At each balance sheet date, management assesses whether there are indicators of impairment of financial assets. If such evidence exists, the estimated present value of the future cash flows of that asset is determined. Management's judgement is required when determining the expected future cash flows. Impairments of financial assets are detailed in note 10 and within the Director's report.

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

Taxation
Management's judgement is exercised when determining the probability of future taxable profits, which will determine whether deferred tax assets should be recognised or derecognised. The utilisation of deferred tax assets will depend on whether it is possible

to generate sufficient taxable income, taking into account any legal restrictions on the length and nature of the taxation asset. When deciding whether to recognise unutilised taxation credits, management needs to determine the extent to which future payments are likely to be available for set off. In the event that the assessment of future payments and future utilisation changes, the change in the recognised deferred taxation is recognised in comprehensive income. Details of deferred tax assets are included in note 20.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

3.1. Recognition of income and expenses

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

(a) Interest income and expense

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

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

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

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

(b) Fee and commission income

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

(c) Dividend income

Dividend income is recognised when the Bank's right to receive income is established. Dividends are reflected as a component of other operating income.

3.2 Foreign currency transactions

The financial statements are presented in South African Rand, which is the company's functional and presentational currency. Foreign currency transactions are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. Gains and losses on foreign exchange transactions are recognised in the statement of comprehensive income in the period in which they arise.

3.3 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. The total minimum lease payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Any contingent rental payments are expensed when incurred. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Finance leases, which transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of comprehensive income. Leased assets are depreciated over the useful life of the asset.

3.4 Taxation

(a) Current tax

Income tax payable on taxable profits (“current tax”), is recognised as an expense in the period in which the profits arise. The tax rates and tax laws used to compute the amount are those that are applicable as at the end of the financial year.

Income tax related to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

(b) Deferred tax

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

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

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

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

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised directly in equity is also recognised in equity and not in the statement of comprehensive income.

(c) Secondary tax on companies

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

3.5 Cash and cash equivalents

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

3.6 Property and equipment

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

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

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

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

The company uses the following annual rates in calculating depreciation:

Motor vehicles	5 years
Furniture and fittings	6 years

Computers	3 years
Office equipment	5 years
ATMs	7 years
Leasehold improvements	Shorter of the period of lease and useful life of the item

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

3.7 Intangible assets

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

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

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

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

The amortisation periods are as follows:

Computer software development costs 3 years

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

3.8 Impairment of property, equipment and intangible assets

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

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

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

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

3.9 Employee benefits

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

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

3.10 Provisions and contingent liabilities

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

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

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

3.11 Financial instruments – Initial recognition and subsequent measurement

(a) Initial recognition

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

(b) Date of recognition

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

(c) Financial assets

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

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

(d) Financial liabilities

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

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

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

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other operating income" when the right to the payment has been established. Included in this classification are certain short-term investments as detailed in note 15.

(f) Loans and receivables

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

(g) Held to maturity investments

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

(h) Available-for-sale investments

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

3.12 Financial instruments – Derecognition of financial assets and financial liabilities

(a) Financial assets

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

- the rights to receive cash flows from the asset has expired; or
- the company retains the right to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement and the company has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(b) Financial liabilities

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

3.13 Financial instruments – Determination of fair value

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

3.14 Impairment of financial instruments

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

i) significant financial difficulty of the issuer or obligor;
ii) a breach of contract, such as a default or delinquency in interest or principal payments;
iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
v) the disappearance of an active market for that financial asset because of financial difficulties; or
vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   - Adverse changes in the payment status of borrowers in the portfolio; and
   - National or local economic conditions that correlate with defaults on the assets portfolio.

(a) Loans and advances to customers

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

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

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

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

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

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

(b) Held-to-maturity financial investments

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

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

(c) Available-for-sale investments

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

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

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

(d) Trade receivables and other assets

For trade receivables and other assets, the Bank assesses at each reporting date if there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. The amount of the loss is recognised in the statement of comprehensive income. Trade receivables and other assets are reduced directly with the amount of the impairment loss.

3.15 Financial instruments – Collateral and netting

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

(a) Collateral

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

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

(b) Offsetting financial instruments

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

4. RISK MANAGEMENT

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

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

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

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

Risk Governance

Risk culture, appetite and tolerance

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

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

- Credit Committee, responsible for credit risk
- Asset and Liability Committee (ALCO), responsible for the management of the following:
  - Solvency Risk
  - Liquidity Risk
  - Interest Rate Risk
  - Counterparty Risk
- Operational Risk Management Committee (ORMC), responsible for the management of all operational risk related risks including:
  - Processes
  - Information technology
  - People
  - Legal and compliance

In addition, a Board Large Exposures Committee was established to ensure oversight and approval of large exposures. The Board Risk and Capital Committee approved the revised enterprise-wide risk management framework. Supporting this ERM framework, the following frameworks were approved during the year:

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

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

The Risk Department

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

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

The Compliance Department

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

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

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

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

Regular updates or reports are submitted to the Audit Committee, Board and the South African Reserve Bank on all compliance related matters.

The Audit Committee reviews the work of the compliance function on a regular basis through the reports submitted to the committee. The annual compliance work plan is also approved by the Audit Committee. There were no material issues of non-compliance that had to be reported during the year under review.

Operational Risk

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

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

Operational Risk project was implemented and is still on track to meet its long term objectives. Risk control self assessments, was embedded across the organisation.

The in-house built Operational Risk Loss Data Collection system is performing as expected and is being further developed with more enhanced reporting.

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

A comprehensive report was prepared and presented at an Operational Risk Management Committee every two months and further escalated to the Board Risk Committee on a quarterly basis to ensure effective oversight of the Bank's Operational Risk Management. As a result of the maturity level reached going forward the Operational Risk Management Committee will meet quarterly.

Forensic investigations

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

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

Forensic Services is currently focusing on card fraud awareness. Since the launch of the new Debit Card, fraud incidents have increased. Fraud awareness campaigns were conducted internally and externally. Due to the high level of card fraud in the Rustenburg area, the Bank joined forces with SABRIC in an awareness campaign in the latter part of 2009. Forensic Services also increased internal communications dealing with fraud related issues. This included a "name and shame" communication in the form of the Published List of Employees Dismissed for Dishonesty (PLEDD) document which is circulated quarterly. To deal with the increased Debit Card fraud incidents, the reporting procedure of this type of fraud was changed to expedite the turnaround time on investigations. A new Case Management System was also internally developed to record Debit Card fraud incidents which generates reports and graphs and which is used in analysing trends and patterns of Debit Card fraud.

Internal audit

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

Code of ethics

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

The Basel capital accord (Basel II)

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

4.1 Financial risk management

Introduction and overview

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

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

- Credit risk
- Liquidity risk
- Market risk

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

(a) Credit risk management

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

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

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

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

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

Credit risk measurement

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

Credit risk mitigation

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

Risk concentration of the maximum exposure to credit risk

Concentration of risk within Customer, Sector and Geography is managed by the ALCO. The maximum credit exposure to any individual customer as of 28 February 2010 was R1,836,703 (2009: R710,659). The Bank is also exposed to concentration risk specifically within the mining industry.

NOTES TO FINANCIAL STATEMENTS CONTINUED

	2010 R'000	2009 R'000
Loans and advances		
Personal loans to employees of mining industry	428,080	534,544
Personal loans to employees of non-mining industry	8,054	3,783
Wholesale loans	1,835	6,688
Total	437,969	545,014
Investments		
Sovereigns	528,334	45,711
Interbank	799,970	1,273,654
Security firms	200,867	201,356
Capital markets	404,244	404,391
Investments under curatorship	72,558	-
Total	2,005,973	1,925,112

(b) Liquidity risk management

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

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

(c) Market risk management

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

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

Interest rate risk

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

Price risk

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

Currency risk

Currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank has no significant exposure to currency risk at the end of the reporting period.

Market risk measurement

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

4.2 Capital management

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

Basel II

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

Minimum banking requirements

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

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

NOTES TO FINANCIAL STATEMENTS CONTINUED

The Banks regulatory capital position at 28 February 2010 was as follows:

	2010 R'000	2009 R'000
Tier 1 capital		
Ordinary share capital	24,500	24,500
Share premium	220,375	220,375
Retained earnings	290,453	318,706
(Deductions) – Computer Software	(50,630)	(13,027)
Total	484,698	550,554
Tier 2 capital	1,980	8,269
Total regulatory capital	486,678	558,823
Risk weighted assets		
Credit	1,405,861	1,511,253
Operational	971,047	706,000
Market		
– Equity	1,970	1,722
– Other	245,792	198,984
Total risk weighted assets	2,624,670	2,417,959
Capital Adequacy – including impairment assets	18.54%	23.11%

Target Capital Levels

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

SARB regulatory requirements	14.5%	14.5%
Board approved capital adequacy requirements	17.5%	21.0%

The capital adequacy ratio post impairment is within the target capital levels set by the SARB and the Board. A capital strategy is currently being implemented to improve the capital adequacy levels further.

4.3 Credit risk

(a) Gross maximum exposure

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

	2010 R'000	2009 R'000
Cash and cash balances	594,540	470,223
Investments	2,005,973	1,925,112
Trade receivables and other assets (excluding prepayments)	46,815	26,997
Loans and advances to customers	437,969	545,014
Total credit risk exposure	**3,085,297**	**2,967,346**

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

(b) Collateral and other credit enhancements

Home loans offered by the bank are fully secured by the pension funds of the loan holders at the time of granting and some micro loan products are 30% secured for the value of the loan limited to a R30 million guarantee from a listed mining house.

	Note	2010 R'000	2009 R'000
Secured loans (100% secured)		106,800	98,611
Tirisano loans (30% secured)		43,341	53,126
Other loans (Unsecured)		287,828	393,277
Loans and advances to customers	17	**437,969**	**545,014**

(c) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using the affordability model of loans and advances. Investment credit exposure is managed by the ALCO per note 4.1. Trade receivables and other assets credit exposure is managed through the banks internal control environment. The table below shows the credit quality by class of asset for balance sheet lines, based on the Bank's current credit risk framework and policies.

	Neither past due nor impaired	
	2010 R'000	2009 R'000
Cash and cash balances	594,540	470,223
Investments	2,005,973	1,925,112
Trade receivables and other assets (excluding prepayments)	46,815	26,997
	2,647,328	2,422,332

The Bank does not have any concerns regarding the credit quality of financial assets that are neither past due nor impaired.

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

All financial assets classified as past due are assessed for impairment annually and have an impairment raised.

(e) Analysis of impaired financial assets per class

The maturity analysis of the gross carrying value of loans and advances that are impaired (note 17) have been reported below:

2010	30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
R'000					
Loans and advances to customers – impaired	25,268	31,538	63,190	19,375	139,371
Loans and advances to customers – current	-	-	-	-	328,202
Total					467,573

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

NOTES TO FINANCIAL STATEMENTS CONTINUED

4.4 Liquidity risk

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

At 28 February 2010

R'000	On demand	< 3 months	3 - 12 months	1 to 5 years	> 5 years	Total
Financial liabilities						
Trade payables and other liabilities	-	-	82,045	-	-	82,045
Deposits and savings due to customers	2,122,599	175,211	340,518	28,292	-	2,666,620
Lease liability	-	1,110	3,330	5,550	-	9,990
Other liabilities						
Provision for leave pay	-	-	8,998	-	-	8,998
Bonus provision	-	20,364	-	-	-	20,364
Total undiscounted liabilities	**2,122,599**	**196,685**	**434,891**	**33,842**	**-**	**2,788,017**

At 28 February 2009

R'000	On demand	< 3 months	3 - 12 months	1 to 5 years	> 5 years	Total
Financial liabilities						
Trade payables and other liabilities	-	-	57,958	-	-	57,958
Deposits and savings due to customers	1,896,706	207,393	262,775	17,529	-	2,384,403
Other liabilities						
Provision for leave pay	-	-	6,453	-	-	6,453
Bonus provision	-	28,000	-	-	-	28,000
Total undiscounted liabilities	**1,896,706**	**235,393**	**327,186**	**17,529**	**-**	**2,476,814**

NOTES TO FINANCIAL STATEMENTS CONTINUED

4.5 Interest rate, price and currency risk

The Bank's objectives and policies in managing the interest, price and currency risks that arise in connection with the use of financial instruments are set out in note 4.1 (c), under the heading "Market Risk Management". The tables below demonstrate the sensitivity to a reasonable possible change in interest rate, price and currency, with all other variables held constant, of the Bank's net interest income based on forecasts. The impact of such changes on equity is not considered to be material. The movements below exclude tax effects.

2010

BASIS POINT MOVEMENT	NET INTEREST INCOME DECREASE %	NET INTEREST INCOME INCREASE %	NET INTEREST INCOME DECREASE R'000	NET INTEREST INCOME INCREASE R'000
50bp	4.00	3.06	10,004	7,665
100bp	8.01	6.13	20,007	15,530
200bp	16.03	12.28	40,015	30,660

2009

BASIS POINT MOVEMENT	NET INTEREST INCOME DECREASE %	NET INTEREST INCOME INCREASE %	NET INTEREST INCOME DECREASE R'000	NET INTEREST INCOME INCREASE R'000
50bp	2.38	1.94	9,146	6,431
100bp	4.77	3.87	18,292	14,862
200bp	9.53	7.74	36,584	29,724

Price risk (Sensitivity Analysis Based on a 10% increase and decrease in the market price of the underlying shares)

The percentage increase and decrease is management's estimate of possible movement in the market price of the underlying instruments. The carrying value of instruments exposed to price risk at the end of the reporting period is R1,613,737 (2009: R1,374,642).

2010	Pre tax impact on comprehensive income	Carrying value after change
	R'000	**R'000**
Increase	161	1,775
Decrease	(161)	1,452
2009		
Increase	137	1,512
Decrease	(137)	1,237

5. FINANCIAL ASSETS AND LIABILITIES

Fair value of Financial assets and Liabilities

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

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

6. NET INTEREST INCOME

	2010 R'000	2009 R'000
Interest income		
Cash and cash balances	33,801	43,491
Loans and advances to customers	135,990	197,597
Investments	133,544	160,629
- Held-to-maturity	36,627	41,512
- Interest on impaired asset (designated as available for sale)	3,300	-
- Financial assets designated at fair value through profit or loss	93,617	119,117
	303,335	401,717
Interest expense		
Deposits and savings due to customers	(54,854)	(52,880)
Banking facilities	(1,190)	(245)
	(56,044)	(53,125)
Net interest income	247,291	348,592

7. FEE AND COMMISSION INCOME

	2010 R'000	2009 R'000
Administration fees	52,216	30,867
Commission earnings	60,486	57,145
Service and management fees	184,781	83,258
	297,483	171,270

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

	2010 R'000	2009 R'000
Financial assets designated at fair value through profit or loss	(124)	1,804
	(124)	1,804

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

NOTES TO FINANCIAL STATEMENTS CONTINUED

9. OTHER OPERATING INCOME

	2010 R'000	2009 R'000
(Loss)/gain from non-trading foreign exchange	(313)	247
Grant income	448	597
Gain on sale of property and equipment	102	2,070
Other	4,852	477
Investment income	40,221	45,291
	45,310	48,682

10. IMPAIRMENT CHARGE ON FINANCIAL ASSETS

	Note	Specific impairment R'000	Portfolio impairment R'000	Total R'000
2010				
Net charge to the statement of comprehensive income				
Loans and advances to customers	17	(49,138)	6,961	(42,177)
Investments – Corporate Money Managers (CMM)*	15	(166,700)	-	(166,700)
		(215,838)	6,961	(208,877)
2009				
Net charge to the statement of comprehensive income				
Loans and advances to customers	17	(57,653)	6,645	(51,008)
		(57,653)	6,645	(51,008)

* This impairment was determined taking into account several significant assumptions which have been included within the Directors' report.

11. PERSONNEL EXPENSES

	2010 R'000	2009 R'000
Pension costs – Defined contribution plan expense	(11,610)	(12,235)
Salaries and wages	(219,837)	(212,576)
	(231,447)	(224,811)
Personnel – Actual headcount at year end	919	938

NOTES TO FINANCIAL STATEMENTS CONTINUED

12. OTHER OPERATING EXPENSES

	2010 R'000	2009 R'000
Significant operating expenses comprise of:		
Auditors' remuneration		
– Audit services	(4,200)	(3,822)
– Other	(1,220)	(720)
Legal fees	(686)	(479)
Fair value loss on accounts receivable	(1,347)	(840)
Professional fees	(16,414)	(20,893)
Operating lease expense	(11,887)	(8,600)
Strategic research	(1,072)	(2,104)
Software licence fees	(12,402)	(17,901)
Security expenses	(22,367)	(19,289)
Consumables	(4,151)	(2,912)
Network costs	(5,366)	(4,825)
Maintenance	(8,109)	(7,871)
Software expenses	(8,897)	(647)
Telecommunications	(5,827)	(6,224)
Travelling	(8,134)	(5,619)
Training	(7,433)	(5,239)
Fraud	(5,440)	(4,606)
Printing and stationary	(6,358)	(6,523)
VAT not recovered	(12,187)	(10,398)
Cash delivery costs	(12,096)	(11,315)
Marketing	(17,786)	(18,637)
Other	(11,088)	(13,294)
	(184,467)	(172,758)

13. TAXATION

	Note	2010 R'000	2009 R'000
The components of the tax expense for the years ended:			
Current tax			
Current income tax income/(expense)		-	(10,635)
Adjustment in respect of re estimation of prior year liability		(2,712)	(5,860)
Deferred tax			
Origination and reversal of temporary differences	20	42,105	6,560
Taxation income/(expense) recognised in profit for the year		39,393	(9,935)
Taxation recognised in other comprehensive income		(35)	(15)
Total taxation in the statement of comprehensive income		39,358	(9,950)

NOTES TO FINANCIAL STATEMENTS CONTINUED

Reconciliation of the total tax charge
A reconciliation between the tax expense and the accounting profit is as follows:

	2010 R'000	2009 R'000
Accounting (loss)/profit before tax	(118,360)	60,435
At domestic corporate tax rate of 28% (2009: 28%)	33,141	(16,921)
Non-deductable and non-taxable items	(2,298)	489
Capital gains tax impact	-	(322)
Income not subject to tax	11,262	12,679
Adjustment in respect of re estimation of prior year liability	(2,712)	(5,860)
Taxation income/(expense) reported in the statement of comprehensive income	39,393	(9,935)
Effective income tax rate	(33.28%)	(16.44%)

14. CASH AND CASH BALANCES

	2010 R'000	2009 R'000
Coins and bank notes	58,107	62,014
Balances with other banks	536,433	408,209
	594,540	470,223

15. INVESTMENTS

	2010 R'000	2009 R'000
Available-for-sale[1]	74,528	1,722
Held to maturity	265,784	234,518
- Money market instruments	265,784	234,518
Designated at fair value through profit and loss	1,665,661	1,688,872
- Capital market instruments	402,274	402,669
- Money market instruments	735,053	1,240,489
- Central bank securities	528,334	45,714
	2,005,973	1,925,112

2010	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Available-for-sale[1]	1,970	-	72,558	74,528
Designated at fair value through profit and loss	-	1,665,661	-	1,665,661
- Capital market instruments	-	402,274	-	402,274
- Money market instruments	-	735,053	-	735,053
- Central bank securities	-	528,334	-	528,334
	1,970	1,665,661	72,558	1,740,189

NOTES TO FINANCIAL STATEMENTS CONTINUED

Reconciliation of level 3 investments	R'000
Balance as at 1 March 2009	-
Reclassified from held to maturity to available for sale[2]	83,758
Impairment	(14,500)
Accrued interest	3,300
Balance as at 28 February 2010	**72,558**

[1] This amount includes an investment previously reported as held to maturity, with a gross carrying value of R220 million. Prior to the reclassification of the asset from held to maturity to available for sale, an impairment test was performed and an impairment of R152.2 million was recognised, resulting in an increase of R14.5 million taking into account the fair value requirements associated with an available for sale designation. The total impairment of R166.7 million was recorded in the Statement of Comprehensive income. There are several significant assumptions applied to the impairment calculation which have been included in the Directors' report.

[2] This level 3 disclosure for this available for sale asset relates solely to the CMM investment. This investment is considered a level 3 investment as a number of the inputs used in the valuation are dependent on a number of significant assumptions and not solely on observable market data.

This valuation is sensitive to the underlying assumptions applied and by way of a sensitivity analysis:

- A change in the discount rate applied (14.5%) of 1.0% to15.5% would result in a decrease in the valuation of the investment of R2,3 million to R53,1 million. A similar change in the discount rate applied (14.5%) of 1.0% to 13.5% would result in an increase in the valuation of the investment of R2,4 million to R57,8 million.
- A change in the realisable period assumption applied (six years) of one year to seven years would result in a decrease in the valuation of the investment of R4,6 million to R50,8 million. A similar change in the realisable period assumption applied (six years) of one year to five years would result in an increase in the valuation of the investment of R5,2 million to R60,7 million.
- A change in the recovery value assumption applied (57.4%) of 5% to 52.4% would result in a decrease in the valuation of the investment of R4,8 million to R50,5 million. A similar change in the recovery value assumption applied (57.4%) of 5% to 62.4% would result in an increase in the valuation of the investment of R4,8 million to R60,3 million.

16. TRADE RECEIVABLES AND OTHER ASSETS

	2010 R'000	Reclassified[1] 2009 R'000
Interest receivable	48	42
Settlement accounts	220	780
African Bank receivable (Refer note 16.1)	857	4,031
Other accounts receivable	3,470	1,205
Operating account – Teba Ltd	1,631	1,631
Prepayments	9,314	10,352
Trade debtors	40,589	19,308
	56,129	**37,349**

16.1 Trade receivables and other assets

Total possible contractual receivable	14,006	15,833
Estimated impact of suspensive conditions	(13,149)	(11,802)
	857	4,031

This receivable relates to the present value of future cash flows associated with the sale of Teba Credit. The right to receive these cash flows is dependent on a suspensive condition per the sale agreement. During the year receipts of R1,8 million were received and a revision of the suspensive condition resulted in a reduction in the final amount recoverable of R1,3 million, disclosed as a fair value loss on accounts receivable in Note 12.

[1] Certain balances within the trade receivables and other assets were reclassified to ensure more transparent disclosure. Refer to Annexure A.

17. LOANS AND ADVANCES TO CUSTOMERS

	2010 R'000	2009 R'000
Gross loans and advances to customers	467,573	672,413
Less: Allowances for impairment losses	(29,604)	(127,399)
Loans and advances to customers	**437,969**	**545,014**

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

	Note	Pension backed loans R'000	Other loans R'000	Total R'000
At 1 March 2009		(5,944)	(121,455)	(127,399)
Net charge for the year	10	(3,205)	(38,972)	(42,177)
Amounts written off		-	139,972	139,972
At 28 February 2010		**(9,149)**	**(20,455)**	**(29,604)**
At 1 March 2008		(2,067)	(99,079)	(101,146)
Net charge for the year	10	(3,877)	(47,131)	(51,008)
Amounts written off		-	24,755	24,755
At 29 February 2009		**(5,944)**	**(121,455)**	**(127,399)**

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

	Note	Specific impairment R'000	Portfolio impairment R'000	Total R'000
Balance at 1 March 2009		(117,931)	(9,468)	(127,399)
Net charge for the year	10	(49,138)	6,961	(42,177)
Amounts written off		139,972	-	139,972
At 28 February 2010		**(27,097)**	**(2,507)**	**(29,604)**
Balance at 1 March 2008		(81,689)	(19,457)	(101,146)
Net charge for the year	10	(57,653)	6,645	(51,008)
Amounts written off		21,411	3,344	24,755
At 29 February 2009		**(117,931)**	**(9,468)**	**(127,399)**

NOTES TO FINANCIAL STATEMENTS CONTINUED

18. PROPERTY AND EQUIPMENT

2010	Cost R'000	Accumulated depreciation R'000	Net carrying value R'000
Leasehold improvements	24,809	(13,353)	11,456
Freehold land	2,080	-	2,080
Motor vehicles	3,837	(1,736)	2,101
Furniture and fittings	9,501	(5,396)	4,105
Office equipment	29,214	(16,934)	12,280
Computer equipment	148,998	(91,605)	57,393
ATMs	8,049	(5,458)	2,591
	226,488	(134,482)	92,006

2009			
Leasehold improvements	19,976	(9,931)	10,045
Freehold land	2,080	-	2,080
Motor vehicles	3,334	(1,430)	1,904
Furniture and fittings	8,189	(4,825)	3,364
Office equipment	21,803	(14,347)	7,456
Computer equipment	120,338	(66,929)	53,409
ATMs	9,370	(6,536)	2,834
	185,090	(103,998)	81,092

2010	Opening net carrying value R'000	Additions R'000	Disposals R'000	Impairments R'000	Depreciation R'000	Closing net carrying value R'000
Leasehold improvements	10,045	5,076	-	-	(3,665)	11,456
Freehold land	2,080	-	-	-	-	2,080
Motor vehicles	1,904	591	(60)	-	(334)	2,101
Furniture and fittings	3,364	1,737	(1)	-	(995)	4,105
Office equipment	7,456	8,006	-	-	(3,182)	12,280
Computer equipment	53,409	31,648	(14)	-	(27,650)	57,393
ATMs	2,834	620	(60)	-	(803)	2,591
	81,092	47,678	(135)	-	(36,629)	92,006

2009						
Leasehold improvements	8,789	4,220	(105)	-	(2,859)	10,045
Freehold land	2,583	-	(503)	-	-	2,080
Motor vehicles	1,969	457	(155)	-	(367)	1,904
Furniture and fittings	2,894	1,265	-	-	(795)	3,364
Office equipment	8,249	2,282	-	-	(3,075)	7,456
Computer equipment	21,452	50,227	(2,883)	-	(15,387)	53,409
ATMs	2,846	734	-	-	(746)	2,834
	48,782	59,185	(3,646)	-	(23,229)	81,092

NOTES TO FINANCIAL STATEMENTS CONTINUED

In terms of the Companies Act, details regarding freehold property are kept at the company's registered office and this information will be made available to shareholders on written request. The carrying value of fully depreciated property and equipment that is still in use is R9,364 (2009: R9,543).

Assets under finance lease

Computer equipment with a carrying value of R8,774,634 as at 28 February 2010 (2009:Rnil), are leased under a finance lease. Please refer to note 32 for details.

19. INTANGIBLE ASSETS

	Cost R'000	Accumulated amortisation R'000	Net carrying value R'000
2010			
Software development cost	52,917	(2,287)	50,630
	52,917	**(2,287)**	**50,630**
2009			
Software development cost	14,161	(1,134)	13,027
	14,161	**(1,134)**	**13,027**

	Opening net carrying value R'000	Additions R'000	Disposals R'000	Impairments R'000	Amortisation R'000	Closing net carrying value R'000
2010						
Software development cost	13,027	38,756	-	-	(1,153)	50,630
	13,027	**38,756**	**-**	**-**	**(1,153)**	**50,630**
2009						
Software development cost	2,410	11,450	-	-	(833)	13,027
	2,410	**11,450**	**-**	**-**	**(833)**	**13,027**

The remaining amortisation period for the Flexcube software is 35 months as at 28 February 2010.

20. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	2010			2009		
	Assets R'000	Liabilities R'000	Net R'000	Assets R'000	Liabilities R'000	Net R'000
Provisions	8,222	-	8,222	9,647	-	9,647
Unrealised fair value adjustment	35	-	35	-	(253)	(253)
Straight lining of lease and admin fees	4,508	-	4,508	8,430	-	8,430
Impairments – Loans and advances	526	-	526	1,988	-	1,988
Prepaid expenses	-	(12)	(12)	-	(659)	(659)
Unrealised gains on available-for-sale investment	-	(166)	(166)	-	(131)	(131)
Provisional assessed loss	47,979	-	47,979	-	-	-
Net tax assets/(liabilities)	**61,270**	**(178)**	**61,092**	**20,065**	**(1,043)**	**19,022**

Movements in deferred tax assets and liabilities during the year

	2010 R'000	2009 R'000
Provisions	(1,425)	3,681
Unrealised gains on available-for-sale investment	(35)	85
Effect of tax rate change	-	(586)
Unrealised fair value adjustment	288	(597)
Straight lining of lease and admin fees	(3,922)	5,566
Impairments	(1,462)	(1,907)
Prepaid expenses	647	318
Provisional assessed loss	47,979	-
Net movement in deferred tax assets/(liabilities)	**42,070**	**6,560**

There was no tax rate change during 2010.

21. TRADE PAYABLES AND OTHER LIABILITIES

	2010 R'000	2009 R'000
Unallocated deposits	1,110	4,390
Deferred income – DFID grant	-	448
PAYE and UIF accruals	489	(720)
Liabilities under operating leases	1,784	1,458
Deferred income – Administration fees	14,317	28,648
Sundry accruals	3,818	1,905
Trade creditors	15,676	21,121
System clearing accounts	36,130	7,408
Sundry creditors and VAT	8,721	23,134
	82,045	87,792

22. DEPOSITS AND SAVINGS DUE TO CUSTOMERS

	2010 R'000	2009 R'000
Deposits and savings due to customers	2,647,062	2,348,236
Interest accrued	9,234	13,124
	2,656,296	2,361,360

The average interest rate during 2010 for deposits by customers was 2.11% (2009: 2.39%).

23. PROVISIONS

	Opening balance R'000	Provision made during the year R'000	Provision released during the year R'000	Closing balance R'000
2010				
Provision for Leave Pay	6,453	5,515	(2,970)	8,998
Bonus provision	28,000	7,000	(14,636)	20,364
	34,453	12,515	(17,606)	29,362
2009				
Provision for Leave Pay	6,926	-	(473)	6,453
Bonus provision	15,142	27,500	(14,642)	28,000
	22,068	27,500	(15,115)	34,453

NOTES TO FINANCIAL STATEMENTS CONTINUED

24. SHARE CAPITAL AND SHARE PREMIUM

	2010 R'000	2009 R'000
Authorised		
25 000 000 Ordinary shares of R1 each	25,000	25,000
Issued and fully paid		
24 500 000 Ordinary shares of R1 each	24,500	24,500
Share premium		
Ordinary shares	220,500	220,500
Share issue expenses written off	(125)	(125)
	220,375	220,375
Available-for-sale reserve		
Unrealised gains on available-for-sale investment	1,693	1,481

25. LONG-TERM INCENTIVE PLAN

Expense arising from long-term incentive plan	8,350	12,439

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

26. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2010 R'000	2009 R'000
Commitments		
Capital expenditure authorised but not committed	90,273	90,253
– Property and equipment	28,014	28,008
– Intangible assets	62,259	62,245
Capital expenditure authorised and committed	3,739	7,468
	94,012	97,721

The Bank will fund authorised and committed capital expenditure from operating cash flows.

Operating lease commitments

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

	2010 R'000	2009 R'000
Within one year	10,214	8,041
After one year but not more than five years	9,107	12,432
	19,321	20,473

27. NET FOREIGN CURRENCY EXPOSURES

	2010		2009	
	USD $'000	ZAR R'000	USD $'000	ZAR R'000
Balances with other banks (included in note 14)	-	-	118	1,174
US Dollar exchange rate				
- year end			9.9845	
- average			8.7031	

The Bank no longer has balances with other banks that are denominated in foreign currency, as the VISA deposit is currently Rand based.

28. RELATED PARTY TRANSACTIONS

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

Teba Bank Controlling Company

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

Teba Fund

Teba Fund is the trust which is the ultimate parent of Teba Bank. There were no related party transactions during the year.

Transactions with Directors and Key Management Personnel

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

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

	Directors, other Key Management Personnel and connected persons	
	2010 R'000	2009 R'000
Loans and advances: Other key management personnel – Exco		
Opening balance	25	12
Loans granted during the year	525	25
Repayments	(145)	(12)
	405	25

Loans granted to staff are unsecured.

NOTES TO FINANCIAL STATEMENTS CONTINUED

Remuneration of Directors and other Key Management Personnel

	Directors, other Key Management Personnel and connected persons	
	2010 R'000	**2009 R'000**
Salaries and other short-term benefits		
Non-executive	**1,232**	856
Executive	**5,968**	5,910
Other key management personnel	**13,924**	12,157
	21,124	18,923

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

	2010 R'000	**2009 R'000**
(Loss)/profit before tax	**(118,360)**	60,435
Adjustments for non-cash flow items: Profit on disposal of property and equipment	**(102)**	(2,070)
Losses/(gains) from foreign exchange transactions	**313**	(247)
Amortisation	**1,153**	1,134
Straight lining of operating lease	**326**	(966)
Fair value adjustment on short-term investments	**124**	(1,804)
Impairment on African Bank receivable	**(1,347)**	840
Impairment on investments	**166,700**	-
Straight lining of admin fees received	**(14,332)**	20,479
Depreciation	**36,629**	23,229
Impairment of advances	**42,177**	51,008
	113,281	152,038
Movement in working capital: Increase in trade receivables and other assets	**(17,433)**	(16,095)
Increase/(decrease) in trade payables and other liabilities	**11,748**	(5,495)
Net increase in trade assets	**107,596**	130,448
Taxation: Statement of comprehensive income	**39,393**	(9,935)
Deferred taxation balance movement	**(42,070)**	(6,560)
Current tax asset movement	**(6,423)**	8,388
	(9,100)	(8,107)

30. LIQUIDITY ANALYSIS

The liquidity analysis below are gross balances and exclude future interest, as reported within the ALCO risk management process.

2010	On demand R'000	Within 1 year R'000	From 1 year to 5 years R'000	More than 5 years R'000	Total R'000
Financial assets					
Cash and cash balances	594,540	-	-	-	594,540
Investments	200,868	1,730,577	74,528	-	2,005,973
Trade receivables and other assets	-	46,815	-	-	46,815
Loans and advances to customers	15,731	275,900	146,338	-	437,969
Total financial assets	**811,139**	**2,053,292**	**220,866**	**-**	**3,085,297**
Other assets					
Property and equipment	-	-	-	-	92,006
Intangible assets	-	-	-	-	50,630
Current tax asset	-	-	-	-	14,749
Deferred taxation	-	-	-	-	61,092
Prepayments	-	-	-	-	9,314
Total other assets	-	-	-	-	227,791
Total assets	**811,139**	**2,053,292**	**220,866**	**-**	**3,313,088**
Financial liabilities					
Trade payables and other liabilities	-	82,045	-	-	82,045
Deposits and savings due to customers	2,122,599	507,747	25,950	-	2,656,296
Lease liability	-	3,814	4,766	-	8,580
Total financial liabilities	**2,122,599**	**593,606**	**30,716**	**-**	**2,746,921**
Other liabilities					
Provisions	-	-	-	-	29,362
Total other liabilities	-	-	-	-	29,362
Total liabilities	**2,122,599**	**593,606**	**30,716**	**-**	**2,776,283**
Equity					
Share capital and share premium	-	-	-	-	244,875
Available-for -sale reserve	-	-	-	-	1,693
Retained earnings	-	-	-	-	290,237
Total equity	**-**	**-**	**-**	**-**	**536,805**
Total liabilities and equity	**2,122,599**	**593,606**	**30,716**	**-**	**3,313,088**

NOTES TO FINANCIAL STATEMENTS CONTINUED

2009	On demand R'000	Within 1 year R'000	From 1 year to 5 years R'000	More than 5 years R'000	Total R'000
Financial assets					
Cash and cash balances	470,223	-	-	-	470,223
Investments	201,356	1,303,729	420,027	-	1,925,112
Trade receivables and other assets	-	26,997	-	-	26,997
Loans and advances to customers	-	489,017	55,997	-	545,014
Total financial assets	**671,579**	**1,819,743**	**476,024**	**-**	**2,967,346**
Other assets					
Property and equipment	-	-	-	-	81,092
Intangible assets	-	-	-	-	13,027
Current tax asset	-	-	-	-	8,326
Deferred taxation	-	-	-	-	19,022
Prepayments	-	-	-	-	10,352
Total other assets	**-**	**-**	**-**	**-**	**131,819**
Total assets	**671,579**	**1,819,743**	**476,024**	**-**	**3,099,165**
Financial liabilities					
Trade payables and other liabilities	-	87,792	-	-	87,792
Deposits and savings due to customers	1,896,706	451,982	12,672	-	2,361,360
Total financial liabilities	**1,896,706**	**539,774**	**12,672**	**-**	**2,449,152**
Other liabilities					
Provisions	-	-	-	-	34,453
Total liabilities	**1,896,706**	**539,774**	**12,672**	**-**	**2,483,605**
Equity					
Share capital and share premium	-	-	-	-	244,875
Available-for -sale reserve	-	-	-	-	1,481
Retained earnings	-	-	-	-	369,204
Total equity	**-**	**-**	**-**	**-**	**615,560**
Total liabilities and equity	**1,896,706**	**539,774**	**12,672**	**-**	**3,099,165**

31. CLASSIFICATION OF ASSETS

2010	Loans and receivables R'000	Held to Maturity R'000	Designated at fair value through profit and loss R'000	Held as Available for sale R'000	Non-financial assets R'000	Total R'000
Financial assets						
Cash and cash balances	594,540	-	-	-	-	594,540
Investments	-	265,784	1,665,661	74,528	-	2,005,973
Trade receivables and other assets (excluding prepayments)	46,815	-	-	-	-	46,815
Loans and advances to customers	437,969	-	-	-	-	437,969
Other assets						
Prepayments	-	-	-	-	9,314	9,314
Intangible assets	-	-	-	-	50,630	50,630
Property and equipment	-	-	-	-	92,006	92,006
Current tax asset	-	-	-	-	14,749	14,749
Deferred taxation	-	-	-	-	61,092	61,092
Total assets	**1,079,324**	**265,784**	**1,665,661**	**74,528**	**227,791**	**3,313,088**

2009	Loans and receivables R'000	Held to Maturity R'000	Designated at fair value through profit and loss R'000	Held as Available for sale R'000	Non-financial assets R'000	Total R'000
Financial assets						
Cash and cash balances	470,223	-	-	-	-	470,223
Investments	-	234,518	1,688,872	1,722	-	1,925,112
Trade receivables and other assets (excluding prepayments)	26,997	-	-	-	-	26,997
Loans and advances to customers	545,014	-	-	-	-	545,014
Other assets						
Prepayments	-	-	-	-	10,352	10,352
Intangible assets	-	-	-	-	13,027	13,027
Property and equipment	-	-	-	-	81,092	81,092
Current tax asset	-	-	-	-	8,326	8,326
Deferred taxation	-	-	-	-	19,022	19,022
Total assets	1,042,234	234,518	1,688,872	1,722	131,818	3,099,165

NOTES TO FINANCIAL STATEMENTS CONTINUED

32. FINANCE LEASE COMMITMENTS

The Bank has a finance lease for computer equipment. The lease does not have terms of renewal or escalation clauses. Future minimum lease payments under the finance lease together with the PV of the net minimum lease payments are as follows:

2010	Minimum payments R'000	Present value of payments R'000
Within one year	4,440	3,440
After one year but not more than five years	5,550	5,140
Total minimum lease payments	9,990	8,580
Less amounts representing finance charges	(1,410)	-
Present value of minimum lease payments	**8,580**	**8,580**

There were no finance leases as at 28 February 2009.

ANNEXURE A: RECLASSIFICATIONS

	As previously disclosed February 2009 R'000	Reclassification R'000	Reclassified balance February 2009 R'000
Trade receivables and other assets[1]			
Interest receivable	-	42	42
Settlement accounts	-	780	780
African Bank receivable (Refer note 16.1)	4,031	-	4,031
Other accounts receivable	2,027	(822)	1,205
Operating account – Teba Ltd	1,631	-	1,631
Prepayments	10,352	-	10,352
Trade debtors	19,308	-	19,308
	37,349	**-**	**37,349**

NOTES

1. **Reclassification of accounts receivable and other assets**
   The interest receivable and settlement accounts has been disclosed seperately from other accounts receivable due to fair presentation.

APPENDIX A

STATEMENT OF CORPORATE GOVERNANCE

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

The board is satisfied that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times and relies on the internal and external auditors, the audit committee and the risk committee to raise any issues of financial concern.

Teba Bank Limited ("the Bank" / "the company") is constantly striving to develop and improve corporate governance structures and practices to ensure continued compliance with the recommendations of King II and other good corporate governance practices. The revised Code of and Report on Governance Principles for South Africa (King III) was released on 1 September 2009, with an effective date of 1 March 2010, the Bank will adopt these principles in the next financial year.

Skills and experience of the board

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

Selection, appointment and rotation of directors

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

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

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

Terms of employment of directors

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

Induction and training

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

Information requirements of directors and board processes

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

Levels of materiality

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

Delegation of authority

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

Board meetings

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

Audit Committee

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

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

The Audit Committee is satisfied that the external auditors have been and continue to remain independent from Teba Bank.

Interaction with management

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

Company secretary

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

Communication

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

Code of Banking practice and financial sector charter

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

National Credit Regulator (NCR)

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

APPENDIX B

TEBA BANK

29 July 2010

The Registrar of Banks
PO Box 8432
PRETORIA
0001

Dear Sir

Teba Bank embraces the spirit of regulation 40 (4) and acknowledges that internal controls are critical in keeping the Bank on course towards its profitability goals and achievement of its strategy.

In accordance with the reporting requirements of the Regulations to the Bank's act we have prepared a summary of our conclusions.

1. In terms of regulation 40 (4) we confirm that the directors of Teba Bank (the "Bank") have reviewed and evaluated the Bank's internal controls for the financial period ended 28 February 2010 and to the best of our knowledge and belief note the following representations:
   i. the Bank's internal controls provide reasonable assurance as to the integrity and reliability of the financial statements and safeguard, verify and maintain accountability of the Bank's assets;
   ii. the Bank's internal controls are based on established policies and procedures and are implemented by trained, skilled personnel, whose duties have been segregated appropriately;
   iii. the Bank's adherence to the implemented internal controls is continuously monitored by the Bank;
   iv. all Bank employees are required to maintain high ethical standards, thereby ensuring that the Bank's business practices are conducted in a manner that is above reproach;
   v. we confirm that nothing has come to our attention to indicate that any material malfunction has occurred during the period under review. We provide further context to this assessment under Appendix 1 attached and
   vi. we confirm that we have no reason for believing that the Bank will not continue as a going concern in the year ahead.

2. In terms of regulation 40 (4)(v) we note our responsibility to define and document what constitutes a "material malfunction". In this regard we record below our thresholds for material malfunction within the Bank:
   - Any fraudulent transactions or attempts thereto that resulted in losses equal to or greater than 2% of the Group's qualifying capital.
   - Any instances where there was a breakdown in internal control processes where the loss or potential loss was equal to or greater than 2% of the Group's qualifying capital.
   - Instances where an error in the recording of a transaction resulted in the valuation/classification of an asset/liability being impacted by more than 6% of the Group's qualifying capital.

Should you have any comments or questions in regard to the issues discussed in this letter please do not hesitate to contact the Chief Executive, Mark Williams.

Yours Faithfully

Ayanda Mjekula
Chairman

Mark Williams
Chief Executive Officer

Sanhill Park · No 1 Eglin Road · Sunninghill · Private Bag X101 · Sunninghill · 2157 · Tel: (011) 518-5000 · Fax: 086 669 5772

Teba Bank Ltd. Registration No. 2000/013541/06
Teba Bank is an authorised financial services (FSP No 14740) and credit (NCRCP21) provider.

APPENDIX 1

a. Corporate Money Managers ("CMM")

During the period under review the Board set-up a sub-committee and appointed De Villiers Botha, a non-executive director, as chairperson. The committee's remit was to assess the impact on the Bank of the Curatorship of CMM, and to monitor the process underway to recover the Teba Bank investment.

The Teba Bank investment in CMM amounted to R220 million. This investment was placed through the fund Manager (Ayanda). The fund is regulated in terms of the specific mandate with Teba Bank, and in terms of the CIS Act. It is our view that the monitoring of compliance with the CIS Act and the investee mandate is the responsibility of the Trustees of the fund.

For the financial year end, taking into account that CMM was placed into Curatorship on 15 April 2009 and the three Curator's reports issued, the Board special committee Chair, the Board Audit Committee and the Board approved that an Impairment of R166.7 million be recorded in the financial statements, as recommended by the joint auditors, to correctly account for the information and facts available as at year end in terms of IFRS, Teba Bank is fully engaged in the Curatorship process to recover monies through the sale and liquidation of assets within the CMM group, and is further pursuing legal action against the Trustees responsible for the monitoring of the fund's investments in accordance with the Teba Bank mandate and the CIS Act.

We have assessed our liquidity and solvency positions and identified that the internal capital adequacy buffer (17.5%) has been breached although the mandated SARB buffer (14.5%) has not been breached. This impairment is significant and material, although it is unrealised. A high level assessment of the controls and processes around the management of the CMM investment was performed by the Board Special Audit Committee, and although improvements in the controls and processes were identified no material breakdown was identified.

We therefore concluded that although the loss was material, which we highlight above, and have communicated separately to the SARB, the predominant cause was directly related to non-compliance by the Fund (in terms of the Teba Bank mandate and CIS Act) and the failure of the Trustee to identify and report on such matters.

b. Credit processes

Our net loans and advances book reduced by 28% or R218 million from R672 million in 2009 to R484 million in 2010 as a result of impairment write offs of R139 million and loan roll offs. Our impairment ratio now sits at 6.35%, which is a reflection of the credit risk associated with the current loans and advances book.

Sanhill Park · No 1 Eglin Road · Sunninghill · Private Bag X101 · Sunninghill · 2157 · Tel: (011) 518-5000 · Fax: 086 669 5772

Teba Bank Ltd. Registration No. 2000/013541/06
Teba Bank is an authorised financial services (FSP No 14740) and credit (NCRCP21) provider.

TEBA BANK

The final impairment position and the balance of the loans and advances book have been assessed by our external auditors, and no further adjustments were required. In the report of the external auditors to management and the Board Audit Committee, we noted that although the remaining impairment balance reflects a low level of credit risk associated with the current loans and advances book, there were a number of control and process issues identified that deserve further review. Specifically:

- **IT systems and manual process**
  Internal audit and External audit have highlighted the risk associated with the interface between our credit systems (Credit Ease) and our banking system (Flexcube), and the degree of manual intervention required to record certain transactions for some lending products.

- **Data quality**
  There remain some data quality issues in assessing the ageing of underlying loans, correctly identifying and recording technical arrears and obtaining and monitoring accurate customer information.

- **Collection capacity and capability**
  Previously the majority of the loans and advances book related to customers with whom Teba Bank was responsible for the Employer's pay files and our loan collections were relatively high. As Teba Bank grows its secured lending product (secured by pension funds) and non-mining accounts (debit cards) there is a requirement to enhance the capability and capacity of the collections department.

- **Impairment calculation capability**
  The calculation for the impairment of the loans and advances book, taking into account information that we obtain from the underlying systems, is outsourced to a third party provider. As Teba Bank enhances its credit offering, and grows its loans and advanced book, this arrangement may no longer be appropriate. We are assessing the capability of Teba Bank's own credit team to review and assess the processes and output from the third party provider and to eventually perform some or all of the calculation requirements in-house.

These represent weaknesses in our controls and process, that have not led to a material breakdown in controls or significant weaknesses, but could, in light of the planned growth strategy, pose a challenge in the future if corrective action is not taken. We take these matters very seriously and have embarked on an end-to-end credit review process, to commence shortly. We commit to provide ongoing status updates as we progress.

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