INTERIM REGULATION 43 DISCLOSURE

AS AT 31 AUGUST 2011

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1 (a) Credit risk management

Credit risk mitigitation

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 (all within South Africa) is managed by the ALCO. The maximum credit exposure to any individual customer as of 31 August 2011 was R 1,739,792. The Bank is also exposed to concentration risk specifically within the mining industry.

	2011 R'000
Loans and advances[1]	
Personal loans to employees of mining industry	786 485
Personal loans to employees of non-mining industry	71 262
Wholesale loans	381
Total	858 128
Investments	
Sovereigns	922 987
Interbank	500 955
Securities firms	–
Capital markets	405 642
Investments under curatorship	52 736
Total	**1 882 320**

[1]According to the Banks Act, all loans are unsecured, including pension backed loans.

(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the risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfil commitments to lend.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 in terms of regulatory requirements for banks and financial institutions. 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 the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank has no significant exposure to 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.

2 Capital management

The bank manages its capital, as an integral part of the ALCO and ICAAP 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 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 2 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 statement of financial position assets and off statement of financial position 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).

The Bank's regulatory capital position at 31 August 2011 was as follows:

	2011 R'000
Tier 1 capital	
Ordinary share capital	24 500
Share premium	220 375
Retained earnings	284 522
Deductions	(75 331)
Total	**454 066**
Tier 2 capital[1]	**3 558**
Total regulatory capital	**457 624**

[1]Allowable portfolio impairment under standardised approach.

Risk weighted assets	Capital requirements	Risk Exposure
	2011	2011
Credit	123 902	1 304 239
Sovereign		
Banks	41 378	435 559
Security Firms	19 543	205 719
SME Corporate	300	3 158
Retail	62 681	659 803
Operational	92 845	977 313
Market	143	1 500
Equity	182	1 914
Other	19 284	202 989
Total risk weighted assets	**236 356**	**2 487 955**

[1]Allowable portfolio impairment under standardised approach.	2011
Capital adequacy	18.39%
Primary capital adequacy	18.25%

Monthly/Daily Average Credit Exposure	Capital requirements	Risk Exposure
	2011	2011
Banks	41 378	435 559
Security Firms	19 543	205 719
SME Corporate	319	3 358
Retail	61 840	650 945
	123 080	**1 295 520**

3 Credit risk

(a) Gross maximum exposure

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.

	2011
	R'000
Cash and cash balances	440 222
Investments	1 882 320
Trade receivables and other assets (excluding prepayments)	31 050
Loans and advances to customers	858 128
Total credit risk exposure	**3 211 720**

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 in the event of death or resignation from the pension fund, 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. The Banks policy and process for valuing collateral, is that the security values must be conservative and give the Bank a margin that takes into account market volatility, the time taken to realize the security and the cost of realization. The more volatile the value of the security, the more frequent the valuations should be. The policy also manages the frequency of the revaluation of security, based on the nature of the security.

	2011 R'000
Secured loans (100% secured)	97 742
Tirisano loans (30% secured)	31 694
Other loans (Unsecured)	728 692
Loans and advances to customers	**858 128**

(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 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	2011 R'000
Cash and cash balances	440 222
Investments	1 882 320
Trade receivables and other assets (excluding prepayments)	31 050
Loans and advances to customers	**2 353 592**

2011	0 to 30 days	30 to 90 days	90 to 180 days	180 to 365 days	>365 days	Total
Cash and cash balances	440 222	–	–	–	–	440 222
Investments	938 991	346 368	273 983	90 115	232 863	1 882 320
Trade receivables and other assets (excluding prepayments)	24 733	–	–	6 317	–	31 050
Total	**1 403 946**	**346 368**	**273 983**	**96 432**	**232 863**	**2 353 592**

(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. Past due refers to an overdue payment (instalment) which was not recovered on a specific date. When the payment due is not honoured, it becomes a past due financial asset.

(e) Analysis of impaired financial assets per class

The maturity analysis of the gross carrying value of loans and advances that are impaired have been reported below. The disclosure reflects the outstanding amounts after risk mitigation.

2011	30 to 90 days	90 to 180 days	180 to 365 days	>365 days	Total
Loans and advances to customers-impaired	220 291	37 428	33 563	89 433	380 715
Loans and advances to customers-current					596 081
Total	**–**	**–**	**–**	**–**	**976 796**

4 Liquidity risk

The following table provides detail 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.

At 31 August 2011 R'000	On demand	<3 months	3 - 12 months	1 to 5 years	>5 years	Total
Financial liabilities						
Trade payables and other liabilities	–	–	63 369	–	–	63 369
Deposits and savings due to customers	2 207 273	300 595	312 570	20 384		2 840 822
Lease liability	–	1 110	2 220	–	–	3 330
Other liabilities						
Provision for leave pay	–	–	8 445	–	–	8 445
Bonus provision	–	11 962	–	–	–	11 962
Total undiscounted liabilities	**2 207 273**	**313 667**	**386 604**	**20 384**	**–**	**2 927 928**

5 Interest rate, price and currency risk

The table below demonstrates the sensitivity to a reasonable possible change in interest rate and price respectively 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.

Interest rate risk

2011		Net interest income		Net interest income	
	Bp movement	Decrease	Increase	Decrease	Increase
		%	%	R'000	R'000
	50bp	3,01%	4,19%	14 528	10 440
	100bp	6,02%	8,38%	29 056	20 879
	200bp	12,03%	16,75%	58 112	41 758

The Bank considers a reasonable expected change to be 50bp.

Price risk (sensitivity analysis based on a 10% increase and decrease in the market price of the underlying instruments)

The percentage increase and decrease is management's estimate of a reasonable 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 R201 536 375.

2011	Pre tax impact on profit and loss	Carrying value after change
	R'000	R'000
Increase	20 154	221 690
Decrease	(20 154)	181 383

The Bank does not undertake any hedging on exposures.

6 Loans and advances to customers

	2011 R'000
Gross loans and advances to customers	971 080
Less: Allowances for impairment losses	(112 952)
Loans and advances to customers	**858 128**

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

	Pension Backed loans	Other loans	Total
At 1 March 2011	(9 113)	(69 732)	(78 845)
Net charge for the year	(940)	(33 169)	(34 109)
Amounts written off	–	2	2
At 31 August 2011	**(10 053)**	**(102 899)**	**(112 952)**

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

	Specific impairment	Portfolio impairment	Total
Balance at 1 March 2011	(76 338)	(2 507)	(78 845)
Net charge for the year	(34 109)	-	(34 109)
Amounts written off	2	-	2
At 31 August 2011	**(110 445)**	**(2 507)**	**(112 952)**