Risk Management Report 2011

AS AT 31 DECEMBER 2011

(Registration No. 2000/006478/06)

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1. Introduction and overview

The Bank has exposure to the following major risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk
- reputational risk

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

Risk management framework

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Risk and Capital Management Committee, Asset and Liability Committee, and Credit Committee, which are responsible for developing and monitoring the Bank's risk management policies in specified areas. The Risk and Capital Management Committee is composed of non-executive directors, and executives attend by invitation. The Asset and Liability Committee and the Credit Committee each have a non-executive chairman and executives as members.

In addition, an Operational Risk Committee is composed of executive members and senior management from key business areas in the Bank, and reports quarterly to the Risk and Capital Management Committee.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in strategy and products and services offered. The Bank, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk and Capital Management Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee assesses the appropriateness of risk-related provisions.

2. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers.

Credit risk is managed within the risk appetite of the Bank. Acceptable credit risk identified in a credit application is mitigated through sufficient underlying security. To enhance the return on funds, and therefore shareholder value, a certain amount of risk has to be taken in the lending activities of the Bank. The risk tolerance of the Bank is, however, low and therefore all credit is mitigated through sound credit principles, and all lending is done against appropriate security, except where other factors make it unnecessary to obtain specific security.

The basic principle governing the Bank's lending philosophy is the need for management to satisfy itself that the business of the borrower has the capacity to deploy its assets in a way that will generate the earnings/cash flows on a sustainable basis to ensure the repayment of any facilities granted.

Management of credit risk

The Bank's Board of Directors is ultimately responsible for the maintenance of effective risk management in the Bank. In discharging its responsibilities, the Board has to play a critical role in overseeing the credit granting and credit risk management functions of the Bank. The Board, as a minimum:

- approves the credit risk management policy and reviews it at least bi-annually;
- ensures that the Bank operates within sound and well-defined credit-granting criteria;
- ensures that senior management is fully capable of managing credit activities conducted by the Bank;
- ensures, through independent inspection and audit, adherence to the policy, techniques, controls, procedures and information systems;
- reviews all significant credit exposure of the Bank;
- reviews all significant delinquent debts and management's actions taken or contemplated for their recovery;
- reviews any credit granted in conflict with the credit risk management policy;
- reviews trends in the quality of, and concentration in the Bank's credit portfolio, to identify emerging problems and take action to deal with the problems;
- ensures that the Bank's remuneration policy is in line with the credit risk strategy and does not reward imprudent behaviour of credit staff.

The Board has delegated responsibility for the management of credit risk to its Credit Committee, which is chaired by a non-executive director. The role and responsibilities of the Credit Committee, as defined in the Credit Committee Charter, are to support the Board in fulfilling its duties and responsibilities regarding the management of credit risk. Senior management members of the Credit Committee have the responsibility of implementing the credit risk strategy approved by the Board and of developing policies and processes for identifying, measuring, monitoring and controlling credit risk. Such policies and processes address credit risk in all of the Bank's credit activities and at both the individual credit and portfolio levels.

2. Credit risk (continued)

Management of credit risk (continued)

The Credit Department is responsible for oversight of the Bank's credit risk, including:

- *formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- *establishing the authorisation structure for the approval and renewal of credit facilities.* All facilities require approval by the Head of Credit, Credit Committee or the Board of Directors according to authorisation limits;
- *reviewing and assessing credit risk.* The Credit Department assesses all credit exposures prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same process;
- *limiting concentration of exposure* to counterparties, geographies, products and industries;
- *reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Credit Committee on the credit quality of portfolios and appropriate corrective action is taken;
- *providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk.

The Bank operates within sound, well-defined credit granting criteria. These criteria include a clear indication of the Bank's target market and a thorough understanding of the borrower or counterparty.

The Bank adopted the standardised approach for the measurement of its exposure to credit risk and applies the requirements of Regulation 23 and 24 of the Regulations relating to Banks to its credit exposures. Information disclosed is consistent with the manner in which the Board of Directors and senior management assess and manage risk exposures.

2. Credit risk (continued)

Exposure to credit risk

The following table provides a breakdown of the Bank's assets that are considered for credit risk:

	Gross maximum exposure as at 31 December	
	2011 R'000	2010 R'000
Loans and advances (excluding banks)		
Individually impaired		
Exceptional credit quality	**-**	-
Good credit quality	**-**	-
Average credit quality	**75**	689
Deteriorated credit quality	**1 916**	1 010
Total	**1 991**	1 699
Specific allowance for impairment	**(1 724)**	(1 127)
Carrying amount	**267**	572
Collectively impaired		
Exceptional credit quality	**14 667**	-
Good credit quality	**98 751**	57 771
Average credit quality	**130 801**	105 556
Deteriorated credit quality	**9 753**	17 468
Total	**253 972**	180 795
Portfolio allowance for impairment	**(2 775)**	(4 624)
Carrying amount	**251 197**	176 171
Neither past due nor impaired		
Exceptional credit quality	**221 862**	109 604
Exceptional credit quality (banks)	**35 627**	8 637
Good credit quality	**3 247**	70 749
Average credit quality	**101 127**	7 272
Deteriorated credit quality	**32 416**	-
Total	**394 279**	196 262
Total carrying amount of loans and advances	**645 743**	373 005
Other financial assets		
Exceptional credit quality	**239 875**	152 877
Exceptional credit quality (banks)	**1 029 749**	541 880
Good credit quality	**299 422**	271 490
Total of other financial assets	**1 569 046**	966 247
Non-financial assets as per statement of financial position		
Leased assets	**1 647 345**	1 924 667
Equipment	**86 839**	67 788
Intangible assets	**29 625**	31 196
Total of non-financial assets	**1 763 809**	2 023 651
Total assets	**3 978 598**	3 362 903

2. Credit risk (continued)

Exposure to credit risk (continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset including derivatives in the statement of financial position. Instalment sales and finance lease agreements have been included in the above credit risk analysis.

Where a company has a rating issued by a recognised rating agency, that rating has been applied. If not, an internal risk based rating process has been applied. In the latter case, the Bank determines the financial condition of a borrower by calculating certain financial ratios and changes to certain ratios in order to determine the Internal Credit Rating allocated to the borrower.

On June 1 2010, the Bank acquired a 100% interest in an asset-based finance business from The Bidvest Group Limited. At date of acquisition, the exposure to credit risk in the acquired business was warranted by The Bidvest Group Limited. All warranted loans are reflected as exceptional credit quality, net of impairments raised.

Leased assets

The leased assets are moveable assets rented to customers under operating leases. The majority of the leases are in the range of 3 to 5 years tenor. The leased assets are depreciated over the period of the lease or the useful life of the asset, whichever is the lesser period. The maintenance costs are borne by the Bank and are expensed as they are incurred. Leased assets are disclosed at fair value, and tested for impairment on a bi-annual basis. The fair value is determined by comparing the estimated realisable value of a sold asset at end of term to the recorded value.

Impaired loans

An impaired loan is a loan in respect of which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the terms of the loan agreement.

Impairment policy

The Bank writes off loans (and any related allowance for impairment losses) when the Credit Committee determines that the loan is uncollectible. This determination is reached after considering information such as significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance loans, impairment decisions generally are based on a product specific past due status.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of anticipated losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Security held

The Bank holds financial collateral and other security against loans and advances to customers in the form of mortgage bonds over property, assets financed, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of security assessed at the time of borrowing, and are updated regularly. The Bank applies the comprehensive approach for credit risk mitigation as set out in Regulation 23 of the Regulations relating to banks.

2. Credit risk (continued)

Security value

	Loans and advances as at 31 December	
	2011 R'000	2010 R'000
Against individually impaired		
Movable assets	**157**	-
Cash, debtors, stock	**-**	-
Property	**15**	24
Guarantees	**-**	-
Total secured	**172**	24
Unsecured	**95**	548
Total	**267**	572
Collectively impaired		
Moveable assets	**142 001**	68 949
Cash, debtors, stock	**35 941**	14 356
Property	**70 608**	44 676
Guarantees	**-**	24 439
Total secured	**248 550**	152 420
Unsecured	**2 647**	23 751
Total	**251 197**	176 171
Neither past due nor impaired		
Moveable assets	**292 753**	43 371
Cash, debtors, stock	**7 008**	-
Guarantees	**84 173**	152 891
Total secured	**383 934**	196 262
Total unsecured	**10 345**	-
Total	**394 279**	196 262
Carrying value	**645 743**	373 005

2. Credit risk (continued)

Security valuation

Type	Tangible value
Rand Cash (Cession over deposit account)	100%
Foreign Cash (Cession over CFC account)	90%
Pledge of Shares (JSE top 100) Quarterly statements are obtained from the customer's Broker.	50%
Cession of Unit Trusts Monthly statements are obtained from the customer's Broker.	50%
Gold coins	50%
Cession of Insurance / Endowment Policy Valued at the time the Cession is signed by obtaining surrender values directly from the Assurance company.	Extra security, no commercial value
Cession of Debtors Valued monthly upon submission of debtor lists to the Bank.	25% excluding arrears, depending on the quality of the book
General Notarial Bond over Stock Valued monthly upon submission of stock lists to the Bank.	25%
Mortgage Bonds over property Valuation conducted by an independent Valuator approved by the Bank when the deal is initiated.	60%
A1 rated guarantees	100%
Suretyships	0%
Movable assets	100%

The Bank monitors concentration of credit risk by sector. An analysis of concentration of credit risk at the reporting date is shown hereafter:

Credit risk by sector

Concentration by sector	Loans and advances 2011 R'000	Loans and advances 2010 R'000	Investment securities 2011 R'000	Investment securities 2010 R'000
Agriculture, Hunting, Forestry & Fishing	**4 490**	1 942	**-**	-
Manufacturing	**51 842**	11 318	**-**	-
Mining & Quarrying	**35 944**	14 595	**-**	-
Construction	**25 033**	16 593	**-**	-
Wholesale and retail trade	**52 626**	78 442	**-**	-
Transport, storage and communication	**80 291**	87 303	**-**	-
Financial intermediation and insurance	**120 441**	65 970	**19 920**	20 813
Real estate	**35 017**	39 081	**-**	-
Business services	**61 901**	26 319	**-**	-
Community, social and personal services	**164 180**	10 225	**-**	-
Private households	**9 950**	19 559	**-**	-
Utilities	**3 841**	448	**-**	-
Other	**187**	1 210	**82 072**	46 082
Total	**645 743**	373 005	**101 992**	66 895
Of which:				
Sovereign	**161 040**	6 699	**80 233**	46 082

The Bank also monitors concentration of credit risk by geographical area and, apart from accounts at foreign banks, the majority of all other credit exposure is in South Africa.

2. Credit risk (continued)

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, or other assets as contractually agreed.

External credit assessment

In calculating the required amount of capital to be held against credit risk, the Bank applies the long-term, international credit ratings as published by Moody's Investors Services. Where no rating has been published, the following rating agencies are used:

- Fitch
- Standard & Poor's

Counterparty credit risk

The Bank nets its exposures with counterparty banks where there are formal legal netting agreements in place.

Carrying value (gross less impairment) of banking and other advances for which collateral is held

2011	Gross	(Impairment)	Net	Guarantees & suretyships	Pledge of assets	Total security	Carrying value for which no collateral is held	Net carrying value
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Not past due	647 917	(2 774)	645 143	84 173	546 157	630 330	13 088	643 418
Past due 0-30 days	-	-	-	-	-	-	-	-
Past due 31-180 days	438	(223)	215	-	438	438	-	438
Past due 181-365 days	1 887	(1 502)	385	-	1 887	1 887	-	1 887
Total	650 242	(4 499)	645 743	84 173	548 482	632 655	13 088	645 743

2010	Gross	(Impairment)	Net	Guarantees & suretyships	Pledge of assets	Total security	Carrying value for which no collateral is held	Net carrying value
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Not past due	377 057	(4 624)	372 433	177 330	171 352	348 682	23 751	372 433
Past due 0-30 days	26	-	26	-	-	-	26	26
Past due 31-180 days	609	(63)	546	-	24	24	522	546
Past due 181-365 days	1 064	(1 064)	-	-	-	-	-	-
Total	378 756	(5 751)	373 005	177 330	171 376	348 706	24 299	373 005

Capital requirements for credit risk are calculated by making use of daily average balances for all overdraft, corporate, money market and overnight loan exposures as required in terms of Regulation 23(3) of the Regulations relating to banks. The gross month end exposures reflected above are representative of these average balances.

3. Liquidity risk

Liquidity risk is the risk that the Bank may be unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn without incurring unacceptable losses. Liquidity risk can be divided into 2 sub-categories:

2.1 *Market Liquidity Risk:* The ease with which assets can be liquidated;
2.2 *Funding Liquidity Risk:* The ease with which additional funding can be raised e.g. in the interbank or wholesale markets.

Effective liquidity risk management is a daily process to monitor and project cash flows to ensure adequate liquidity is maintained. The mismatch of cash flows could lead to situations where cash outflows exceed cash inflows in a given period. This may result in the Bank's failure to meet its obligations to pay creditors, repay depositors and fulfil commitments to lend.

In summary, liquidity management is the process to meet the Bank's commitments as they fall due, at an appropriate cost, whilst maintaining market confidence in the Bank.

Management of liquidity risk

Active management of liquidity is critical to the continued solvency of the Bank. At all times, the Bank must be able to meet its financial commitments as they fall due. In this context, the Bank is concerned with the management of future cash flows so that at no stage is the Bank unable to fund net cash outflows from either the market or through the sale of liquid assets.

Liquidity management is applied on an overall balance sheet approach, which consolidates all sources and uses of liquidity and aims to maintain a balance between liquidity and cost of funding. The Bank measures, monitors and manages on-balance sheet and off-balance sheet liquidity mismatch risk taking cognisance of contractual and business-as-usual liquidity conditions, stress liquidity scenarios, guidelines and limits as set by the Asset and Liability Committee (ALCO), regulatory requirements and requirements in terms of best practice liquidity risk management.

The Bank recognises that the analysis of net funding requirements is only one aspect of a sound liquidity management framework. The Bank's ability to withstand a net funding requirement in a liquidity crisis also depends on the calibre of its formal contingency plans. Another critical liquidity management practice is the maintenance of sufficiently diversified sources of funding to limit the exposure to any particular segment of the market. The Bank distinguishes between day-to-day and stress liquidity management.

At 31 December 2011, the Bank held a committed interest bearing borrowing facility of R494 million (2010: R617 million) from The Bidvest Group Limited. This facility is contractually repayable in equal annual instalments of R123 million on June 30 of each year. Any unutilised portion of this committed facility remains available on demand and can be accessed to meet liquidity needs.

The Bank also has a standing internal limit (referred to as the Liquidity Cushion) that the greater of R200 million, or 25% of its call deposits plus notice deposits maturing within 14 days, will be covered at all times by immediately available funds.

There are a number of other liquidity management techniques, which contribute to the overall soundness of the Bank's liquidity. These include daily monitoring of the liquidity position, adequate diversification of funding, building strong relationships with providers of funding, investment of surplus liquidity, and internal control processes and contingency plans for managing liquidity risk.

Management, in conjunction with ALCO, recommends changes to the Bank's liquidity risk policy documents and these policy changes are reviewed by the Risk and Capital Management Committee for recommendation to the Board for approval. All policy and strategy changes require Board approval prior to implementation.

3. Liquidity risk (continued)

Residual contractual maturities of financial liabilities

	Gross value	Contractual undiscounted cash flows	6 months or less	6–12 months	1-5 years
31 December 2011	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Non-derivative liabilities					
Intergroup loans	**(483 272)**	**(553 460)**	**(137 820)**	**(11 130)**	**(404 510)**
Other liabilities	**(412 943)**	**(412 943)**	**(404 752)**	**(8 182)**	**(9)**
Deposits	**(1 459 813)**	**(1 470 558)**	**(1 445 150)**	**(25 355)**	**(53)**
Derivative liabilities					
Trading: outflow (liabilities)	**(29 027)**	**(29 267)**	**(29 267)**	**-**	**-**
	(2 385 055)	**(2 466 228)**	**(2 016 989)**	**(44 667)**	**(404 572)**
31 December 2010					
Non-derivative liabilities					
Intergroup loans	(474 264)	(600 276)	(117 375)	(14 345)	(468 556)
Other liabilities	(394 737)	(394 737)	(394 737)	-	-
Deposits	(1 176 681)	(1 208 496)	(1 183 796)	(24 700)	-
Derivative liabilities					
Trading: outflow (liabilities)	(23 680)	(23 680)	(23 680)	-	-
	(2 069 362)	(2 227 189)	(1 719 588)	(39 045)	(468 556)

The cash flows are included as per the contract and are not discounted for the time value of money. The gross value of the liabilities will therefore differ from the total contractual cash flows. In circumstances where there are no fixed terms of repayment, the liability is included on the basis of the earliest date on which the operation can be required to pay.

Maturity analysis of financial assets held for managing liquidity risk

	Carrying amount	Less than 3 months	3-12 months	1-5 years	More than 5 years
31 December 2011	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Cash and balances with banks	**1 269 624**	**1 269 624**	**-**	**-**	**-**
Loans and advances	**645 743**	**96 390**	**70 189**	**438 914**	**40 250**
Investment securities	**101 992**	**21 759**	**-**	**80 233**	**-**
Other assets	**173 291**	**173 291**	**-**	**-**	**-**
	2 190 650	**1 561 064**	**70 189**	**519 147**	**40 250**
31 December 2010					
Cash and balances with banks	670 706	670 706	-	-	-
Loans and advances	373 005	244 582	17 956	94 056	16 411
Investment securities	66 895	20 813	44 611	1 471	-
Other assets	199 951	199 951	-	-	-
	1 310 557	1 136 052	62 567	95 527	16 411

4. Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in ALCO. The Risk Department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by the Risk Department in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

	Carrying amount	Less than 3 months	3-12 months	1-5 years	More than 5 years
	R'000	R'000	R'000	R'000	R'000
31 December 2011					
Financial assets/(liabilities)					
Cash and balances with banks	**1 269 624**	**1 269 624**	**-**	**-**	**-**
Loans and advances	**645 743**	**96 390**	**70 189**	**438 914**	**40 250**
Leased assets	**1 647 345**	**1 647 345**	**-**	**-**	**-**
Investment securities	**101 992**	**21 759**	**-**	**80 233**	**-**
Other assets	**173 291**	**173 291**	**-**	**-**	**-**
Intergroup loans	**(483 272)**	**(483 272)**	**-**	**-**	**-**
Deposits	**(1 459 813)**	**(1 396 363)**	**(63 400)**	**(50)**	**-**
	1 894 910	**1 328 774**	**6 789**	**519 097**	**40 250**
31 December 2010					
Financial assets/(liabilities)					
Cash and balances with banks	670 706	670 706	-	-	-
Loans and advances	373 005	244 582	17 956	94 056	16 411
Leased assets	1 924 667	1 924 667	-	-	-
Investment securities	66 895	20 813	44 611	1 471	-
Other assets	199 951	199 951	-	-	-
Intergroup loans	(474 264)	-	-	(474 264)	-
Deposits	(1 176 681)	(916 222)	(260 459)	-	-
	1 584 279	2 144 497	(197 892)	(378 737)	16 411

4. Market risk (continued)

Interest rate sensitivities

The Bank performs well in an environment of high interest rates (increasing the return on its lending book). As this market indicator has a significant impact on the Bank, fluctuations in the Bank's prime lending rates are closely monitored.

The management of interest rate risk against interest rate gaps is accomplished through monitoring the sensitivity of the Bank's financial assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or rise.

An analysis of the Bank's forward-looking sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	200bp parallel movement	
Monthly impact before tax on net interest income	Increase R'000	Decrease R'000
As at 31 December 2011	**3 680**	**(3 680)**
As at 31 December 2010	1 418	(1 418)

4. Market risk (continued)

Foreign exchange rate sensitivities

Currency profile

R'000	ZAR	GBP	USD	EUR	OTHER	TOTAL
31 December 2011						
Assets						
Cash and balances with banks	**1 088 354**	**5 983**	**115 105**	**33 648**	**26 534**	**1 269 624**
Derivative financial assets	**24 139**	-	-	-	-	**24 139**
Loans and advances	**627 689**	-	**18 054**	-	-	**645 743**
Leased assets	**1 647 345**	-	-	-	-	**1 647 345**
Investment securities	**101 992**	-	-	-	-	**101 992**
Other assets	**173 291**	-	-	-	-	**173 291**
Equipment	**86 839**	-	-	-	-	**86 839**
Intangible assets	**29 625**	-	-	-	-	**29 625**
	3 779 274	**5 983**	**133 159**	**33 648**	**26 534**	**3 978 598**
Commitments to purchase foreign currency	-	**55 957**	**881 856**	**263 680**	**251 868**	**1 453 361**
Total assets	**3 779 275**	**61 940**	**1 015 015**	**297 328**	**278 402**	**5 431 959**
31 December 2010	3 208 721	39 371	55 205	43 506	16 100	3 362 903
Commitments to purchase foreign currency	-	68 752	1 235 548	210 178	95 573	1 610 051
Total assets	3 208 721	108 123	1 290 753	253 684	111 673	4 972 954

R'000	ZAR	GBP	USD	EUR	OTHER	TOTAL
31 December 2011						
Equity and liabilities						
Share capital	**2 070**	-	-	-	-	**2 070**
Share premium	**525 709**	-	-	-	-	**525 709**
Reserves	**954 551**	-	-	-	-	**954 551**
Intergroup loans	**483 272**	-	-	-	-	**483 272**
Derivative financial liabilities	**29 027**	-	-	-	-	**29 027**
Deposits	**1 208 575**	**38 509**	**138 609**	**42 214**	**31 906**	**1 459 813**
Other liabilities	**412 943**	-	-	-	-	**412 943**
Taxation	**110 837**	-	-	-	-	**110 837**
Current taxation	**176**	-	-	-	-	**176**
Defined benefit liability	**200**	-	-	-	-	**200**
	3 727 360	**38 509**	**138 609**	**42 214**	**31 906**	**3 978 598**
Commitments to sell foreign currency	-	**29 133**	**799 902**	**253 431**	**248 748**	**1 331 214**
Total equity and liabilities	**3 727 360**	**67 642**	**938 511**	**295 645**	**280 654**	**5 309 812**
31 December 2010	3 015 601	62 244	196 777	64 112	24 169	3 362 903
Commitments to sell foreign currency	-	42 994	1 090 280	193 161	94 098	1 420 533
Total equity and liabilities	3 015 601	105 238	1 287 057	257 273	118 267	4 783 436

4. Market risk (continued)

Foreign exchange rate sensitivities (continued)

The currency profile analyses the assets and liabilities in terms of their originating currencies. These totals are then expressed in South African rand at the closing spot exchange rate.

Net open position	GBP R'000	USD R'000	EUR R'000	OTHER R'000	TOTAL R'000
31 December 2011	**(5 702)**	**76 504**	**1 683**	**(2 252)**	**70 233**
31 December 2010	2 885	3 696	(3 589)	(6 594)	(3 602)

Closing spot exchange rate

	GBP	USD	EUR
31 December 2011	**R12.49**	**R8.10**	**R10.47**
31 December 2010	R10.29	R6.65	R8.87

Average exchange rate

	GBP	USD	EUR
For the period ended 31 December 2011	**R12.11**	**R7.61**	**R10.50**
For the period ended 31 December 2010	R11.13	R7.11	R9.42

Foreign currency net open position sensitivity based on a 10% movement in exchange rate	**2011 R'000**	2010 R'000
GBP	**(570)**	289
USD	**7 650**	370
EUR	**168**	(359)
Other	**(225)**	(659)

5. 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.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses not part of operational risk with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The Operational Risk Committee is responsible for oversight of the Bank's operational risks.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

6. Reputational risk

The Bank manages reputational risk by an integrated strategy, understanding the correlation between sustainable performance and reputation, and between corporate image and corporate reputation.

The following basic strategies are followed to manage reputational risk:

- fostering a reputation-conscious culture
- linking corporate social responsibility to reputation
- measuring the impact of media coverage, perceptions and stakeholder impressions
- developing plans to develop and protect reputation
- monitoring potential reputation-damaging issues
- proactively exploiting good news and having a crisis communication plan to respond in times of bad news
- transforming potential disasters into opportunities.

7. Capital management

Regulatory capital

The South African Reserve Bank (SARB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements the SARB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets, market risk exposure and operational risk exposure. The Bank follows the Standardised approach under Basel II and calculates requirements for market risk in its banking portfolios based upon the Bank's market risk models and uses both external and internal gradings as the basis for risk weightings for credit risk.

The Bank's regulatory capital is analysed into two categories:

- Primary capital, which includes ordinary share capital, share premium and appropriated retained earnings.
- Secondary capital, which includes not yet appropriated retained earnings, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

The Bank's internal capital adequacy assessment process (ICAAP) is formalised and approved by the Board. The Bank's policy is to maintain a strong capital base so as to maintain investor, credit and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing, and the advantages and security afforded by a sound capital position.

The Bank and its operations have complied with all externally imposed capital requirements throughout the half-year and previous period.

There have been no material changes in the Bank's management of capital during the period.

The Bank's ICAAP reflects its internal assessment of risk. The ICAAP determines the most suitable level of economic capital, i.e. the capital required to remain solvent under conditions that are extreme in nature. For potential losses arising from risk types that are statistically quantifiable, economic capital reflects the worst case loss, taking risk-adjusted returns on capital into account.

The final economic capital level determined through the ICAAP reflects the capital to be held for risks as assessed by management instead of implicated by a prescribed regulatory formula. The economic capital requirement is then compared to the regulatory capital requirement to determine the buffer to be held for uncertainties to ensure adequate capitalisation for the Bank.

None of the exposures at 31 December 2011 were subject to rapid or material change.

7. Capital management (continued)

Regulatory capital (continued)

Net qualifying capital and reserves	2011 R'000	2010 R'000
Primary capital	**845 112**	755 112
Share capital	**2 070**	1 980
Share premium	**525 709**	435 799
Appropriated retained earnings	**317 333**	317 333
Less impairment	**(52 649)**	(54 220)
Total qualifying capital and reserves	**792 463**	700 892
Non qualifying capital and reserves	**689 867**	401 266
Retained earnings not formally appropriated	**637 218**	347 046
Prescribed deductions against capital and reserve funds	**52 649**	54 220
Total capital and reserves	**1 482 330**	1 102 158

Risk-weighted exposure	Capital requirement 2011 R'000	Risk-weighted exposure 2011 R'000	Capital requirement 2010 R'000	Risk-weighted exposure 2010 R'000
Credit risk				
Retail bank, corporate bank and central treasury	**61 000**	**626 804**	60 981	627 670
Market risk				
Retail bank, corporate bank and central treasury	**2 237**	**22 943**	1 178	12 091
Operational risk				
Retail bank, corporate bank and central treasury	**194 835**	**1 998 310**	107 175	1 107 169
Equity risk				
Retail bank, corporate bank and central treasury	**179**	**1 839**	3 327	17 889
Other assets	**186 057**	**1 907 477**	475 212	2 142 376
Totals	**444 308**	**4 557 373**	647 873	3 907 195

Capital ratios	2011	2010
Total capital adequacy ratio	**17.39%**	17.94%
Total primary capital adequacy ratio	**17.39%**	17.94%