IMPERIAL BANK

ANNUAL REPORT 2009

Contents

1	Financial highlights and five-year review	2
2	Bank vision and structure	3
3	Board of Directors	4
4	Executive Committee	5
5	Chairman's review	6
6	Chief Executive Officer's report	8
7	Chief Financial Officer's report	20
8	Corporate governance	22
9	Risk management	24
10	Directors' approval	30
11	Independent auditor's report	31
12	Directors' report	32
13	Secretary's report	33
14	Accounting policies	34
15	Group financial statements	51
	15.1 Statement of comprehensive income	52
	15.2 Statement of financial position	53
	15.3 Statement of changes in shareholders' equity	54
	15.4 Statement of cash flows	55
	15.5 Operational and segmental report	56
	15.6 Statement of financial position classifications of financial instruments	58
	15.7 Notes to the financial statements	62
	15.8 Analysis of investments in subsidiaries	93
	15.9 Value-added statement	94
16	Company financial statements	95
	16.1 Statement of comprehensive income	96
	16.2 Statement of financial position	97
	16.3 Statement of changes in shareholders' equity	98
	16.4 Statement of cash flows	99
	16.5 Statement of financial position classifications of financial instruments	100
	16.6 Notes to the financial statements	104
	16.7 Value-added statement	135
17	Home loan and mortgage disclosures	136
18	Analysis of preference shareholders	138
19	Capital adequacy report	139
20	Corporate information	inside back cover

Motor
Finance

Property
Finance

Supplier
Asset
Finance

Professional
Finance

Financial Highlights and Five-year Review

for the year ended 31 December 2009

	2005 R'000	2006 R'000	2007 R'000	2008 R'000	**2009 R'000**	% increase over 2008
Statement of financial position						
Total assets	21 813 999	30 400 161	38 228 338	48 768 095	**55 659 647**	14%
Gross loans and advances	20 258 257	28 358 203	36 222 383	45 546 590	**51 639 288**	13%
Total ordinary shareholders' equity	1 522 804	1 608 674	2 397 186	3 062 314	**3 463 013**	13%
Amounts owed to depositors	19 229 181	27 036 305	34 047 864	43 934 979	**50 087 002**	14%
Statement of comprehensive income						
Net interest income	804 164	1 078 629	1 491 359	1 732 543	**2 033 065**	17%
Profit from operations before direct taxation	373 507	506 259	684 084	543 458	**599 183**	10%
Net profit after direct and indirect taxation	294 483	386 060	479 154	361 213	**430 775**	19%
Number of employees	793	873	1 003	1 148	**1 102**	(4%)
Ratios (%)						
Return on total assets	1.5%	1.5%	1.4%	0.8%	**0.8%**	
Return on ordinary shareholders' equity	23.2%	24.7%	23.9%	13.2%	**13.2%**	
Non-interest revenue as a percentage of operating income	6.8%	6.9%	10.6%	7.8%	**15.6%**	
Efficiency	41.3%	35.4%	30.2%	28.8%	**28.0%**	
Impairments as a percentage of gross loans and advances	2.8%	2.2%	2.5%	1.8%	**2.3%**	
Impairment losses as a percentage of gross loans and advances	0.6%	0.9%	1.3%	1.7%	**2.0%**	
Capital adequacy	10.2%	10.5%	10.6%	11.1%	**11.2%**	

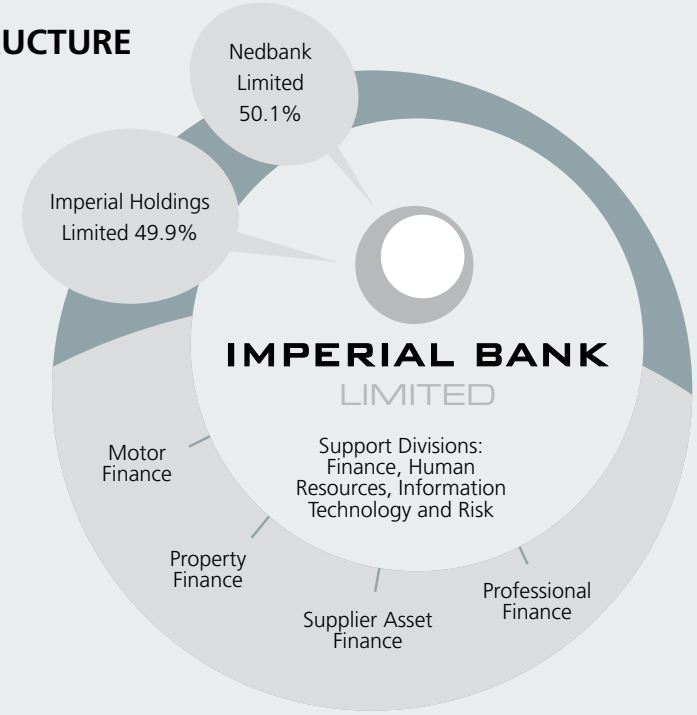
Bank Vision and Structure

VISION

Imperial Bank has a threefold vision:

- to achieve sustainable profits exceeding its shareholders' expectations;
- to promote client service standards which become respected in the industry; and
- to be an inspiring and happy place to work for our staff.

STRUCTURE



Post-balance sheet event

Subsequent to year-end, regulatory approval in terms of the Banks Act of 1990 was obtained to enable Nedbank Limited to acquire the 49.9% of the ordinary shares held by Imperial Holdings Limited. All conditions precedent to the acquisition have therefore been fulfilled and the acquisition will now be implemented by the parties.

Board of Directors

O S Arbee (50)	B Acc, CA(SA), Dip Tax (Unisa), IMD (Switzerland) Non-executive director. Chief Executive Officer of Imperial Car Rental & Tourism. Resigned with effect from 10 February 2010.
L E Bakoro (36)	BCom, CA(SA), HDip Tax Law (Wits) Independent non-executive director.
C J W Ball (70)	Dip Iuris (Wits), MA (Cambridge) Non-executive director. Independent non-executive director of Nedbank Group Limited.
H R Brody (45)	B Acc, B Acc (Hons), CA(SA) Non-executive Chairman of Imperial Bank Limited. Chief Executive Officer of Imperial Holdings Limited.
M J Croucamp (64)	FIAC, AEP, AMP (Insead) Independent non-executive director.
P C W Hibbit (60)	BCom, CA(SA), HDip Tax Law (Wits), AMP (Harvard) Chief Financial Officer of Imperial Bank Limited.
N P Mnxasana (53)	BCom, BCompt (Hons), CA(SA) Non-executive director. Independent non-executive director of Nedbank Group Limited.
R van Wyk (53)	BCom, BCompt (Hons), CA(SA), AMP (Insead) Chief Executive Officer of Imperial Bank Limited.
P K Ward (57)	BCom, CA(SA) Independent non-executive director.
P A Wessels (51)	BCom, CA(SA), HDip Adv. Bank Law, SAISB Non-executive director. Chief Risk Officer of Nedbank Group Limited.

Executive Committee

T C M Browse (39)

B.Optom, ACMA

Head of Motor Finance. Twelve years in banking and five years with Imperial Bank Limited.

P C W Hibbit (60)

BCom, CA(SA), HDip Tax Law (Wits), AMP (Harvard)

Chief Financial Officer of Imperial Bank Limited. Twenty-four years in banking and five years with Imperial Bank Limited. Member of the Large Credit Exposures Committee.

B S Motshoane (35)

BCom, BCom (Hons), MBL (Unisa), IEDP (Bankseta)

Chief Risk Officer of Imperial Bank Limited. Eleven years in banking and two years with Imperial Bank Limited. Member of the Large Credit Exposures Committee.

R C Naicker (33)

BSc Chem Eng, BEng (Hons) (Cum Laude), MEng (Cum Laude)

Head of Supplier Asset Finance and Head of IT. Nine years in banking and three years with Imperial Bank Limited.

P C Swanepoel (48)

BCom, AMP (Oxford)

Head of Property Finance and Head of Professional Finance. Twenty-six years in banking and seven years with Imperial Bank Limited.

R van Wyk (53)

BCom, BCompt (Hons), CA(SA), AMP (Insead)

Chief Executive Officer of Imperial Bank Limited. Eighteen years in banking and five years with Imperial Bank Limited. Member of the Large Credit Exposures Committee.

Chairman's Review

The Imperial Bank Group (the Group) consists of Imperial Bank Limited (Imperial Bank or the Bank) and all of its subsidiaries. Imperial Bank, which was incorporated in 1996, is a niche player primarily engaged in asset-based financing. Nedbank Limited (Nedbank) and Imperial Holdings Limited (Imperial Holdings) respectively holds 50.1% and 49.9% of the share capital. In terms of a Memorandum of Understanding signed by the shareholders in 2001, Nedbank provides the funding for the Bank as well as risk management support which includes having representatives on the Bank's Credit Committee and Asset and Liability Committee, whilst Imperial Holdings provides the Bank with access to its extensive network of business operations throughout South Africa.

As announced during 2009, Nedbank has agreed, subject to regulatory approval, to acquire Imperial Holdings' shareholding of 49.9% of the ordinary shares of Imperial Bank. The regulatory approval in terms of the Banks Act of 1990 has subsequently been received and the Bank will become a wholly-owned subsidiary of Nedbank.

The first half of the year was characterised by a continuation of the extremely difficult trading conditions experienced in the second half of 2008 which contrasted with the improved trading conditions in the second half of the year. The benefits of the lower interest rate environment are assisting hard-pressed consumers resulting in an improvement in retail arrear accounts and a reduction in the high level of impairments experienced in the first half of the year. This more favourable trading environment enabled the Bank to produce net profit after tax of R430.8 million which is 19.3% up on the R361.2 million of the previous year. Due to lack of demand for secondary capital as well as the announcement of the shareholder transaction, the composition of capital was not optimised resulting in a proportionally higher level of average equity capital in 2009. Consequently return on equity remains constant year-on-year at 13.2%. The efficiency ratio improved from 28.8% in 2008 to 28.0% in the current year. Loans and advances grew 12.8% from R44.7 billion to R50.5 billion as the Bank continued to attract good quality new business.

Motor Finance had a significantly better year with net profit after tax increasing 92.5% from R164.5 million to R316.6 million whilst loans and advances grew 16.1% from R28.0 billion to R32.5 billion. As mentioned in last year's report, Motor Finance was able to generate good quality business, predominantly in the used car market, at appropriate pricing while maintaining strong risk controls and a lean operating environment. This trend continued during 2009. These factors combined with the improved impairments during the second half, enabled the division to produce these far more pleasing results.

As anticipated, Property Finance has had a difficult year. Whilst there has been demand for commercial property finance there has been virtually no demand for residential development finance. As a result, loans and advances grew 11.3% from R8.0 billion to R8.9 billion. Although commercial property finance produces good quality annuity income, it does not produce the same level of net interest income as contributed by residential development finance. This change in business mix results in significantly lower net interest income which dropped 25.9% from R328.1 million last year to R243.2 million for the current year. This, combined with an increase of 218.0% in impairments from R13.3 million last year to R42.3 million for the current year, resulted in net profit after tax declining 36.7% from R164.0 million for 2008 to R103.8 million for 2009.

Professional Finance had a much improved year with net profit after tax increasing 42.7% from R17.8 million last year to R25.4 million for the current year. This was largely attributable to improved margins, good cost management and a reduction in impairments which reduced 3.4% from R26.7 million in 2008 to R25.8 million for the year under review. Loans and advances increased 16.3% from R4.9 billion last year to R5.7 billion for the current year.

Supplier Asset Finance had a disappointing year, with the division being badly affected by the poor economic environment. The division incurred a loss after tax of R12.7 million for the year compared to a profit after tax of R37.3 million last year. This was mainly due to impairments which increased 201.7% from R29.2 million last year to R88.1 million for the current year. In line with the strategy to selectively consider new business, loans and advances declined 10.8% from R3.7 billion at 31 December 2008 to R3.3 billion at 31 December 2009.

Economy

During the second half of the year, the economy showed signs of a recovery. However, the recovery is fragile with continued uncertainty in the market which could negatively impact on the business and particularly the corporate and commercial businesses.

Appreciation

As mentioned above, the Bank will now become a wholly-owned subsidiary of Nedbank. Consequently, this is the final annual

report to be published by the Bank, so I would like to take this opportunity of expressing my appreciation to the management and staff of the Bank. This is a young bank which has achieved significant growth, particularly over the last seven years and is now a meaningful player in asset-based finance with a market share in excess of 15% in the instalment credit market. It is pleasing that this growth has been achieved whilst maintaining prudent risk management and credit criteria. This has enabled the Bank to weather the volatile markets and, despite the depressed state of the economy, to produce improved results for the year under review. This sustained performance is due to the sound leadership of the Bank combined with the hard work and dedication of both management and staff. I would like to thank the Executive Committee, management and all staff not only for the good results of the current year, but also for building the Bank into the significant business it is today.

I would also like to thank my fellow directors for their guidance and wisdom and particularly for ensuring that the various committees of the Board run smoothly.

Finally I would like to thank the Registrar of Banks and his staff for the interest that they have shown in the Bank over the years and the guidance they have provided.

H R Brody
Chairman

Chief Executive Officer's Report

With the world and South African economies in recession, 2009 has been an extremely challenging year. It would, however, appear that we are now through the worst of the storm and although 2010 is expected to be another tough year, there are signs of a slow recovery. The Bank had a poor first six months, but experienced a far better second half, with the last quarter producing good results. As a result, the year ended on a positive note, with net profit after tax increasing 19.3% from R361.2 million to R430.8 million and the efficiency ratio showing further improvement from 28.8% to 28.0%. Due to lack of demand for secondary capital as well as the announcement of the shareholder transaction, the composition of capital was not optimised resulting in a proportionally higher level of average equity capital in 2009. Consequently return on equity remains constant year-on-year at 13.2%.

Loans and advances grew 12.8% from R44.7 billion to R50.5 billion, with both Motor Finance and Professional Finance achieving good growth of 16.1% and 16.3% respectively. The growth of 11.3% in Property Finance was due to growth in commercial and industrial finance as there was virtually no demand for residential development finance. The Bank took a cautious approach to Supplier Asset Finance and selectively considered new business, with the result that these loans and advances declined 10.8% for the year.

Motor Finance pages 10 – 11

Property Finance pages 12 –13

Supplier Asset Finance pages 14 – 15

Professional Finance pages 16 – 17

Transformation page 18

Socio-economic development pages 18 – 19

Appreciation page 19

Motor Finance

OVERVIEW

Motor Finance provides finance to the general public for the acquisition of passenger vehicles. The division has continued to focus on its core market of retail passenger vehicle finance via the motor dealer origination channel.

Review of the year

Although the sale of new passenger vehicles declined significantly by 23.8% from 295 064 units in 2008 to 224 708 units in 2009, the demand for finance for used passenger vehicles has remained relatively strong. As the division has been traditionally well represented in the used car market, it has been able to benefit from this shift in market trends.

The division continues to receive good support from the Imperial Group dealerships, as well as increased support from other large dealerships and the independent dealer network. These factors have enabled the division to increase net loans and advances by 16.1%, from R28.0 billion to R32.5 billion.

The benefit of the interest rate cuts and a more stable economy in the second half of 2009 meant that credit impairments reduced significantly in the final quarter. Although the impairment charge increased 26.8% from R631.3 million in 2008 to R800.5 million in 2009 and the ratio of impairment losses to average gross loans and advances deteriorated slightly from 2.5% to 2.6%, this was a notable improvement from the 30 June 2009 interim figure of 3.2%.

The efficiency ratio showed further improvement from 26.4% to 23.4% and continues to be a significant competitive advantage.

Net profit after tax improved from R164.5 million to R316.6 million.

	TOTAL
NET PROFIT AFTER TAX	
2009 (Rm)	316.6
2008 (Rm)	164.5
NET LOANS AND ADVANCES	
2009 (Rm)	32 500
2008 (Rm)	28 020
IMPAIRMENTS TO GROSS LOANS AND ADVANCES (BALANCE SHEET)	
2009 (%)	2.7
2008 (%)	2.2
ALLOCATED COSTS	
2009 (Rm)	75.5
2008 (Rm)	73.3
EFFICIENCY	
2009 (%)	23.4
2008 (%)	26.4
NUMBER OF EMPLOYEES	
2009	692
2008	717
AFTER-TAX RETURN ON AVERAGE NET LOANS AND ADVANCES	
2009 (%)	1.0
2008 (%)	0.7
AFTER-TAX RETURN ON EQUITY	
2009 (%)	16.6
2008 (%)	11.9
IMPAIRMENT LOSSES AS A PERCENTAGE OF AVERAGE GROSS LOANS AND ADVANCES	
2009 (%)	2.6
2008 (%)	2.5

Property Finance

OVERVIEW

Property Finance provides finance for commercial, industrial and residential development properties. The economic recession severely impacted the residential development market; however, the commercial and industrial markets were less severely impacted.

Review of the year

During 2009, the residential development book decreased due to very few new projects and the run-off of the existing book. The commercial and industrial book increased 22.8%, from R5.7 billion to R 7.0 billion and now represents 79.2% of the Property Finance book. Margins remained under pressure during the year.

The quality of the book remains sound, notwithstanding the impairment losses increasing from 0.2% in 2008 to 0.5% of average gross loans and advances for the year under review. Operating expenses continue to be well controlled.

The expectation for 2010 is that there will be subdued growth in the Commercial and Industrial market and a further decline in the Residential Development market.

	TOTAL
NET PROFIT AFTER TAX	
2009 (Rm)	103.8
2008 (Rm)	164.0
NET LOANS AND ADVANCES	
2009 (Rm)	8 862
2008 (Rm)	7 996
IMPAIRMENTS TO GROSS LOANS AND ADVANCES (BALANCE SHEET)	
2009 (%)	1.0
2008 (%)	0.6
ALLOCATED COSTS	
2009 (Rm)	32.9
2008 (Rm)	25.4
EFFICIENCY	
2009 (%)	31.3
2008 (%)	23.7
NUMBER OF EMPLOYEES	
2009	102
2008	113
AFTER-TAX RETURN ON AVERAGE NET LOANS AND ADVANCES	
2009 (%)	1.2
2008 (%)	2.3
AFTER-TAX RETURN ON EQUITY	
2009 (%)	13.8
2008 (%)	28.3
IMPAIRMENT LOSSES AS A PERCENTAGE OF AVERAGE GROSS LOANS AND ADVANCES	
2009 (%)	0.5
2008 (%)	0.2

Supplier Asset Finance

OVERVIEW

Supplier Asset Finance is focused on financing equipment for the business community and on providing asset-based finance to mostly medium-sized companies in the construction, mining, aviation, transport and material-handling sectors.

Review of the year

The economic downturn has negatively affected demand for finance, resulting in customers delaying asset replacements and growth programmes. In line with the strategy to selectively consider new business, the new deal flow decreased significantly during the course of the year resulting in a decline in the division's net loans and advances. The total turnover decreased by 57.7% from R2.6 billion in 2008 to R1.1 billion in 2009, with net loans and advances decreasing 10.8% from R3.7 billion to R3.3 billion. Impairment losses increased from R29.2 million to R88.1 million reflecting the difficult market conditions, and the subsequent effect on business customers in this tough environment.

As a result of the increased level of impairment losses the division incurred a loss of R12.7 million for the year compared to a profit of R37.3 million in the previous year. The division is confident that the impairment position has bottomed out and the quality of the current book will reflect the improving economic environment in 2010.

	TOTAL
NET (LOSS)/PROFIT AFTER TAX	
2009 (Rm)	(12.7)
2008 (Rm)	37.3
NET LOANS AND ADVANCES	
2009 (Rm)	3 283
2008 (Rm)	3 677
IMPAIRMENTS TO GROSS LOANS AND ADVANCES (BALANCE SHEET)	
2009 (%)	4.3
2008 (%)	2.3
ALLOCATED COSTS	
2009 (Rm)	28.8
2008 (Rm)	19.3
EFFICIENCY	
2009 (%)	55.6
2008 (%)	46.0
NUMBER OF EMPLOYEES	
2009	81
2008	80
AFTER-TAX RETURN ON AVERAGE NET LOANS AND ADVANCES	
2009 (%)	(0.4)
2008 (%)	0.9
AFTER-TAX RETURN ON EQUITY	
2009 (%)	(4.8)
2008 (%)	15.5
IMPAIRMENT LOSSES AS A PERCENTAGE OF AVERAGE GROSS LOANS AND ADVANCES	
2009 (%)	2.5
2008 (%)	0.7

Professional Finance

OVERVIEW

Professional Finance provides asset-based financial products to professionals within South Africa. It operates from a head office and six branch offices countrywide, delivering services to its target market across the country and making finance available for residential properties, motor vehicles, equipment and practice needs by way of mortgage loans, instalment sale facilities and loans.

Review of the year

Net loans and advances increased by 16.3%. The low margins were addressed during the year by changes in pricing, resulting in an increase in the net margin and a growth of 11.8% in net interest income.

Operating expenses were well managed during the year, resulting in an improved efficiency ratio, from 53.4% to 50.9%.

Impairment losses have shown an improvement from the previous year, with the charge decreasing from 0.6% to 0.5% of the average gross loans and advances.

Net profits after tax increased 42.7% from R17.8 million to R25.4 million.

	TOTAL
NET PROFIT AFTER TAX	
2009 (Rm)	25.4
2008 (Rm)	17.8
NET LOANS AND ADVANCES	
2009 (Rm)	5 691
2008 (Rm)	4 924
IMPAIRMENTS TO GROSS LOANS AND ADVANCES (BALANCE SHEET)	
2009 (%)	1.0
2008 (%)	0.7
ALLOCATED COSTS	
2009 (Rm)	30.9
2008 (Rm)	21.3
EFFICIENCY	
2009 (%)	50.9
2008 (%)	53.4
NUMBER OF EMPLOYEES	
2009	75
2008	84
AFTER-TAX RETURN ON AVERAGE NET LOANS AND ADVANCES	
2009 (%)	0.5
2008 (%)	0.4
AFTER-TAX RETURN ON EQUITY	
2009 (%)	8.8
2008 (%)	8.2
IMPAIRMENT LOSSES AS A PERCENTAGE OF AVERAGE GROSS LOANS AND ADVANCES	
2009 (%)	0.5
2008 (%)	0.6

Transformation

Imperial Bank regards transformation as a key business imperative in achieving long-term sustainable growth. It is pleasing to report that the Bank met, and in some cases, exceeded its transformation objectives for 2009. The Bank increased the total representation of black employees at managerial level from 39.0% in 2008 to 42.0% in 2009. Targets were exceeded at junior and middle management levels, as was the disability target.

The talent management and development strategy contributed significantly towards the Bank's retention of key staff as well as to the high performance culture.

The training budget was increased to 4.9% of total costs, a large portion of which was spent on the development of previously disadvantaged individuals.

Adult Basic Education and Training (ABET) is being conducted with great success within the Bank, and all 10 learners enrolled on the programme successfully completed it.

All leadership development programmes are aligned to the internal talent development pipeline in order to harness development efforts within the Bank. As a result of this, the participation rate in the internal Leadership Development Programme was increased for 2009. The number of learners on the Foundation Management Programme (FMP) was increased from 18 to 33, and the Management Development Programme (MDP) was increased from 13 to 17 learners. External programmes were identified for employees at senior levels. Four employees were enrolled on the Senior Management Programme (SMP) launched in 2009 and three employees completed the GIBS Executive Development Programme.

In alignment with the internal development strategy, the Bank facilitated various internal programmes aimed at enhancing technical skills. To date, 28 employees have been developed through these programmes.

Culture management programmes were implemented to facilitate a positive work environment within the Bank. All employees participated in diversity management training workshops and employment equity awareness programmes that were conducted across the Bank.

A success formula was developed and implemented with the involvement of employees to effectively promote good employment practices and values within the Bank. Surveys were conducted quarterly to ensure that agreed work principles and values were effectively implemented within the Bank.

The Empowerdex BEE audit conducted in July 2009 indicates that the Bank has achieved a level four rating. At 31 December 2009, the internal unaudited scorecard indicates that the Bank has further improved to achieve a level three BEE rating.

Socio-economic Development

As a responsible corporate citizen, Imperial Bank recognises that education is critical in achieving sustainable growth and development in South Africa. During 2009, the Bank continued its contribution towards upgrading education programmes and systems within disadvantaged communities. The following initiatives were supported:

- **St. Mary's Children's Home**
  - o Running costs as a supplement to the state grants.
- **East Rand Schools**

  Three Schools in the East Rand benefited as follows:
  - o Feeding schemes for all schools to provide food for 2 500 children, three days a week.
  - o Teachers' programme – All teachers involved in creative teacher training done by the Kobus Neethling Group.
  - o Grade 11 learners assessed on subject choice.
  - o Donated 450 desks and 750 chairs to Graceland education centre.
- **Cape Town – Sevile School**
  - o The Bank donated funds for a librarian at Sevile School in Khayelitsha.
  - o Teachers' programme – All teachers involved in creative teacher training done by the Kobus Neethling Group.
- **Action for the Deaf and Blind**
  - o A Jaws 10 software program was donated, as part of a call centre for blind people. The supplier was Sensory Solutions.
- **Westbury Secondary School and Bernard Isaacs Primary School**
  - o Teachers' programme – All teachers involved in advanced creative teacher training by the Kobus Neethling Group.
- **Schaumburgh Combined School – Skeerpoort**
  - o Two mobile class rooms.
- **Bursary**
  - o A bursary to study Bachelor of Business Science (BBusSc) Finance at UCT was granted to a learner from Graceland who had achieved five distinctions in Matric.

- **Tiholoehelo Junior Primary School**
  - o Feeding scheme – three times per week.
  - o Repair and maintenance of school facilities.

At 31 December 2009, the Bank contributed R4.6 million towards socio-economic development initiatives.

Appreciation

As the Bank will now become a wholly-owned subsidiary of Nedbank, this is the last annual report to be published by the Bank.

Despite the very tough trading environment and the negative effect that the shareholder transaction is having on staff morale, the Bank was able to produce encouraging results. This has been achieved through the dedication and commitment of the whole Imperial Bank team. I would like to thank them all for their tremendous contribution under very difficult circumstances.

The guidance and support of the Board has, once again, been of great benefit. The shareholders have also been very supportive of the business and I would like to take this opportunity to thank Imperial Holdings for their role as shareholder from inception of the business. Their support and encouragement has been a consistent and key factor in the growth of the Bank.

Finally, I would like to thank the Registrar of Banks and his staff for their guidance and support.

R van Wyk
Chief Executive Officer

The financial statements are prepared in accordance with International Financial Reporting Standards. There have been no changes in accounting policies during the year under review, except for the amendments to IAS 1 – Presentation of Financial Statements.

Net profit after tax increased 19.3% from R361.2 million to R430.8 million, the return on ordinary shareholders' equity remained constant at 13.2% whilst the efficiency ratio improved from 28.8% to 28.0%.

The improved net profit after tax was due to a 22.6% increase in gross income off-set by a 36.6% increase in impairments and a 19.3% increase in operating expenses. In addition, the effective tax rate decreased from 33.5% to 28.1%.

Statement of Comprehensive Income

Net interest income (NII)

NII increased 17.4% from R1 732.5 million to R2 033.1 million which was marginally lower than the average balance sheet growth of 20.0%. The margin remained relatively constant year-on-year moving from 4.2% for 2008 to 4.3% for 2009. The better margins on new business were off-set by the change in mix in Property Finance and an increase in non-performing loans.

Non-interest revenue (NIR)

NIR increased 127.3% from R87.6 million to R199.1 million. The analysis of NIR is as follows:

	2009	2008
	Rm	Rm
Commissions and fees	**162.1**	97.3
Sundry income	**22.7**	19.7
	184.8	117.0
Mark to market profit/(loss)	**14.3**	(29.4)
	199.1	87.6

Mark to market profit and loss occurs through differences in fair value adjustments to designated fixed rate assets and liabilities and the interest rate swaps hedging these designated assets and liabilities.

Impairment losses on loans and advances

The impairment losses have increased 36.6% from R700.5 million to R956.6 million, and are analysed as follows:

	% of average gross advances	Impairment losses as a % of average gross advances	
		2009	2008
Motor Finance	64.8%	**2.6%**	2.5%
Property Finance	17.4%	**0.5%**	0.2%
Supplier Asset Finance	6.6%	**2.5%**	0.7%
Professional Finance	11.2%	**0.5%**	0.6%

The increased impairments in Supplier Asset Finance reflect the stress experienced by small and medium sized enterprises, particularly in the transport and aviation sectors while the increase of impairments in Property Finance reflect the poor state of the residential property market.

Operating expenses

Operating expenses increased 19.3% from R524.8 million in 2008 to R625.9 million for the year under review. This is less than the growth of 22.6% in gross income and, as a result, the efficiency ratio improved from 28.8% to 28.0%.

Indirect taxation

Indirect taxation declined 1.7% from R51.3 million in 2008 to R50.4 million in the current year which was mainly due to the lower acquisition costs for the year.

Direct taxation

The effective taxation rate of 28.1% is in line with the official rate.

Statement of Financial Position

Capital

During the year, Nedbank contributed an additional R350 milliion of Tier II capital which, together with the increase in distributable reserves, improved the capital adequacy ratio from 11.1% to 11.2%. Average ordinary shareholders' equity increased from 7.2% for 2008 to 7.4% for the year under review. The return on ordinary shareholders' equity for the year under review remains constant at 13.2%.

Loans and advances

Net loans and advances grew 12.8% from R44.7 billion to R50.5 billion. There was continued demand for passenger vehicle finance, particularly in the used car segment. This enabled Motor Finance to increase net loans and advances by 16.1% whilst maintaining healthy pricing and strong risk controls.

Demand for Professional Finance improved steadily in the second half of the year enabling the division to grow net loans and advances 16.3% from R4.9 billion at 31 December 2008 to R5.7 billion at 31 December 2009.

Property Finance increased net loans and advances by 11.3% from R8.0 billion at 31 December 2008 to R8.9 billion at 31 December 2009. The growth occurred in commercial and industrial property finance where there was steady demand through the year. There was very little demand for residential development finance.

Net loans and advances in Supplier Asset Finance declined by 10.8% from R3.7 billion at 31 December 2008 to R3.3 billion at 31 December 2009, as the division selectively considered new business while focusing on returning the business to profitability.

P C W Hibbit
Chief Financial Officer

The Board of Directors (the Board) has assessed the effectiveness of the corporate governance structures detailed below and has found them to represent an adequate framework for corporate governance in Imperial Bank.

Board of Directors

The directors are responsible for ensuring that an adequate and effective process of corporate governance exists and is maintained, which is consistent with the nature, complexity and risk inherent in the Bank's on- and off-balance sheet activities and which responds to change in the Bank's environment and conditions.

The Board meets at least quarterly to evaluate performance, assess risk and review the strategic direction of the Bank. The Board is supported by various sub-committees, which help it to execute its responsibilities. All directors have access to management, including the company secretary and the compliance officer, and to such information as is needed to carry out their duties and responsibilities fully and effectively.

Feedback received at board meetings includes management information, divisional reports and reports on progress against strategies. The Board approves the strategy and budgets for the Bank in addition to risk management policies, frameworks and mandates. All meetings of the Board and the Board sub-committees are minuted.

Non-executive directors: H R Brody (Chairman), O S Arbee, L E Bakoro, C J W Ball, M J Croucamp, N P Mnxasana, P K Ward and P A Wessels*

Executive directors: R van Wyk and P C W Hibbit

* Mr P A Wessels is an executive of the Bank's holding company (Nedbank) and as such is deemed to be an executive director of Imperial Bank Limited in terms of the Banks Act Regulations.

Board of Directors' Attendance Schedule

MEMBER	BOARD	AUDIT	RISK AND CAPITAL MANAGEMENT	DIRECTORS' AFFAIRS	REMUNERATION
H R Brody	5/5		5/5	4/4	4/4
O S Arbee	5/5				
L E Bakoro	5/5	4/5	4/5	3/4	
C J W Ball	5/5	4/5	4/5		3/4
M J Croucamp	5/5		5/5		4/4
P C W Hibbit	5/5				
N P Mnxasana	4/5	4/5			
R van Wyk	5/5				
P K Ward	5/5	5/5	1/1*		
P A Wessels	5/5		3/5		3/4

(Numerator is number of meetings attended; denominator is number of meetings held)

* Mr P K Ward was appointed as a member of the Risk and Capital Management Committee on 1 October 2009.

Audit Committee

The Audit Committee meets at least four times a year, with the internal and external auditors and members of the Bank's executive management to evaluate the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the Bank. The main functions and responsibilities of the committee are set out in the terms of reference, which are addressed at Audit Committee meetings. In accordance with the terms of reference, the Audit Committee conducts an annual self-assessment of its effectiveness.

As a key component of the independent assurance framework, the Audit Committee reviewed, and was satisfied with, the confirmation of the independence and objectivity of the external auditors.

The internal audit function is independently performed by Nedbank Internal Audit (NIA). NIA's responsibility for evaluating the effectiveness of processes by which risks are identified, managed and controlled, is set out in its charter. NIA reports directly to the Audit Committee and the Chief Financial Officer on their activities, which include the reviews of reliability and integrity of financial and operating information and effectiveness of operational activities in conducting business.

Members: P K Ward (Chairman from 1 October 2009), L E Bakoro, C J W Ball and N P Mnxasana

Remuneration Committee

The Remuneration Committee is responsible for monitoring the human resources function of the Bank and determining guidelines for remuneration and terms of employment. The committee assists the Board in creating an environment and instilling a philosophy of remuneration in the Bank that attracts, retains, motivates and rewards staff in order to implement successfully, the Bank's strategy and achieve the Bank's objectives on sustainability and transformation.

The committee reviews all aspects of the remuneration policies, including incentive schemes, profit-sharing schemes and any other remuneration-related schemes of the Bank. The committee is also responsible for monitoring the Bank's talent development and management as well as succession planning processes.

The committee meets at least four times a year. The performance of executive and senior management is measured against predetermined objectives (both financial and non-financial). Salaries are reviewed annually and where appropriate performance-related bonuses are awarded to employees, based on business unit performance.

Members: M J Croucamp (Chairman), C J W Ball, H R Brody and P A Wessels

Risk and Capital Management Committee

The Risk and Capital Management Committee assists the Board in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the Bank. The main functions and responsibilities of the committee are set out in the terms of reference, which are regularly reviewed by the committee. The committee meets at least four times a year.

Members: M J Croucamp (Chairman), L E Bakoro, C J W Ball, H R Brody, P K Ward and PA Wessels

Directors' Affairs Committee

The Directors' Affairs Committee assists the Board in its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the Bank. The committee conducts an annual assessment of the effectiveness and competence of the Board and its sub-committees. It also establishes and maintains a board directorship continuity programme. The main functions and responsibilities of the committee are set out in the terms of reference which are reviewed at each Directors' Affairs Committee meeting. The committee meets at least four times a year.

In accordance with the terms of reference, the committee determines the remuneration of the non-executive directors and the Chairman conducts an annual assessment of the effectiveness and performance of the individual non-executive directors.

Members: H R Brody (Chairman) and L E Bakoro

Large Credit Exposures Committee

The Large Credit Exposures Committee oversees all credit granting in excess of 10% of the Bank's net qualifying capital.

Members: C J W Ball (Chairman), H R Brody, P A Wessels, R van Wyk, P C W Hibbit and B S Motshoane

Enterprise-wide Risk

As depicted in the diagram on pages 26 and 27, Imperial Bank's Board of Directors approved and adopted a three-tier risk management accountability structure which is operationally effective. The Board is ultimately responsible for risk management in Imperial Bank but monitors specific risk areas through its various committees. Prior to the escalation and reporting of risk issues to board level, risks are addressed by the Bank's management through the appropriately mandated executive committees and forums. The lowest level in the three-tier structure is individual accountability for risk taking. This allows Imperial Bank to balance the best combination of entrepreneurial and innovative risk taking with sound independent oversight and governance structures.

Credit Risk

The credit environment for most of 2009 is apparent in the following comparative ratios:

	2009	2008	% change
Gross loans and advances	R51.6 billion	R45.5 billion	13.4
Defaulted loans	R1 623.4 million	R909.6 million	78.5
Default ratio	3.1%	2.0%	
Impairment losses (as % of average gross loans and advances)	2.0%	1.7%	

Motor Finance

Motor Finance continued to weather the downturn and benefited from the declining interest rate environment during 2009. Gross loans and advances increased from R28.7 billion in 2008 to R33.4 billion at the end of 2009, an increase of 16.5%. The strong demand for used vehicles and Motor Finance's strength in used vehicle finance contributed significantly to achieving this growth. The quality of the new business has also improved due to the risk-based pricing and a dealer incentive programme which rewards the dealer for good quality business. The quality of the overall loan book remains acceptable with delinquencies (the combined overdue and defaulted portfolios) showing an improving trend. Collections continue to be an area of management focus.

The overdue portfolio remained unchanged at R2.05 billion at end of both 2008 and 2009. Defaulted loans increased from R651.1 million in 2008 to R838.3 million, primarily as a result of larger numbers of National Credit Act (NCA) accounts breaching the default point. Impairment losses posted to the statement of comprehensive income increased from R631.3 million in 2008 to R800.5 million for the year under review. These losses can partially be attributed to the growth in the number of borrowers seeking relief within the provisions of the NCA. Long work-out time-lines and delayed repayment prospects characterise this portfolio. The slower portfolio growth recorded during 2009, relative to 2008, and the increased impairment losses posted to the statement of comprehensive income resulted in the default ratio (impairment losses in the statement of comprehensive income as a percentage of the average gross loans and advances) deteriorating slightly from 2.5% in 2008 to 2.6% in 2009.

The portfolio has shown an improving trend in the last four months of 2009. The improvement can mainly be ascribed to the lagging effect of the interest rate reductions and the recovery in economic activity in the same period.

Property Finance

Despite a depressed fixed property market during 2009, Property Finance increased their gross loans and advances from R8.0 billion to R8.9 billion. The demand for residential properties remained very low in 2009, thereby changing the portfolio mix to long-term commercial loans. The overdue portfolio reduced from R364.9 million in 2008 to R223.6 million in 2009 whilst the defaulted loan portfolio increased from R131.5 million to R464.4 million over the same period. This increase in the defaulted loan portfolio is due to the occurrence of a few high-value, but well secured, loan failures. The strong security values underpinning the exposures minimises the impact on credit impairment losses which increased from R13.3 million in 2008 to R42.3 million for the year under review. The quality of the portfolio remains good and the collection of past due loans is under control.

Professional Finance

Professional Finance posted a steady growth in the gross loans and advances portfolio, increasing it from R5.0 billion to R5.8 billion at the end of 2009. The quality of the portfolio remains good despite a higher incidence of overdue and defaulted exposures, which remains in line with market conditions. Overdue loans increased from R45.8 million for 2008 to R79.5 million for 2009, whilst defaulted loans increased from R56.4 million to R113.9 million over the same period. A large proportion of the delinquent exposures consist of housing loans that are adequately secured by the value of the fixed property assets. The total credit impairments losses in the statement of comprehensive income declined during 2009 from R26.7 million in 2008, to R25.8 million in 2009. This is reflected in the default ratio which improved marginally from 0.6% for 2008 to 0.5% for 2009.

Supplier Asset Finance

Supplier Asset Finance, as a financier of moveable assets to the corporate client, was severely impacted upon by the difficulties experienced within the mining and transport industries. The low demand for yellow equipment and transport assets combined with the strategy to selectively consider new business resulted in a decline in the portfolio during 2009. Gross loans and advances declined from R3.8 billion in 2008 to R3.4 billion in 2009. As a result of the difficult market environment, loan delinquencies increased significantly, with overdue loans increasing from R80.8 million in 2008 to R88.5 million in 2009 and the defaulted portfolio increased from R70.3 million to R206.7 million over the same period. Transport operators have been particularly hard hit due to lower payloads emanating from the mining industry and the resultant requests for loan restructures increased

significantly. The decline in the portfolio resulted in the statement of comprehensive income impairment losses increasing from R29.2 million for 2008 to R88.1 million for 2009. The decline in the portfolio and the higher impairment losses resulted in the default ratio deteriorating from 0.7% for 2008 to 2.5% for 2009. The management team remains keenly aware of the importance of the collections function and a hands-on approach is being followed to ensure that the quality of the portfolio remains within acceptable levels.

All impairment losses in the Bank are accounted for in line with International Accounting Standard 39 – Financial Instruments: Measurement and Recognition (IAS 39). This standard is based on an incurred loss concept whereby a default must have occurred before any asset impairment charge is permissible. However, IAS 39 includes the concept of an "incurred but not reported" charge (IBNR) and Imperial Bank carries an IBNR impairment against loans and advances that are classified current (not in arrear) and loans that are past due up to 90 days. The trigger events are linked to probability of default and recovery rates as determined by the new Basel II parameters and substantiated by historical loss experience.

Credit approval in the Motor Finance retail book is substantially automated. The performance of the credit scoring model is closely monitored by management and updated when considered necessary. Decision overrides are tightly managed to ensure the integrity of credit quality.

Within the wholesale portfolios (Supplier Asset Finance/Property Finance/Professional Finance), credit approvals are extended through a combination of divisional internal mandate authorities and Board-approved credit committee structures. Divisions enjoy credit approval mandates ranging up to R20 million, which decisions are subject to independent overview by Group Credit Risk Monitoring. Loan applications above R20 million are considered by the Management Credit Committee (>R20 million to R50 million) and the Exco Credit Committee (>R50 million to R120 million). The Board Large Exposures Committee, as constituted in terms of section 73 of the Banks Act of 1990, considers all loan applications with exposure greater than R120 million, against the positive recommendation of the Exco Credit Committee.

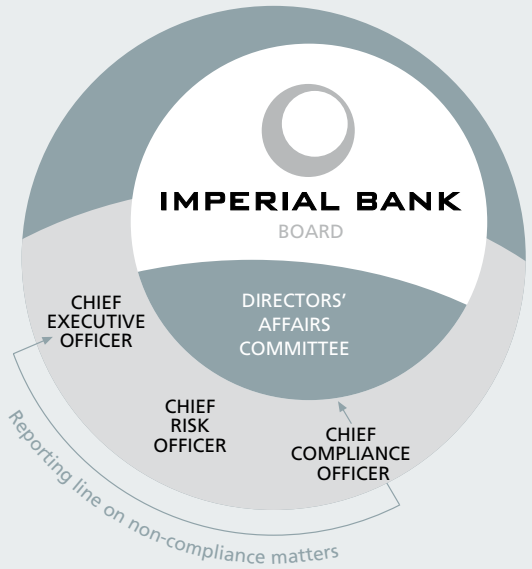
Credit quality is monitored monthly by the Bank's executive management team and quarterly by the Board appointed sub-committee, and the Board Risk and Capital Management Committee.

A central independent Credit Risk unit assesses the adequacy of credit skills, structures, mandate levels, overviews, restructures and best practice policy development. This unit also checks the regulatory credit risk returns for accuracy.

Each month, the Bank holds Impairment Committee meetings to analyse all defaulted loans in detail. Security values are confirmed and the necessary impairments raised and recorded in the minutes.

Compliance

The Bank's compliance structure meets the Banks Act requirements of unfettered and direct access to the Chairman of the Board.



The Bank follows the principle of centralised compliance monitoring with the operating divisions being responsible for ongoing operational compliance through dedicated resources.

The compliance function operates as part of the enterprise-wide risk management framework of the Bank, in order to ensure that the Bank continuously manages its regulatory risk, that is, the risk that the Bank does not comply with applicable laws and regulations or supervisory requirements.

For administrative purposes, the compliance officer reports directly to the chief risk officer of the Bank, but for compliance matters has the following reporting lines in line with the regulations:

- The Chief Executive Officer
- Nedbank Limited Group governance and compliance officer
- The Directors' Affairs Committee
- The Chairman of the Board

The compliance officer of the Bank attends the following meetings:

Meeting/Committee	Ex officio
Enterprise Risk Committee	✓
Information Technology Steering Committee	✓
Executive Committee	✓
Directors' Affairs Committee	✓
Audit Committee	✓
Risk Committee	✓
Board meeting	✓

Overview of Imperial Bank's enterprise-wide risk management framework (ERMF)

Enterprise-wide risk

Risk universe	ACCOUNTING AND TAXATION RISK	OPERATIONAL RISK	INSURANCE AND ASSURANCE RISK	NEW BUSINESS RISK	INVESTMENT RISK	CAPITAL RISK	MARKET RISK		LIQUIDITY RISK
							Trading book	Banking book	

Key features of the ERMF	• The Board of Directors is ultimately responsible for all risks in the Bank, approval and oversight of the risk measurement and management system and the setting of risk appetite. • The Board is assisted by four Board sub-committees. • The Exco is also assisted by sub-committees.			
1ST LINE OF DEFENCE	**EXECUTIVE COMMITTEE (EXCO)**			
Board Committees	**Audit Committee**	**Risk and Capital Management Committee**		
EXCO Committees	**EXCO Enterprise Risk Committee (ERCO)**	**Assets and Liabilities Committee (ALCO)**	**IT Steering Committee**	
Business Units	**Motor Finance, Property Finance, Supplier Asset Finance and Professional Finance** • Business Unit (BU) Excos/Risk Forums. • Business Unit Risk Heads/Officers (Reporting to Business Unit Heads).			
Support Areas	Human Resources, Information Technology			
Central Financial Risk and Capital Management	**FINANCE DIVISION**			
	Chief Financial Officer – Peter Hibbit			
	BASEL II AND CAPITAL MANAGEMENT Manny Lazera	**ASSET and LIABILITY MANAGEMENT** Manny Lazera	**TAXATION** Stephan Potgieter	
2ND LINE OF DEFENCE	**INDEPENDENT GROUP RISK**			
Independent functions for Group policy, risk monitoring, model validation and challenge. **Championing of Basel II, Enterprise-wide Risk Management and "world-class at managing risk".**	**CREDIT and RISK DIVISION**			
	Chief Risk Officer – Ben Motshoane			
	GROUP RISK SERVICES Nick Jacobs	**LEGAL** Sharm Siphali	**ENTERPRISE-WIDE RISK MANAGEMENT** Charles Mavimbela	**OPERATIONAL RISK MANAGEMENT** Charles Mavimbela
3RD LINE OF DEFENCE	**INTERNAL AND EXTERNAL AUDIT**			
Independent Assurance	**INTERNAL AUDIT**			
	Nedbank Group Internal Audit			

INFORMATION TECHNOLOGY RISK	CREDIT RISK	COMPLIANCE RISK	STRATEGIC RISK	REPUTATIONAL RISK	SOCIAL AND ENVIRONMENTAL RISK	TRANSFORMATION RISK	PEOPLE RISK

- The Chief Risk Officer reports to the Chief Executive Officer, who has ultimate individual accountability for risk.
- Credit and Risk division is independent of the operational business units.
- Strong emphasis in the ERMF is placed on individual accountability and not on undue reliance on committees.
- Primary responsibility and accountability for the risks originating in the business are clearly assigned to the respective business unit heads.
- Risk management frameworks and risk officers are in place across all the business units and for all major risk types.

Directors' Affairs Committee	Remuneration Committee

Exco Credit Committee Management Credit Committees	ERCO	EXCO	Human Resources and Transformation Committee

FINANCIAL and MANAGEMENT ACCOUNTING Stephan Potgieter	REGULATORY REPORTING Nirvana Kassie	INVESTOR RELATIONS Peter Hibbit

ENTERPRISE GOVERNANCE AND COMPLIANCE

Chief Compliance Officer – Johan Breedt

CREDIT RISK MONITORING Reuben Smith	MARKET RISK MONITORING Anny Pachyannis-Alman	COMPANY SECRETARY and CORPORATE GOVERNANCE Gcobisa Tyusha

EXTERNAL AUDIT

DELOITTE & TOUCHE

Status update with regards to the following:

Issue	Status
Compliance resourcing	In place
Compliance and corporate governance awareness	Ongoing training
Implementation of compliance risk management framework	Continuous refinement
Monitoring of compliance risks	In place, ongoing
Regular compliance reporting to the Board, Directors' Affairs Committee and regulators	Yes
Remedial action taken by operational and support units when compliance breaches are detected	Yes
Ensure that requirements of new legislation are implemented and that updating for existing legislation takes place	Yes
Statutory reporting to regulators	Up to date and complete
Regulatory sanction	None

Operational Risk

The Bank has adopted and received approval to apply the Standardised Approach of Basel II with effect from 1 January 2008. All approval conditions were met, except for the formalisation of the operational risk appetite. The Business Continuity Management (BCM) has been implemented and was fully operational from March 2009. The plan was last tested in October 2009 and the test was successful. The operational risk appetite will be formalised during the first half of 2010 as the three-year loss database has now been populated.

Notable deliverables achieved in 2009 were:

1. Population of the loss database over a three-year period.
2. Implementation of a fully functional BCM strategy.
3. Control self-assessment workshops conducted.
4. Review of the Operational Risk framework including all related policies.

Asset and Liability Risk Management

The Bank's Asset and Liability Committee (ALCO) meets monthly to manage liquidity and interest rate risk, and reports to the Board Risk and Capital Management Committee quarterly.

The Bank has no appetite or mandate to take proprietary trading risk or market risk. Liquidity risk is negligible given Nedbank's commitment to provide funds as required. However, the ALCO does monitor maturity mismatches and fixed rate hedge effectiveness. It also ensures liquid assets are maintained at required levels and instruments purchased are cost-effective.

The Bank does not fund advances in foreign currency and has no cross-border exposure. This removes foreign exchange risk and currency translation risk.

Capital Management

The Bank's operations are limited to South Africa and as such regulated solely by the South African Reserve Bank (SARB). In determining the appropriate level of capital, the Bank ensures compliance with regulatory requirements but has also completed an Internal Capital Adequacy and Assessment Process (ICAAP) during 2008. Given the pending transaction between the shareholders, the ICAAP has not been reviewed during 2009 and management ensured that the capital adequacy ratio was maintained above 10.5%, which is above the regulatory requirement. The current capital adequacy ratio is 11.2%.

In view of the volatile market conditions and the pending transaction between the shareholders, a Tier II long-term subordinated bond of R350 million was transacted directly with Nedbank rather than through the capital markets.

There have been no ordinary dividend payments during the 2009 financial year.

Imperial Bank has complied with regulatory capital requirements for the duration of 2009. Capital is allocated to the business units within the Bank based on their risk-weighted assets on the Basel II standardised approach.

Basel II

Pillar 1

Although the measurement of credit risk in the Bank's largest division, Motor Finance, is closely aligned to the advanced internal ratings based (AIRB) approach, the other divisions do not have sufficient history or volume to facilitate reliable credit risk measurement under this approach. The Bank has therefore decided to adopt the standard approach until such time as all divisions are able to meaningfully assess credit risk under the AIRB approach.

Pillar 2

In view of the transaction between the shareholders, the SARB cancelled the ICAAP review during the year. Management has however ensured that the capital adequacy ratio was maintained at all times above 10.5% which is above the regulatory requirement.

Pillar 3

The Bank has complied with the Market Discipline requirements under Pillar III of Basel II and the details thereof are published on our website.

Economic Capital

Economic capital provides a consistent quantification and comparison of risk across the operating divisions and risk types. This also enables a focus on both downside risk (risk protection) and upside potential (earnings). It highlights where the Bank should grow and diversify or where it needs restructuring in its credit and market risk businesses.

The Bank does not carry any significant market or investment risk and therefore calculates capital against credit and operational risk to arrive at the total economic capital requirement of the Bank. This is compared with available financial resources and is used as the basis for capital allocation. Economic profit is viewed as a key financial performance indicator and during the past year the Bank commenced measurement of divisional performance utilising this as an indicator. It should be noted that the impairment loss is not adjusted to reflect a look-through approach in calculating the disclosed economic profit. The capital that is allocated to the operating divisions is calculated on their respective risk-weighted assets, based on the Bank's overall capital position.

B S Motshoane
Chief Risk Officer

Responsibility for the Annual Financial Statements

The directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and the related information. The external auditors are responsible for reporting on the fair presentation of the annual financial statements. The annual financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors are also responsible for the Group and Company's systems of internal and financial control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the annual financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss.

To enable the directors to meet these responsibilities:

- The Board and management set standards, and management implements systems of internal control and accounting and information systems aimed at providing reasonable, but not absolute, assurance that assets are safeguarded and that risks of error, fraud or loss are reduced in a cost-effective manner. These controls, contained in policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The Imperial Bank Audit Committee meets with the internal and external auditors and members of the Bank's executive management, to review accounting, auditing, financial reporting and internal control matters. The internal audit function, responsible to the Audit Committee, conducts operational, financial and specific ad-hoc audits in consultation with the external auditors.
- The Board Risk and Capital Management Committee evaluates and monitors risks identified by management and monitors compliance with policies and procedures and reports its findings to the Board. They also set prudential limits for particular categories of business.
- The Directors' Affairs Committee assists the Board in its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the Bank. It also establishes and maintains a board directorship continuity programme.

The annual financial statements have been prepared on the going concern basis, since the directors have every reason to believe that the Group and Company has adequate resources in place to continue in operation for the foreseeable future.

The annual financial statements have been audited by an independent auditing firm. Their report is presented on page 31 of these financial statements.

Approval of Annual Financial Statements

The annual financial statements which appear on pages 52 to 139 were approved by the Board of Directors on 19 February 2010 and are signed on its behalf by:

H R Brody
Chairman

R van Wyk
Chief Executive Officer

19 February 2010

Deloitte.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BANK LIMITED

Report on the Financial Statements

We have audited the accompanying Group annual financial statements set out on pages 52 to 93 and the Company annual financial statements of Imperial Bank Limited set out on pages 96 to 134, which comprise the directors' report, set out on page 32, the statements of financial position as at 31 December 2009, the statements of comprehensive income, statements of changes in equity and the statements of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The 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 the directors, as well as evaluating the overall financial statement presentation.

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

Opinion

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

Deloitte & Touche

Deloitte & Touche
Per Lito Nunes
Partner

19 February 2010

Audit.Tax.Consulting.Financial Advisory.Corporate Finance.

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit DL Kennedy Tax & Legal and Financial Advisory L Geeringh Consulting L Bam Corporate Finance CR Beukman Finance TJ Brown Clients & Markets NT Mtoba Chairman of the Board

A full list of partners and directors is available on request

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

Member of
Deloitte Touche Tohmatsu

for the year ended 31 December 2009

The directors present their report which forms part of the audited annual financial statements of the Group and Company for the year ended 31 December 2009.

Nature of Business

Imperial Bank Limited is a registered bank that offers a range of banking and financial services focusing primarily on asset-based finance to the consumer and corporate markets.

Holding Company and Other Shareholder

Nedbank Limited holds 50.1% of the issued share capital of Imperial Bank Limited and the other 49.9% is held by Imperial Holdings Limited. The ultimate holding company is Old Mutual plc which is incorporated in the United Kingdom.

Financial Results

The results of the Group and Company are set out in the annual financial statements and accompanying notes. The accounting policies comply with International Financial Reporting Standards.

Share Capital

The authorised and issued share capital of the Bank is detailed in note 19 to the Group financial statements. No equity shares were issued during the year.

Subsidiary Companies

The Company's interest in subsidiary companies is set out in the analysis of investments in subsidiaries on page 93 to the Group financial statements.

The Motor Finance Corporation (Proprietary) Limited (a 100%-owned subsidiary) recorded an after-tax profit of R0 million (2008: R0 million) for the year.

NRB Risk Solutions (NRB) (a 100%-owned subsidiary) recorded an after-tax profit of R18.1 million (2008: R0.7 million loss) for the year.

Interest of Directors

No director holds a direct beneficial interest in the ordinary shares of the Company.

Dividends

Preference dividend No 7 of 374.73973 cents per share has been declared for the period from 1 July 2009 to 31 December 2009, payable on Monday, 29 March 2010, to shareholders of the non-redeemable, non-participating, non-cumulative preference shares recorded in the books of the Company at the close of business on Friday, 26 March 2010.

Directors and Secretary

Details of the directors and secretary of the Company during the year and at the date of this report are as follows:

Directors

O S Arbee*	
L E Bakoro	
C J W Ball	
H R Brody	Chairman
M J Croucamp	
P C W Hibbit**	Chief Financial Officer
M P Mnxasana	
R van Wyk**	Chief Executive Officer
P K Ward	
P A Wessels	

* Resigned with effect from 10 February 2010

** Executive directors

The company secretary is G Tyusha whose addresses are:

Business address	Postal address
24 Achter Road	PO Box 6093
Paulshof	Rivonia
Sunninghill	2128
2191	

Directors' Interest in Contracts

At no time during the year under review were any contracts of significance entered into relative to the Group's and Company's business in which a director had a material personal interest.

Post-balance Sheet Events

Subsequent to year-end, regulatory approval in terms of the Banks Act of 1990 was obtained to enable Nedbank Limited to acquire the 49.9% of the ordinary shares held by Imperial Holdings Limited. All conditions precedent to the acquisition have therefore been fulfilled and the acquisition will now be implemented by the parties. Other than the above mentioned, the directors are not aware of any other matter or event which is material to the financial affairs of the Group and Company that has occurred between the balance sheet date and the date of the approval of the financial statements.

Auditors

It is not a requirement for Imperial Bank Limited to engage the services of two independent firms of auditors. The Board therefore resolved to reappoint Deloitte & Touche as sole auditors of the Bank. The Audit Committee has considered and is satisfied with the independence of the external auditor.

19 February 2010

Secretary's Report

In terms of section 268G(d) of the Companies Act 61 of 1973, as amended, I certify that to the best of my knowledge and belief, Imperial Bank Limited has lodged with the Registrar of Companies for the year ended 31 December 2009, all such returns as are required of a public company in terms of the Companies Act, and that all such returns are true, correct and up to date.

G Tyusha
Company Secretary

Paulshof
19 February 2010

1 The following principal accounting policies have been applied consistently in dealing with items that are considered material in relation to the Imperial Bank Group and Company financial statements. The Bank's accounting policies are consistent with the Nedbank Group. There have been no changes in accounting policies during the year under review, except for the amendments to IAS 1 – Presentation of Financial Statements.

1.1 **Basis of preparation**

The financial statements have been prepared on a going concern basis and have been prepared on a consistent basis with the prior year.

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the South African Companies Act, 1973, as amended.

The financial statements are presented in South African Rands (ZAR), the functional currency of the Group, and unless otherwise stated, are rounded to the nearest thousand Rands. They are prepared on the historical cost basis of accounting, except for:

- non-current assets and disposal groups held for sale that are stated at the lower of carrying amount and fair value less costs to sell; and
- the following assets and liabilities that are stated at their fair value:
  - derivative financial instruments;
  - financial assets and financial liabilities classified as held-for-trading;
  - financial assets and financial liabilities designated at fair value through profit or loss;
  - financial assets classified as available-for-sale; and
  - investment property and owner-occupied properties.

The accounting policies set out below have been applied consistently by all Group entities to all periods presented in preparing these Group financial statements.

1.2 **Foreign currency transactions**

Transactions in foreign currencies are translated into South African Rands at the date of such transactions by applying the spot exchange rate ruling at the transaction date to the foreign currency amounts.

Monetary assets and liabilities in foreign currencies are translated into the functional currency at the spot exchange rate ruling at the balance sheet date.

Exchange differences that arise on the settlement and translation of monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period they arise.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency using the foreign exchange rate ruling at the date when the fair values were determined.

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are converted into the functional currency at the rate of exchange ruling at the date of the transaction and are not subsequently retranslated.

Exchange differences for non-monetary items are recognised consistently with gains and losses on such items. For example, exchange differences relating to an item for which gains and losses are recognised directly in equity are recognised in equity. Conversely, exchange differences for non-monetary items for which gains and losses are recognised in profit or loss, are recognised in profit or loss in the period in which they arise.

1.3 **Group accounting**

(i) **Subsidiary undertakings and special-purpose entities**

Group

Subsidiary undertakings are those entities, including unincorporated entities such as trusts and partnerships, which are controlled by the Group. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Control is presumed to exist when the Group owns directly or indirectly through subsidiaries more than half of the voting power of an entity unless, in exceptional circumstances, it can clearly be demonstrated that such ownership does not constitute control. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has control.

Subsidiaries include special-purpose entities (SPEs) that are created to accomplish a narrow, well-defined objective which may take the form of a company, corporation, trust, partnership or unincorporated entity. The assessment of control for SPEs is based on the substance of the relationship between the Group

and the SPE. SPEs in which the Group holds half or less of the voting rights, but which are controlled by the Group by retaining the majority of risks or benefits, are consolidated in the Group financial statements.

The Group financial statements include the assets, liabilities and results of the Company and subsidiaries controlled by the Group from the date of acquisition until the date the Group ceases to control the subsidiary.

Intragroup balances, transactions, income and expenses, and profits and losses are eliminated in preparation of the Group financial statements. Unrealised losses are not eliminated to the extent that they provide objective evidence of impairment.

Company
Subsidiaries, associates and joint ventures that are not classified as held for sale are accounted for at cost or at fair value through profit and loss in accordance with IAS 39 – Financial Instruments: Recognition and Measurement.

(ii) **Acquisitions and disposals of stakes in Group companies**
Acquisitions of subsidiaries (entities acquired) and businesses (assets and liabilities acquired) are accounted for using the purchase method. The cost of a business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. For all transactions subsequent to 31 December 2008 acquisition-related costs are recognised in profit or loss as incurred. Prior to this date all acquisition-related costs were capitalised to the cost of the acquisition.

Where appropriate, the cost of acquisition that includes any asset or liability resulting from a contingent consideration arrangement is measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant IFRSs. Changes in the fair value of contingent consideration that have been classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 – Business Combinations, are recognised at their fair value at the date of acquisition, except:

- deferred tax assets or liabilities which are recognised and measured in accordance with IAS 12 – Income Taxes, and liabilities or assets related to employee benefit arrangements which are recognised and measured in accordance with IAS 19 – Employee Benefits;
- liabilities or equity instruments that relate to the replacement, by the Group, of an acquiree's share-based payment awards are measured in accordance with IFRS 2 – Share-based Payments; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Where provisional amounts were reported, these are adjusted during the measurement period (see below). Additional assets or liabilities are recognised to reflect any new information obtained about the facts and circumstances that existed as at the date of acquisition, that if known, would have affected the amounts recognised on that date.

The measurement period is the period from the date of acquisition to the date the Group receives complete information about the facts and circumstances that existed as at the acquisition date. This measurement period is subject to a maximum of one reporting year.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date on the date the Group attains control and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such

treatment would be appropriate if that interest were disposed of.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to the acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination.

The difference between the proceeds from the disposal of a subsidiary and its carrying amount as at the date of disposal, including the cumulative amount of any exchange differences that are recognised in equity that relate to the subsidiary, is recognised in the Group statement of comprehensive income as the gain or loss on the disposal of the subsidiary.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners). Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, is recognised directly in equity and attributed to the Group.

This accounting policy has been adopted for all transactions after 1 January 2009. The accounting for prior transactions have not been restated.

(iii) Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset on the date that control is acquired, being the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred over the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred plus the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any), this excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least once annually. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(iv) Partnerships

The joint venture between Imperial Bank Limited (IBL) and Associated Motor Holdings (AMH) is treated as a partnership as it does not meet the requirements of IAS 31 – Investments in Joint Ventures. The specified income accrues to IBL and vests in the venture. IBL cedes 50% of the rights, title and interest of the specified income and expenses to AMH as and when it accrues.

In order to comply with the requirements of the South African Reserve Bank, AMH's half share in the interests of the partnership, is recorded as a marketing fee in the statement of comprehensive income.

1.4 **Financial instruments**

Financial instruments as reflected on the statement of financial position include all financial assets and financial liabilities, including derivative instruments, but exclude investments in subsidiaries, associated companies and joint ventures, property and equipment, deferred taxation, taxation payable, intangible assets, leases and employee benefit plans. Financial instruments are accounted for under IAS 32 – Financial Instruments: Disclosure and Presentation, IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosure.

The Group does not currently apply hedge accounting. This accounting policy should be read in conjunction with the Group's categorised statement of financial position and the Group's risk management policies.

(i) Initial recognition

Financial instruments are recognised on the statement of financial position when the Group becomes a party to the contractual provisions of the financial instrument. All purchases of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases) are recognised at trade date, which is the date on which the Group commits to purchase the financial asset. The liability to pay for regular way purchases of financial assets is recognised on trade

date, which is when the Group becomes a party to the contractual provisions of the financial instrument.

Contracts that require or permit net settlement of the change in the value of the contract are not considered regular way contracts and are treated as derivatives between the trade and settlement date of the contact.

(ii) Initial measurement

Financial instruments that are designated at initial recognition as being at fair value through profit or loss are recognised at fair value with transaction costs, which are directly attributable to the acquisition or issue of the financial instruments, being recognised immediately through the statement of comprehensive income.

Financial instruments that are not carried at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instruments.

Where the transaction price, in a non-active market, is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group defers such differences (day-one profits or losses). Day-one profits or losses are amortised on a straight-line basis over the life of the financial instrument. To the extent that the inputs determining the fair value of the instrument become observable, or when the instrument is derecognised, day-one gains or losses are recognised immediately in profit or loss.

(iii) Subsequent measurement

Subsequent to initial recognition, financial instruments are either measured at fair value or amortised cost depending on their classification and whether their fair value can be measured reliably.

Categories of financial instruments

- *Financial instruments at fair value through profit or loss*

  Financial instruments at fair value through profit or loss consist of instruments that are held for trading and instruments that the Group has designated, on initial recognition date, as at fair value through profit or loss.

  The Group classifies an instrument as held for trading if it has been acquired or incurred principally for the purpose of sale or repurchase in the near term, it is part of a portfolio of identified financial instruments for which there is evidence of a recent actual pattern of short-term profit-taking, or the instrument is a derivative. The Group's derivative transactions include interest rate swaps and interest rate caps.

- *Financial instruments that the Group has elected, on initial recognition date, to designate as at fair value through profit or loss are those that meet any one of the following conditions:*
  - where the fair value through profit or loss designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from using different bases to measure and recognise the gains and losses on financial assets and financial liabilities;
  - the instrument forms part of a Group of financial instruments that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the Group is provided internally on that basis to key management personnel, using a fair value basis; or
  - a contract that contains one or more embedded derivatives that requires separation from the host contract or the derivative significantly modifies the cash flows of the host contract to which it is designated.

  Gains or losses on financial instruments at fair value through profit or loss (excluding interest income and interest expense calculated on the amortised cost basis relating to interest-bearing instruments that have been designated as at fair value through profit or loss) are reported in non-interest revenue as they arise. Interest income and interest expense calculated on the effective interest rate method are reported in interest income and expense, except for interest income and interest expense on instruments held for trading, which are recognised in non-interest revenue.

  Gains or losses on the derecognition of trading financial liabilities are reported in non-interest revenue.

- *Held-to-maturity financial assets*

  Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has

the intention and ability to hold to maturity, other than those that meet the definition of loans and receivables, those that were designated as at fair value through profit or loss or available-for-sale. Held-to-maturity financial assets are measured at amortised cost, with interest income recognised in interest and similar income. Gains or losses arising on disposal of held-to-maturity financial assets are recognised in non-interest revenue through profit or loss.

- *Loans and receivables*
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those financial assets classified by the Group on initial recognition as at fair value through profit or loss, available-for-sale or loans and receivables that are held for trading.

  Financial assets classified as loans and receivables are carried at amortised cost, with interest income recognised in interest and similar income. Gains and losses arising on disposal are recognised in non-interest revenue. The majority of the Group's advances are included in the loans and receivables category.

- *Available-for-sale financial assets*
  Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. Available-for-sale instruments are typically assets that are held for a longer period and in respect of which short-term fluctuations in value do not affect the Group's hold or sell decision.

  Available-for-sale financial assets are measured at fair value, with fair value gains or losses recognised directly in equity. Foreign currency translation gains or losses or interest income, calculated on the effective interest method, are reported in profit or loss.

  When available-for-sale financial assets are disposed of, the fair value gains or losses accumulated in equity are recognised in the statement of comprehensive income.

- *Non-trading financial liabilities*
  All financial liabilities, other than those at fair value through profit or loss, are classified as non-trading financial liabilities and are measured at amortised cost. Gains or losses on non-trading financial liabilities are reported in non-interest revenue; interest expense is recorded in net interest income.

(iv) **Measurement of financial instruments**

- *Amortised cost*
  The amortised cost of a financial instrument is the amount at which the financial instrument is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any cumulative impairment losses.

  The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income and expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial instrument. When calculating the effective interest rate, we estimate cash flows considering all contractual terms of the financial instrument, but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

- *Fair value*
  The fair value of a financial instrument on initial recognition is normally the transaction price, which is the fair value of the consideration given or received. However, if part of the consideration is given or received for another asset or liability, the fair value of the financial instrument is estimated using a valuation technique.

  Published price quotations, in an active market, are the best evidence of fair value and when they exist they are used to measure the financial instrument. Financial instruments are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held or liability to be issued is

usually the current bid price and, for an asset to be acquired or a liability held, the asking price.

When the Group has assets and liabilities with offsetting market risks it may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate.

If the market for a financial instrument is not active, fair value is established by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties, if available; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique may be used.

The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs. A valuation technique would be expected to arrive at a realistic estimate of the fair value if (a) it reasonably reflects how the market could be expected to price the instrument and (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Therefore, a valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or asked on any available observable market data. Market data is obtained consistently in the same market where the instrument was originated or purchased.

The use of a valuation technique may result in no gain or loss being recognised on the initial recognition of a financial instrument. In such a case, IAS 39 requires that a gain or loss shall be recognised after initial recognition only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures (prices from observable current market transactions in the same instrument without modification or other observable market data) at the reporting date. When market-related measures are not available, observable market data is modified to incorporate relevant factors that a market participant in an arm's length exchange motivated by normal business considerations would consider in determining the fair value of the financial instrument (non-observable market inputs).

Financial instruments carried at fair value through profit or loss are valued in one of two ways:

– If the instrument is listed on a recognised exchange, the active price quoted on the exchange is used; or

– All other financial instruments are valued using a discounted cash flow model, where future cash flows are discounted back at the market rates on the valuation date.

Government stock and investments are carried at the Bond Exchange of South Africa (BESA) listed prices.

Loans and advances and other short-term securities that are carried at fair value through profit or loss are valued using discounted cash flow models.

The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. When the fair value of financial liabilities cannot be reliably determined, the liabilities are recorded at the amount due.

Fair value is considered reliably measurable if:

– the variability in the range of reasonable fair value estimates is not significant for that instrument; or

– the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and have to be settled by delivery of such unquoted equity instruments, are not measured at fair value but at cost.

(v) Derecognition

All sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" sales) are recognised at trade date, which is the date on which the Group commits to the sale of the asset.

The Group derecognises a financial asset (or group of financial assets) or a part of a financial asset (or part of a group of financial assets) when and only when:

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

A financial liability (or part of a financial liability) is derecognised when and only when the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or has expired.

The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss for the period.

The Group securitises various consumer and commercial financial assets, which generally results in the sale of these assets to special-purpose entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of transfer. Gains or losses on securitisation are recorded in other operating income.

(vi) Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred 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 (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the Group about the following loss events:

– significant financial difficulty of the issuer or obligor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;

– it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

– the disappearance of an active market for that financial asset because of financial difficulties; or

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:

  - adverse changes in the payment status of borrowers in the Group; or
  - national or local economic conditions that correlate with defaults on the assets in the Group.

- *Assets carried at amortised cost*

  If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

  The Group first assesses whether there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that there is no objective evidence of impairment 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.

  If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date on which the impairment is reversed. The amount of the reversal is recognised in profit or loss for the period.

  The impairment for performing loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

- *Financial assets carried at cost*

  If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value, because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, or a financial asset that is carried at cost because its fair value could not be determined, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

- *Available-for-sale financial assets*

  When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

  If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss for the period.

- *Maximum credit risk*

  Credit risk arises principally from loans and advances to clients, investment securities derivatives and irrevocable commitments to provide facilities. The maximum credit risk is typically the gross carrying amount, net of any amounts off-set and impairment losses. The maximum credit exposure for loan commitments is the full amount of the commitment if the loan cannot be settled net in cash or using another financial asset.

(vii) **Offsetting financial instruments and related income**

Financial assets and liabilities are off-set and the net amount reported in the statement of financial position only when the Group has a legally enforceable right to set off the financial asset and financial liability and the Group has an intention of settling the asset and liability on a net basis or realising the asset and settling the liability simultaneously. Income and expense items are off-set only to the extent that their related instruments have been off-set in the statement of financial position.

(viii) **Collateral**

Financial and non-financial assets are held as collateral in respect of recognised financial assets. Such collateral, except cash collateral, is not recognised by the Group, as the Group does not retain the risks and rewards of ownership, and is obliged to return such collateral to counterparties upon settlement of the related obligations. Should a counterparty be unable to settle its obligations, the Group takes possession of collateral or calls on other credit enhancements as full or part settlement of such amounts. These assets are recognised when the applicable recognition criteria under IFRS are met, and the Group's accounting policies are applied from the date of recognition. Cash collateral is recognised when the Group receives the cash and is reported as amounts received from depositors.

Collateral is also given to counterparties under certain financial arrangements, but such assets are not derecognised where the Group retains the risks and rewards of ownership. Such assets are at risk to the extent that the Group is unable to fulfil its obligations to counterparties.

1.5 **Revenue recognition**

(i) **Interest income and expense**

Interest income and expense are recognised in profit or loss using the effective interest method taking into account the expected timing and amount of cash flows. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest earned while holding trading securities and interest incurred on trading liabilities are reported as interest income and expense within non-interest revenue.

(ii) **Non-interest revenue**

- *Fees and commission*

  The Group earns fees and commissions from a range of services it provides to customers and these are accounted for as follows:

  – Income earned on the execution of a significant act is recognised when the significant act has been performed;

  – Income earned from the provision of services is recognised as the service is rendered by reference to the stage of completion of the service;

  – Income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in interest income.

- *Dividend income*

  Dividend income is recognised when the right to receive payment is established on the ex-dividend date for equity instruments and is included in dividend income.

- *Net trading income*

  Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest, expense, costs and dividends.

- *Other*

  Exchange and securities trading income, from investments and net gains on the sale of investment banking assets, is recognised in profit or loss when the amount of revenue from the transaction or service can be measured reliably, it is probable that the economic benefits of the transaction or service will flow to the Group and the costs associated with the transaction or service can be measured reliably.

  Fair value gains or losses on financial instruments at fair value through profit or loss, including derivatives, are included in non-interest revenue. These fair value gains or losses are after deducting the interest component, which is recognised separately in interest income and expense.

Gains or losses on derecognition of any financial assets or financial liabilities are included in non-interest revenue.

1.6 Taxation

Taxation expense, recognised in the statement of comprehensive income, comprises both current and deferred taxation. Income (direct) taxation is recognised in profit or loss except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

(i) Current taxation

Current taxation, recognised in the statement of comprehensive income, is the expected taxation payable on the taxable income for the year, using taxation rates enacted or substantively enacted at reporting date, and any adjustment to taxation payable in respect of prior years.

Secondary taxation on companies (STC) that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend, being the date of the declaration of the dividend.

(ii) Deferred taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation bases. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities and is measured at the taxation rates (enacted or substantively enacted at the reporting date) that are expected to be applied to the temporary differences when they reverse.

Deferred taxation is recognised in profit or loss for the period, except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is accounted for as an acquisition. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss for the period, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefits will be realised.

Deferred taxation is not recognised for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for STC credits received based on the expected utilisation of these credits by Group companies in the declaration of future dividends.

1.7 Goodwill and intangible assets

(i) Goodwill and goodwill impairment

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures. Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investments, the carrying amount of goodwill is included in the carrying amount of the investment.

Goodwill is allocated to one or more cash-generating units (CGUs), being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Goodwill is allocated to the CGUs in which the synergies from the business combinations are expected.

Each CGU containing goodwill is annually tested for impairment. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses that are recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis. However the carrying amount of these other assets may not be reduced below the highest of its fair value less costs to sell; its value in use and zero.

Impairment testing procedures

The recoverable amount of a CGU is the higher of its fair value less cost to sell and its value in use. The fair value less cost to sell is determined by ascertaining the current market value of an asset (or the CGU)

and deducting any costs related to the realisation of the asset.

In assessing value in use, the expected future pre-tax cash flows from the CGU are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that particular CGU.

Impairment losses relating to goodwill are not reversed and all impairment losses are recognised in profit or loss for the period.

(ii) Computer software and capitalised development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, and expenditure on internally generated goodwill and brands is recognised as an expense in profit or loss for the period.

If costs can be reliably measured and future economic benefits are available, expenditure on computer software and other development activities, whereby set procedures and processes are applied to a project for the production of new or substantially improved products and processes, is capitalised if the computer software and other developed products or processes are technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials and directly attributable employee and other direct costs. Computer development expenditure is amortised only once the relevant software is available for use in the manner intended by management. Capitalised software is stated at cost less accumulated amortisation and impairment losses. Computer development expenditure, which has not yet been commissioned, is stated at cost less impairment losses.

Amortisation of computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, which does not exceed five years and is reviewed at appropriate intervals. Subsequent expenditure relating to computer software is capitalised only when it increases the future economic benefits embodied in the specific asset, in its current condition, to which it relates.

All other subsequent expenditure is recognised as an expense in the period in which it is incurred. On the disposal of computer software the profit or loss on disposal is recognised in non-trading and capital items (in the statement of comprehensive income). The profit or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.

1.8 **Property and equipment**

(i) Owned assets

Items of property and equipment are initially recognised at cost if it is probable that any future economic benefits associated with the items will flow to the Group and it has a cost that can be measured reliably. Certain items of property and equipment that had been revalued to fair value on 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Owner-occupied property is stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses.

Subsequent to initial recognition, computer equipment, vehicles and furniture and other equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is recognised in the carrying amount of items of property and equipment if it is measurable and it is probable that future economic benefits associated with the expenditure will flow to the Group. All other expenses are recognised in profit or loss as an expense when incurred.

(iii) Revaluation of land and buildings

Land and buildings, whose fair values can be reliably measured, are carried at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

External valuations are obtained once every three years on a rotational basis. In the event of a material change in market conditions between the valuation date and reporting date an internal valuation is performed and adjustments made to reflect any material changes in value. The valuation methodology adopted is dependent upon the nature of the property.

Revaluation increases are credited directly to equity, in "Other comprehensive income" under the heading "Revaluation reserve". However, revaluation increases are recognised in profit or loss to the extent that they reverse a revaluation decrease of the same asset previously recognised in profit or loss.

Revaluation decreases are recognised in profit or loss. However, decreases are debited directly to equity to the extent of any credit balance existing in the revaluation surplus in respect of the same asset.

(iv) Depreciation

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Items of property and equipment that are classified as held for sale in terms of IFRS 5 are not depreciated. The depreciable amounts of property and equipment are recognised in profit or loss on a straight-line basis over the estimated useful lives of the items of property and equipment, unless they are included in the carrying amount of another asset. Useful lives, residual values and depreciation methods are assessed and adjusted where required, on an annual basis.

On revaluation, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the item concerned and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount less residual values.

Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred net of any related deferred taxation between the revaluation reserve and retained earnings as the property is utilised.

Land is not depreciated.

The maximum initial estimated useful lives are as follows:

Computer software	3 years
Computer equipment	3 – 6 years
Motor vehicles	5 years
Fixtures and furniture	10 years
Leasehold property	20 years
Significant leasehold property components	lower of 10 years or the lease period
Freehold property	50 years
Building improvements	5 years

(v) Derecognition

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. On derecognition any surplus in the revaluation reserve in respect of an individual item of property and equipment is transferred directly to retained earnings in the statement of changes in equity.

Compensation from third parties for items of property and equipment that were impaired, lost or given up is included in profit or loss when the compensation becomes receivable.

1.9 **Impairment (all assets other than financial instruments)**

The Group assesses all assets (other than intangible assets not yet available for use) for indications of impairment or the reversal of a previously recognised impairment at each reporting date. Should there be indications of impairment, the recoverable amounts of the assets are estimated. These impairments (where the carrying amount of an asset exceeds its recoverable amount) or the reversal of a previously recognised impairment are recognised in profit or loss for the period. Intangible assets not yet available for use are tested at a minimum of an annual basis for impairment.

Impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. The fair value less cost to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing value in use, the expected future pre-tax cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset whose cash flows are largely dependent on those of other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs.

A previously recognised impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the

recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

1.10 **Employee benefits**

(i) Defined contribution plans

A defined contribution plan has been established for eligible employees.

Contributions in respect of defined contribution plans are recognised as an expense in the statement of comprehensive income as incurred.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on the statement of financial position on an undiscounted basis and are expensed as the related service is provided.

1.11 **Leases**

(i) The Group as lessee

Leases in respect of which the Group bears substantially all risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the lease property or the present value of the minimum lease payments. Directly attributable costs, such as commission paid, incurred by the Group are added to the carrying amount of the asset. Each lease payment is allocated between the liability and finance charges to achieve a constant periodic rate of interest on the balance outstanding. Contingent rentals are expensed in the period they are incurred. The depreciation policy for leased assets is consistent with that of depreciable assets owned. If the Group does not have reasonable certainty that it will obtain ownership of the leased asset by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life.

Leases that are not classified as finance leases are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease.

When another systematic basis is more representative of the time pattern of the user's benefit, then that method is used.

(ii) The Group as lessor

Where assets are leased out under a finance lease arrangement, the present value of the lease payments is recognised as a receivable in the statement of financial position. Initial direct costs are included in the initial measurement of the receivable. The difference between the gross receivable and unearned finance income is recognised in the statement of financial position in loans and advances. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Assets leased out under operating leases are included under property and equipment in the statement of financial position. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income. Leased assets are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income, net of any incentives given to lessees, is recognised on a straight-line basis over the term of the lease. When another systematic basis is more representative of the time pattern of the user's benefit, then that method is used.

(iii) Recognition of lease of land

Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. However, when a single lease covers both land and a building, the minimum lease payments at the inception of the lease (including any upfront payments) are allocated between the land and the building in proportion to the relative fair values of the respective leasehold interests. Any upfront premium allocated to the land element that is normally classified as an operating lease represents prepaid lease payments. These payments are amortised over the lease term in accordance with the time pattern of benefits provided. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases.

1.12 **Cash and cash equivalents**

Cash and cash equivalents comprise balances with less than 90 days' maturity from the date of acquisition, including cash and balances with central banks that are not mandatory, other eligible bills and amounts due from other banks.

1.13 **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, in respect of which it is probable that an outflow

of economic benefits will occur and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting the provision is material, the provision is discounted. The discount rate reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Gains from the expected disposal of assets are not taken into account in measuring the provision. The provisions are reviewed at each reporting date and adjusted to reflect the current reasonable estimate. If it is no longer probable that an outflow of resources will be required to settle the obligation, the provision is reversed.

(i) Reimbursements

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by a party outside the Group, the reimbursement is recognised when it is virtually certain that it will be received if the Group settles the obligation. The reimbursement is recorded as a separate asset at an amount not exceeding the related provision. The expense for the provision is presented net of the reimbursement in profit or loss. Specific policies described in (ii) and (iii) below apply.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

(iii) Restructuring

A provision for restructuring is recognised when the Group has a detailed formal plan for restructuring and has raised a valid expectation, among those parties directly affected, that the plan will be carried out, either by having begun implementation or by publicly announcing the plan's main features. Restructuring provisions include only those costs that arise directly from restructuring that are not associated with the ongoing activities of the Group.

Future operating costs or losses are not provided for.

1.14 **Segmental reporting**

The Group's segmental reporting is by line of business and loans and advances are disclosed by geography. The Group's policy is to disclose mandatory segmental information under IFRS 8 – Segment Reporting and to disclose additional supplemental information for each business segment at the Group's discretion. The segmental disclosure by geography is determined by the origin of business transacted.

The accounting policies of the Group's reported segments are the same as the accounting policies of the Group. Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The Group accounts for intersegment revenues and transfers as if the transactions were with third parties at current market prices.

An operating segment is a component of an entity that engages in business activities from which it may earn revenues, whose operating results are regularly reviewed by management to make decisions about resources to be allocated and to assess its performance, and for which financial information is available.

The Group's identification of its segments and the measurement of segment results are based on the Group's internal reporting to management. The segments have been identified according to the nature of their respective products and services and their related target markets, the detail of which can be found in the Group Operational and Segmental Report on pages 56 to 57 of the annual report.

1.15 **Non-current assets held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount will be recovered principally through sale rather than use. The asset or disposal group must be available for immediate sale in its present condition and the sale should be highly probable, with an active programme to find a buyer and the appropriate level of management approving the sale. Immediately before classification as "held for sale", all assets are remeasured in accordance with the Group's accounting policies.

Non-current assets held for sale are measured at the lower of carrying amount and fair value less incremental directly attributable cost to sell (excluding taxation and finance charges) and are not depreciated.

Gains or losses recognised on initial classification of assets as held for sale and subsequent remeasurement are recognised in profit or loss, regardless of whether the assets were previously measured at revalued amounts. The maximum gains that can be recognised are the cumulative impairment losses previously recognised in profit or loss. A disposal group continues to be consolidated while classified as held for sale. Income and expenses continue to be recognised in profit or loss. However, assets are not depreciated or amortised.

Non-current assets (or disposal groups) are reclassified from held for sale to held for use if they no longer meet the held-for-sale criteria. On reclassification, the non-current asset (or disposal group) is remeasured at the lower of its recoverable amount and the carrying amount that would have been recognised had the asset (or disposal group) never been classified as held for sale. Any gains or losses are recognised in profit or loss, unless the asset was carried at a revalued amount prior to classification as held for sale. Gains or losses on such assets are recognised as revaluation increases or decreases.

A discontinued operation is a clearly distinguishable component of the Group's business that has been disposed of or is held for sale, which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

1.16 **Share capital**

Ordinary share capital, preference share capital or any financial instrument issued by the Group is classified as equity when:

- payment of cash, in the form of a dividend or redemption, is at the discretion of the Group;
- the instrument does not provide for the exchange of financial instruments under conditions that are potentially unfavourable to the Group;
- settlement in the Group's own equity instruments is for a fixed number of equity instruments at a fixed price; and
- the instrument represents a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's ordinary and preference share capital is classified as equity.

Consideration paid or received for equity instruments is recognised directly in equity. Equity instruments are initially measured at the proceeds received, less incremental directly attributable issue costs, net of any related income tax benefit. No gain is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's equity instruments.

When the Group issues a compound instrument, i.e. an instrument that contains both a liability and equity component, the equity component is initially measured at the residual amount after deducting from the fair value of the compound instrument the amount separately determined for the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds.

Distributions to holders of equity instruments are recognised as distributions in the statement of changes in equity in the period in which they are payable. Dividends for the year that are declared after the reporting date are disclosed in the notes to the financial statements.

1.17 **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of these assets. Qualifying assets are assets that take a substantial period of time to prepare for their intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

All other borrowing costs are expensed in the period in which they are incurred.

Details of borrowing costs capitalised are disclosed in the notes by asset category and are calculated at the Group's average funding cost, except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

1.18 **Standards and interpretations issued but not yet effective**

1.18.1 Standards and interpretations not adopted in the current year

1.18.1.1 New standards

The following standard, mandatory for the Group's accounting periods commencing on or after 1 January 2009, has not been early adopted by the Group:

(i) *IFRS 9 – Financial Instruments*

The IASB has issued IFRS 9 – Financial Instruments which is the first step in its project to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets. The IASB intends to expand IFRS 9 during 2010 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment and hedge accounting.

The implementation of the standard is expected to have a material impact on the Group's financial statements. The Group is currently evaluating the impact that the adoption will have on the current requirements of the standard.

The standard is effective for the Group for year-end commencing 1 January 2013.

1.18.1.2 **Revised standards**

The following revision to International Accounting Standards has not been early adopted by the Group:

(i) *Annual improvements project*

As part of its first annual improvements projects, the IASB has issued its edition of annual improvements. The annual improvement project aims to clarify and improve the accounting standards.

The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement.

There are no significant changes in the current year's improvement that will affect the Group and is effective for the Group commencing 1 January 2009.

1.18.1.3 **Interpretations**

The following interpretation of the existing standards is not yet effective and has not been early adopted by the Group:

(i) *Amendments to IFRIC 14 – Prepayment of a Minimum Funding Requirement*

The interpretation was amended to remedy an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognise prepayments of minimum funding contributions, as an asset.

The amendment to IFRIC 14 is effective for annual periods commencing on or after 1 July 2011 and is not anticipated to have a significant effect on the Group's financial statements.

1.18.2 **Standards and interpretations adopted in the current year**

1.18.2.1 **Revised standards**

The following revisions to International Financial Reporting Standards have been adopted by the Group:

(i) *Amendments to IFRS 3 – Business Combinations: Comprehensive revision on applying the acquisition method and consequential amendments to IAS 27 – Consolidated and Separate Financial Statements, IAS 28 – Investments in Associates and IAS 31 – Interest in Joint Ventures*

The revised IFRS 3 retained the basic requirements of IFRS 3 (2004) to apply acquisition accounting for all business combinations within the scope of IFRS 3, to identify the acquirer and to determine the acquisition date for every business combination. The most significant change is a move from a purchase price allocation approach to a fair value measurement principle. The revision applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The amended IAS 27 requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Group loses control of a subsidiary any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss.

The Group will adopt the revisions to the standard for its annual period commencing 1 January 2010.

The revision and amendment is applicable prospectively and will not affect past transactions, and therefore did not have any effect on the Group's financial statements.

(ii) *Amendments to IFRS 7 – Enhancing Disclosures about Fair Value and Liquidity Risk*

The amendments expand the disclosures required in respect of fair value measurements recognised in the statement of financial position. For the purpose of these expanded disclosures, a three-level hierarchy has been introduced.

The additional disclosures required can be summarised as follows: the level in the hierarchy in which fair value measurements are categorised; reasons for significant transfers between level 1 and 2 of the hierarchy; a reconciliation from beginning to closing balances for level 3 of the hierarchy; and if changes to any of the assumptions applied for level 3 measurements will have a significant effect on the fair value, the nature and extent thereof should be disclosed.

The amendments also clarify the scope of items to be included in the maturity analyses required under IFRS 7 by changing the definition of liquidity risk to state that liquidity risk only includes financial liabilities that are settled by delivering cash or another financial asset.

This results in the exclusion of financial liabilities that are settled by the entity delivering its own equity instruments or non-financial assets.

Furthermore, the amendments specify different liquidity risk disclosure requirements for derivative and non-derivative financial liabilities.

The adoption of the standard did not have an effect on the Group's financial position or performance as it did not require any measurement adjustment, but rather enhanced disclosure.

(iii) *Amendments to IAS 1 – Presentation of Financial Statements: Comprehensive revision including requiring a statement of comprehensive income*

The revisions made to IAS 1 required information in financial statements to be aggregated on the basis of shared characteristics and introduce a statement of comprehensive income. The revision includes changes in titles of financial statements to reflect their functions more clearly.

The main change in the revised IAS 1 is the requirement to present all non-owner transactions in the statement of comprehensive income. The amendment also requires two sets of comparative numbers to be provided for the financial position in any year where there has been a restatement or reclassification of balances.

The revised standard was adopted in the current year and had an effect on the disclosure provided in the annual report.

(iv) *Amendment to IAS 32 – Financial Instruments: Presentation, and IAS 1 – Presentation of Financial Statements: Puttable financial instruments arising on liquidation and obligations*

The amendment requires additional information to be presented on puttable instruments that are presented as equity.

The amendment did not affect the Group, as the Group does not have puttable instruments that are presented within equity.

(v) *Amendments to IAS 39 – Financial Instruments: Recognition and Measurement: eligible hedged items and clarification regarding ending assessment of embedded derivatives*

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk and hedging with options.

The adoption of the amendment of the standard regarding eligible hedged items does not have an effect on the Group, as the Group does not apply hedge accounting.

These amendments also deal with the accounting treatment for embedded derivatives in the case of a reclassification of a financial asset out of the "fair value through profit or loss" category.

The amendment did not affect the Group, as the Group does not have a financial asset which have been classified out of the "fair value through profit or loss" category.

(vi) *Annual Improvements Project*
As part of its second annual improvements projects, the IASB has issued its edition of annual improvements. The annual improvement project aims to clarify and improve the accounting standards.

The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement.

No significant changes were made to the Group financial statements for the revisions which were effective for periods commencing on or after 1 January 2009.

Contents

Statement of comprehensive income	52
Statement of financial position	53
Statement of changes in shareholders' equity	54
Statement of cash flows	55
Operational and segmental report	56
Statement of financial position classifications of financial instruments	58
Notes to the financial statements	62
Analysis of investments in subsidiaries	93
Value-added statement	94

Group Statement of Comprehensive Income for the year ended 31 December 2009

	Note	2009 R'000	2008 R'000
Interest and similar income	2	**6 217 843**	6 431 739
Interest expense and similar charges	3	**4 184 778**	4 699 196
Net interest income		**2 033 065**	1 732 543
Impairment losses on loans and advances	15	**956 636**	700 538
Income from lending activities		**1 076 429**	1 032 005
Non-interest revenue	4	**199 114**	87 609
Operating income		**1 275 543**	1 119 614
Operating expenses	5	**625 911**	524 846
Net operating income		**649 632**	594 768
Indirect taxation	6	**50 449**	51 310
Profit from operations before direct taxation		**599 183**	543 458
Direct taxation	7	**168 408**	182 245
Net profit for the year		**430 775**	361 213
Other comprehensive income net of taxation		**–**	11 823
– Gains on property revaluation		**–**	15 727
– Taxation on other comprehensive income		**–**	(3 904)
Total comprehensive income for the year		**430 775**	373 036
Profit attributable to:			
– Equity holders of the parent		**400 699**	331 318
– Non-controlling interest – Preference shareholders		**30 076**	29 895

Group Statement of Financial Position at 31 December 2009

	Note	2009 R'000	2008 R'000
ASSETS			
Cash and cash equivalents	9	**300 800**	46 693
Other short-term securities	11	**2 346 963**	1 563 385
Derivative financial instruments	10	**50 921**	37 619
Government and other securities	11	**202 608**	529 163
Loans and advances to customers	11, 12 & 15	**50 450 770**	44 734 236
Other assets	13	**741 663**	504 787
Investment securities	11	**3 970**	5 183
Property and equipment	16	**268 241**	279 484
Intangible assets	17	**78 136**	–
Mandatory deposits with central bank	9	**1 215 575**	1 067 545
Total assets		**55 659 647**	48 768 095
EQUITY AND LIABILITIES			
Ordinary share capital	19.1	**3 937**	3 937
Ordinary share premium		**1 097 747**	1 097 747
Reserves		**2 361 329**	1 960 630
Total ordinary shareholders' equity		**3 463 013**	3 062 314
Preference share capital and premium	19.2	**298 047**	298 047
Total shareholders' equity		**3 761 060**	3 360 361
Total liabilities		**51 898 587**	45 407 734
Bank overdraft	9	**6 920**	–
Derivative financial instruments	10	**244 957**	357 171
Amounts owed to depositors	20	**50 087 002**	43 934 979
Other liabilities	21	**161 503**	110 712
Provisions	22	**52 049**	45 403
Current taxation	14	**23 511**	5 706
Deferred taxation	8	**175 992**	162 013
Long-term debt instruments	11 & 23	**1 146 653**	791 750
Total equity and liabilities		**55 659 647**	48 768 095
Contingent liabilities*	25	**363 806**	1 079 640

* Contingent liabilities for 2008 have been restated to exclude unutilised facilities of R1.4 billion.

Group Statement of Changes in Shareholders' Equity for the year ended 31 December 2009

	Number of ordinary shares	Number of preference shares	Ordinary share capital R'000	Ordinary share premium R'000	Revaluation reserve R'000	General credit risk reserve* R'000	Accumulated profit R'000	Total ordinary shareholders' equity R'000	Preference share capital and premium R'000	Total shareholders' equity R'000
Balance at 31 December 2006	288 222 599	3 000 000	2 882	348 802	–	180 821	1 076 169	1 608 674	298 062	1 906 736
Transfer to/(from) reserves						48 550	(48 550)	–		–
Total comprehensive income for the period					35 361		479 154	514 515		514 515
Preference dividends paid							(26 003)	(26 003)		(26 003)
Ordinary shares issued	51 787 025		518	299 482				300 000		300 000
Share issue and repurchase expenses								–	(15)	(15)
Balance at 31 December 2007	340 009 624	3 000 000	3 400	648 284	35 361	229 371	1 480 770	2 397 186	298 047	2 695 233
Transfer (from)/to reserves						(229 371)	229 371	–		–
Total comprehensive income for the period					11 823		361 213	373 036		373 036
Ordinary dividends paid							(128 013)	(128 013)		(128 013)
Preference dividends paid							(29 895)	(29 895)		(29 895)
Ordinary shares issued	53 673 165		537	449 463				450 000		450 000
Balance at 31 December 2008	**393 682 789**	**3 000 000**	**3 937**	**1 097 747**	**47 184**	**–**	**1 913 446**	**3 062 314**	**298 047**	**3 360 361**
Total comprehensive income for the period							**430 775**	**430 775**		**430 775**
Preference dividends paid							**(30 076)**	**(30 076)**		**(30 076)**
Balance at 31 December 2009	**393 682 789**	**3 000 000**	**3 937**	**1 097 747**	**47 184**	**–**	**2 314 145**	**3 463 013**	**298 047**	**3 761 060**

* Represents non-distributable reserves transferred from other distributable reserves in order to comply with the Banks Act, 1990.

Group Statement of Cash Flows for the year ended 31 December 2009

	Note	2009 R'000	2008 R'000
Cash received from clients	24.2	**6 519 569**	6 567 560
Cash paid to clients, staff and suppliers	24.3	**(4 768 566)**	(5 221 734)
Recoveries on loans previously written off	15.1	**51 475**	19 074
Cash generated by operating activities	24.1	**1 802 478**	1 364 900
Change in funds for operating activities		**(1 445 357)**	(826 524)
Increase in operating assets	24.4	**(7 529 803)**	(10 908 116)
Increase in operating liabilities	24.5	**6 084 446**	10 081 592
Net cash generated by operating activities before taxation		**357 121**	538 376
Taxation paid	24.6	**(187 073)**	(174 985)
Net cash generated by operating activities		**170 048**	363 391
Net cash utilised in investing activities		**(94 755)**	(106 553)
Acquisition of property and equipment		**(29 277)**	(116 889)
Proceeds on disposal of property and equipment		**9 459**	10 336
Acquisition of intangible assets		**(74 937)**	–
Net cash from financing activities		**319 924**	77 092
Proceeds from issue of ordinary shares		**–**	450 000
Dividends paid		**(30 076)**	(157 908)
Redemption of long-term debt instrument		**–**	(515 000)
Proceeds from issue of long-term debt instrument		**350 000**	300 000
Net increase in cash and cash equivalents		**395 217**	333 930
Cash and cash equivalents at the beginning of the year		**1 114 238**	780 308
Cash and cash equivalents at the end of the year	9	**1 509 455**	1 114 238

Group Operational and Segmental Report for the year ended 31 December 2009

	Motor Finance		Property Finance	
	2009	2008	**2009**	2008
STATEMENT OF FINANCIAL POSITION	**Rbn**	Rbn	**Rbn**	Rbn
ASSETS				
Cash on hand	**–**	–	**–**	–
Liquid assets	**–**	–	**–**	–
Loans and advances to customers	**32.5**	28.0	**8.9**	8.0
Investments and other assets	**0.5**	0.4	**0.3**	–
Fixed assets	**0.1**	0.1	**–**	–
	33.1	28.5	**9.2**	8.0
EQUITY AND LIABILITIES				
Deposits	**29.9**	26.0	**7.9**	6.8
Other liabilities	**0.3**	0.2	**0.1**	0.2
Shareholders' funds	**2.2**	1.9	**0.9**	0.8
Secondary loan capital	**0.7**	0.4	**0.3**	0.2
	33.1	28.5	**9.2**	8.0
STATEMENT OF COMPREHENSIVE INCOME	**Rm**	Rm	**Rm**	Rm
Net interest income	**1 515.4**	1 158.8	**243.2**	328.1
Impairment losses on loans and advances	**800.5**	631.3	**42.3**	13.3
Income from lending activities	**714.9**	527.5	**200.9**	314.8
Non-interest revenue	**153.7**	63.8	**28.9**	(11.2)
Operating income	**868.6**	591.3	**229.8**	303.6
Operating expenses and indirect taxation	**428.9**	362.9	**85.6**	75.8
Profit from operations before direct taxation	**439.7**	228.4	**144.2**	227.8
Direct taxation	**123.1**	63.9	**40.4**	63.8
Net profit for the year	**316.6**	164.5	**103.8**	164.0
Cost of equity charge	**290.2**	191.4	**114.1**	80.3
Economic profit	**26.4**	(26.9)	**(10.3)**	83.7

The Group operational and segmental report reflects the current method of measuring the performance of the respective business divisions. Each division is allocated capital to be utilised in the generation of revenue based on their risk-weighted assets. The divisions are charged cost of capital on the capital allocated based on the Bank's actual capital structure. The cost of equity charge is reflected after taxation and the residual profit is referred to as economic profit. The cost of equity charge comprises the Bank's targeted tier 1 components, namely: ordinary equity, preference shares and hybrid instruments. The 2008 figures have been restated accordingly.

Supplier Asset Finance		Professional Finance		Treasury and Eliminations		Imperial Bank	
2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Rbn	Rbn	**Rbn**	Rbn	**Rbn**	Rbn	**Rbn**	Rbn
–	–	–	–	**1.5**	1.1	**1.5**	1.1
–	–	–	–	**2.6**	2.2	**2.6**	2.2
3.3	3.7	**5.7**	4.9	**0.1**	0.1	**50.5**	44.7
–	–	–	–	–	0.1	**0.8**	0.5
–	–	–	–	**0.2**	0.2	**0.3**	0.3
3.3	3.7	**5.7**	4.9	**4.4**	3.7	**55.7**	48.8
2.8	3.2	**5.3**	4.5	**4.2**	3.5	**50.1**	44.0
0.1	–	–	–	**0.2**	0.2	**0.7**	0.6
0.3	0.4	**0.3**	0.3	**0.1**	–	**3.8**	3.4
0.1	0.1	**0.1**	0.1	**(0.1)**	–	**1.1**	0.8
3.3	3.7	**5.7**	4.9	**4.4**	3.7	**55.7**	48.8
Rm	Rm	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm
155.4	144.5	**117.9**	105.5	**1.2**	(4.4)	**2 033.1**	1 732.5
88.1	29.2	**25.8**	26.7	**(0.1)**	–	**956.6**	700.5
67.3	115.3	**92.1**	78.8	**1.3**	(4.4)	**1 076.5**	1 032.0
9.4	12.7	**7.8**	6.2	**(0.7)**	16.1	**199.1**	87.6
76.7	128.0	**99.9**	85.0	**0.6**	11.7	**1 275.6**	1 119.6
94.3	76.2	**64.7**	60.3	**2.9**	1.0	**676.4**	576.2
(17.6)	51.8	**35.2**	24.7	**(2.3)**	10.7	**599.2**	543.4
(4.9)	14.5	**9.8**	6.9	**–**	33.1	**168.4**	182.2
(12.7)	37.3	**25.4**	17.8	**(2.3)**	(22.4)	**430.8**	361.2
39.8	33.3	**43.7**	30.1	**7.4**	40.0	**495.2**	375.1
(52.5)	4.0	**(18.3)**	(12.3)	**(9.7)**	(62.4)	**(64.4)**	(13.9)

Group Statement of Financial Position Classifications of Financial Instruments
at 31 December 2009

	2009	Held-for-trading			
	R'000	R'000			
2009		Level 1	Level 2	Level 3	Total
ASSETS					
Cash and cash equivalents	300 800				
Other short-term securities	2 346 963				
Derivative financial instruments	50 921		50 921		50 921
Government and other securities	202 608				
Loans and advances to customers*	50 450 770				
Other assets	741 663				
Investment securities	3 970				
Property and equipment	268 241				
Intangible assets	78 136				
Mandatory deposits with central bank	1 215 575				
Total assets	55 659 647		50 921		50 921
EQUITY AND LIABILITIES					
Ordinary share capital	3 937				
Ordinary share premium	1 097 747				
Reserves	2 361 329				
Total ordinary shareholders' equity	3 463 013				
Preference share capital and premium	298 047				
Total shareholders' equity	3 761 060				
Total liabilities	51 898 587		244 957		244 957
Bank overdraft	6 920				
Derivative financial instruments	244 957		244 957		244 957
Amounts owed to depositors	50 087 002				
Other liabilities	161 503				
Provisions	52 049				
Current taxation	23 511				
Deferred taxation	175 992				
Long-term debt instruments**	1 146 653				
Total equity and liabilities	55 659 647		244 957		244 957

* Loans and advances and investments in short-term securities' fair values are determined using discounted cash flow models, where future cash flows are discounted using current market rates.

** Long-term debt instruments at amortised cost approximates its fair value.

The statement of financial position above provides an analysis of financial instruments' classifications grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

Designated as at fair value through profit or loss				At amortised cost	Non-financial assets and liabilities
R'000				R'000	R'000
Level 1	Level 2	Level 3	Total		
				300 800	
	2 346 963		2 346 963		
202 608			202 608		
	6 478 759		6 478 759	43 972 011	
	6 152		6 152	735 511	
3 970			3 970		
					268 241
					78 136
				1 215 575	
206 578	8 831 874		9 038 452	46 223 897	346 377
					3 937
					1 097 747
					2 361 329
					3 463 013
					298 047
					3 761 060
492 763			492 763	50 799 951	360 916
				6 920	
				50 087 002	
				52 139	109 364
					52 049
					23 511
					175 992
492 763			492 763	653 890	
492 763			492 763	50 799 951	4 121 976

The Bank does not have Level 3 instruments.

There were no transfers between levels during the year.

The Bank designates all significant fixed rate instruments as at fair value through profit or loss in accordance with the fair value option under IAS 39 – Financial Instruments: Recognition and Measurement. Loans and receivables and financial liabilities that are not carried at fair value are primarily comprised of variable rate financial assets and liabilities and reprice as interest rates change. In respect of all loans and receivables, as well as financial liabilities at amortised cost, the Bank has assessed potential changes in credit risk for performing advances using internal credit models and is satisfied that there are no significant changes in fair value due to credit risk. For impaired loans and advances, the carrying value, as determined by the Bank's IAS 39 credit models, is considered the best estimate of fair value. Therefore, the Bank is satisfied, after considering these internal credit models together with other assumptions and the variable interest rate exposure, that the carrying value of these loans and advances and financial liabilities at amortised cost approximates fair value.

Group Statement of Financial Position Classifications of Financial Instruments
at 31 December 2009

	2008	Held-for-trading			
	R'000	R'000			
2008		Level 1	Level 2	Level 3	Total
ASSETS					
Cash and cash equivalents	46 693				
Other short-term securities	1 563 385				
Derivative financial instruments	37 619		37 619		37 619
Government and other securities	529 163				
Loans and advances to customers	44 734 236				
Other assets	504 787				
Investment securities	5 183				
Property and equipment	279 484				
Mandatory deposits with central bank	1 067 545				
Total assets	48 768 095		37 619		37 619
EQUITY AND LIABILITIES					
Ordinary share capital	3 937				
Ordinary share premium	1 097 747				
Reserves	1 960 630				
Total ordinary shareholders' equity	3 062 314				
Preference share capital and premium	298 047				
Total shareholders' equity	3 360 361				
Total liabilities	45 407 734		357 171		357 171
Derivative financial instruments	357 171		357 171		357 171
Amounts owed to depositors	43 934 979				
Other liabilities	110 712				
Provisions	45 403				
Current taxation	5 706				
Deferred taxation	162 013				
Long-term debt instruments*	791 750				
Total equity and liabilities	48 768 095		357 171		357 171

* Long-term debt instruments for 2008 have been reclassified to align with Nedbank Limited's disclosure.

Designated as at fair value through profit or loss				At amortised cost	Non-financial assets and liabilities
R'000				R'000	
Level 1	Level 2	Level 3	Total		
				46 693	
	1 563 385		1 563 385		
529 163			529 163		
	4 564 947		4 564 947	40 169 289	
				504 787	
5 183			5 183		
					279 484
				1 067 545	
534 346	6 128 332		6 662 678	41 788 314	279 484
					3 937
					1 097 747
					1 960 630
					3 062 314
					298 047
					3 360 361
488 409			488 409	44 272 904	289 250
				43 934 979	
				34 584	76 128
					45 403
					5 706
					162 013
488 409			488 409	303 341	
488 409			488 409	44 272 904	3 649 611

		2009 R'000			2008 R'000		
		Financial instruments at fair value through profit & loss	Financial instruments not at fair value through profit & loss	Total	Financial instruments at fair value through profit & loss	Financial instruments not at fair value through profit & loss	Total
1	**ACCOUNTING POLICIES**						
	Refer to pages 34 to 50 for the accounting policies.						
2	**INTEREST AND SIMILAR INCOME***						
	Mortgage loans	241 846	1 087 565	1 329 411	89 874	1 474 366	1 564 240
	– Interest earned	241 846	1 049 064	1 290 910	89 874	1 372 790	1 462 664
	– Deferred revenue and acquisition costs	–	38 501	38 501	–	101 576	101 576
	Lease and instalment debtors	495 259	4 027 209	4 522 468	151 012	4 312 915	4 463 927
	– Interest earned	495 259	4 189 274	4 684 533	151 012	4 433 579	4 584 591
	– Deferred revenue and acquisition costs	–	(162 065)	(162 065)	–	(120 664)	(120 664)
	Term loans and other	59 292	103 775	163 067	73 013	106 093	179 106
	Government and public sector securities	191 808	–	191 808	213 400	–	213 400
	Preference shares	–	11 089	11 089	–	11 066	11 066
		988 205	5 229 638	6 217 843	527 299	5 904 440	6 431 739
	Interest income on impaired financial assets			61 708			129 771
	* Interest income disclosed above includes interest income on impaired financial assets.						
3	**INTEREST EXPENSE AND SIMILAR CHARGES**						
	Deposit and loan accounts	–	3 799 606	3 799 606	–	4 323 653	4 323 653
	Derivative financial instruments	159 055	–	159 055	65 193	–	65 193
	Long-term debt instruments	42 307	40 789	83 096	102 933	3 341	106 274
	Other deposits	–	–	–	–	674	674
	Securitisation notes	–	146 220	146 220	–	203 402	203 402
	Borrowing costs capitalised	–	(3 199)	(3 199)	–	–	–
		201 362	3 983 416	4 184 778	168 126	4 531 070	4 699 196
4	**NON-INTEREST REVENUE**						
	Commission and fee income*	–	162 091	162 091	–	97 329	97 329
	– Insurance commission	–	29 540	29 540	–	27 800	27 800
	– Fees	–	132 551	132 551	–	69 529	69 529
	Fair value adjustments through profit and loss**	14 294	–	14 294	(29 409)	–	(29 409)
	– Designated as at fair value through profit and loss	(126 311)	–	(126 311)	276 967	–	276 967
	– Held for trading	140 605	–	140 605	(306 376)	–	(306 376)
	Other income	6 152	16 577	22 729	–	19 689	19 689
	– Rent received	–	8 765	8 765	–	12 257	12 257
	– Fair value adjustment on option	6 152	–	6 152	–	–	–
	– Profit on disposal of property and equipment	–	506	506	–	285	285
	– Other	–	7 306	7 306	–	7 147	7 147
		20 446	178 668	199 114	(29 409)	117 018	87 609

* All commission and fee income other than amounts included in determining the effective interest rate relates to financial instruments that are not classified as financial instruments at fair value through profit and loss.

** The net gains and losses on financial instruments includes all realised and unrealised fair value changes, interest and dividends.

		2009 R'000	2008 R'000
5	**OPERATING EXPENSES**		
	Staff costs*	**358 868**	306 229
	– Salaries and wages	**358 868**	306 229
	Computer processing	**47 627**	40 089
	– Depreciation for computer equipment	**14 209**	14 507
	– Other computer processing expenses	**33 418**	25 582
	Occupation and accommodation	**34 424**	26 364
	– Depreciation for owner-occupied buildings	**11 363**	5 338
	– Operating lease charges for land and buildings	**12 710**	13 176
	– Other occupation and accommodation expenses	**10 351**	7 850
	Marketing and public relations	**10 947**	14 418
	Fees and insurances	**26 440**	25 760
	– Auditors' remuneration	**8 704**	10 063
	– Audit fees – internal	**3 768**	1 573
	– Audit fees – external	**4 733**	7 243
	– Other services	**203**	1 247
	– Other fees and insurances	**17 736**	15 697
	Office equipment and consumables	**45 243**	39 177
	– Depreciation for furniture and other equipment	**5 247**	3 684
	– Other office equipment and consumables	**39 996**	35 493
	Vehicles and transport expenses	**748**	948
	– Depreciation for vehicles	**748**	948
	Sundry expenses	**74 901**	70 648
	Fees to alliance partners	**26 713**	1 213
		625 911	524 846

* Refer to page 79 on related parties for a detailed breakdown of directors' compensation.

6	**INDIRECT TAXATION**		
	Value-added taxation	**50 449**	51 310
		50 449	51 310

Value-added taxation comprises that portion which is irrecoverable as a result of the interest earned in the banking sector.

		2009 R'000	2008 R'000
7	**DIRECT TAXATION**		
7.1	**Charge for the year**		
	South African normal taxation		
	– Current	**151 429**	121 831
	– Deferred	**14 811**	53 040
	– Change due to taxation rate decreasing from 29% to 28%	**–**	(3 278)
	– Secondary tax on companies	**2 135**	10 610
	Total direct taxation	**168 375**	182 203
	Prior year under provision – current taxation	**865**	1 209
	Prior year over provision – deferred taxation	**(832)**	(1 167)
		168 408	182 245
7.2	**Taxation rate reconciliation**		
	Standard rate of South African normal taxation	**28.0%**	28.0%
	Reduction in tax rate	**0.0%**	(0.5%)
	Non-taxable dividend income	**(0.5%)**	(0.5%)
	Non-taxable capital profit	**(0.3%)**	0.0%
	Deferred taxable income	**0.0%**	5.5%
	Secondary tax on companies	**0.4%**	2.0%
	Other	**0.5%**	(1.0%)
	Total direct taxation on income as a percentage of profit before direct taxation	**28.1%**	33.5%

		2009 R'000	2008 R'000
8	**DEFERRED TAXATION**		
	8.1 **Reconciliation of deferred taxation balances**		
	Deferred taxation liability		
	Opening balance	**162 013**	109 512
	Rate change from 29% to 28%	**–**	(3 278)
	Prior year adjustment – Statement of comprehensive income	**(832)**	(1 167)
	Current year temporary differences	**14 811**	56 946
	– Recognised in profit and loss	**14 811**	53 040
	– Income and expenditure accruals deducted	**13 916**	36 859
	– Income accrued	**–**	30 148
	– Impairment of loans and advances	**1 719**	(9 343)
	– Other	**(824)**	(4 624)
	– Recognised in equity	**–**	3 906
	– Property and equipment, leases and other assets	**–**	3 906
	Balance at end of year	**175 992**	162 013
	8.2 **Analysis of deferred taxation**		
	Deferred taxation liability		
	Property and equipment, leases and other assets	**–**	3 849
	Impairment of loans and advances	**(22 519)**	(24 238)
	Revaluation of property and equipment	**18 348**	18 348
	Income and expenditure accruals	**181 617**	164 684
	Other	**(1 454)**	(630)
		175 992	162 013
9	**CASH AND CASH EQUIVALENTS**		
	Coins and bank notes	**25**	25
	Money at call and short notice	**300 525**	46 418
	Balances with central bank other than mandatory deposits	**250**	250
		300 800	46 693
	Bank overdrafts	**(6 920)**	–
	Mandatory deposits with central bank	**1 215 575**	1 067 545
		1 509 455	1 114 238

Money at call and short notice constitutes amounts withdrawable in 32 days or less. Mandatory deposits are not available for use in the Bank's day-to-day operations.

10 DERIVATIVE FINANCIAL INSTRUMENTS

These transactions have been entered into in the normal course of business and no material losses are anticipated other than those for which provision has been made in the statement of comprehensive income. There are no commitments or contingent commitments under derivative instruments that are settled other than with cash. The principal types of derivative contracts into which the Bank enters are described below:

Swaps
These are over-the-counter (OTC) agreements between two parties to exchange periodic payments of interest, or related index, over a set period based on notional principal amounts. The Bank enters into swap transactions in several markets. Interest rate swaps are used to economically hedge the interest rate risk of the Bank.

Risk monitoring
Details of the Bank's risk management structure, policies and methods are noted on pages 24 to 29 and the interest rate risk analysis is detailed on pages 89 to 90.

		2009 R'000	2008 R'000
10.1	**Total carrying amount of derivative financial instruments**		
	Gross carrying amount of assets	**50 921**	37 619
	Gross carrying amount of liabilities	**(244 957)**	(357 171)
	Net carrying amount	**(194 036)**	(319 552)

A detailed breakdown of the notional principal, carrying amount and fair value of the various types of derivative financial instruments held by the Group is presented in the following tables:

10.2 Notional principal of derivative financial instruments

This represents the notional amounts of all outstanding contracts at year-end. This notional amount is the sum of the absolute amount of all purchases and sales of derivative instruments. The notional amounts do not represent amounts exchanged by the parties and therefore represent only the measure of involvement by the Bank in derivative contracts and not its exposure to market or credit risks arising from such contracts. The amounts actually exchanged are calculated on the basis of the notional amounts and other terms of the derivative, which relate to interest rates, securities prices or financial and other indices.

	2009			2008		
	Notional principal R'000	**Positive value R'000**	**Negative value R'000**	Notional principal R'000	Positive value R'000	Negative value R'000
Banking derivatives						
Interest rate swaps	**12 283 657**	**3 550 375**	**8 733 282**	10 860 181	2 817 235	8 042 946
Interest rate caps	**–**	**–**	**–**	11 000	11 000	–
Total notional principal	**12 283 657**	**3 550 375**	**8 733 282**	10 871 181	2 828 235	8 042 946

10.3 Carrying amount of derivative financial instruments

The amounts disclosed represent the value of all derivative instruments held. The fair value of a derivative financial instrument is the amount at which it could be exchanged in a current transaction between willing parties, other than a forced liquidation or sale. Fair values are obtained from quoted market prices and discounted cash flow models. When it is not practicable, owing to constraints of timeliness or cost, to determine the fair value of a derivative instrument with sufficient reliability, such derivative is included in the following table at a value calculated on an accrual basis. In terms of that basis a value is obtained by taking into account the original cost of the derivative and only the realised gains or losses in respect of the instrument.

	2009			2008		
	Net carrying amount R'000	**Carrying amount of assets R'000**	**Carrying amount of liabilities R'000**	Net carrying amount R'000	Carrying amount of assets R'000	Carrying amount of liabilities R'000
Banking derivatives						
Interest rate swaps	**(194 036)**	**50 921**	**(244 957)**	(319 638)	37 533	(357 171)
Interest rate caps	**–**	**–**	**–**	86	86	–
Total carrying amount	**(194 036)**	**50 921**	**(244 957)**	(319 552)	37 619	(357 171)

11 FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Bank has satisfied the criteria for designation of an instrument as at fair value through profit or loss in terms of the accounting policy as stipulated in the annual financial statements.

Various fixed rate instruments are entered into by the Bank. The overall interest rate risk of the Bank is then hedged by the ALCO by way of an interest rate swap thus having the interest rate risk passed out to the market. The swaps meet the definition of "derivatives", and are therefore held at fair value in terms of IAS 39 – Financial Instruments: Recognition and Measurement. The fixed rate instruments, however, do not meet this definition. Therefore, to avoid an accounting mismatch by holding the fixed rate instrument at amortised cost and the balance of the hedging schemes' instruments at fair value, the fixed rate instruments are designated as at fair value through profit or loss and are therefore held at fair value.

Various instruments are designated as at fair value through profit or loss consistent with the relevant entity's documented risk management or investment strategy. In these investment strategies the fair value is the instrument attribute that is managed and reviewed on a regular basis. Business strategies, operating mandates and/or investment strategies are aligned with the fair value of the instruments. The risk of the portfolio is measured and monitored on a fair value basis. Performance measurement is directly aligned to the fair value and is reported to key management personnel on a regular basis.

11.1 Financial assets designated as at fair value through profit or loss

	2009 R'000	2008 R'000
Maximum exposure to credit risk		
Government and other securities	**202 608**	529 163
Investment securities	**3 970**	5 183
Loans and advances designated as at fair value through profit or loss*	**6 478 759**	4 564 947
Other short-term securities	**2 346 963**	1 563 385
	9 032 300	6 662 678

* This amount is included as part of the loans and advances balance in the statement of financial position. Refer to note 12 for further information on loans and advances.

No credit derivatives are issued on any of the above financial assets.

Changes in credit risk were identified at a division level on an individual basis by review of historical records. Each individual transaction was assessed for signs of significant credit deterioration. Where significant deterioration was identified, the collateral and provision amounts were taken into account to achieve fair value.

The credit margin is kept fixed on the financial instruments that are not listed on a recognised exchange, up until the date an impairment event occurs.

	2009 R'000	2008 R'000
11.1.1 **Government and other securities**		
Analysis		
Government and government-guaranteed securities	**202 608**	529 163
Sectoral analysis		
Government and public sector	**202 608**	529 163
Valuation		
– Carrying amount	**202 608**	529 163
– Market value (listed)	**202 608**	529 163

	2009 R'000	2008 R'000
11 FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)		
11.1 Financial assets designated as at fair value through profit or loss (continued)		
11.1.2 Investment securities		
Analysis		
Eagle Bonds	**3 970**	5 183
Sectoral analysis		
Public sector	**3 970**	5 183
Valuation		
– Carrying amount	**3 970**	5 183
– Market value (listed)	**3 970**	5 183

The Eagle Bonds were issued on 10 June 2003 at a nominal value of R10 million bearing a coupon of 9.956%. Interest payments and instalments are received on a quarterly basis and the bond matures on 31 July 2012.

11.1.3 Other short-term securities		
Analysis		
Treasury bills	**1 634 976**	1 182 129
SARB debentures	**711 987**	381 256
	2 346 963	1 563 385
Sectoral analysis		
Government and public sector	**2 346 963**	1 563 385
Valuation		
– Carrying amount	**2 346 963**	1 563 385
– Market value	**2 346 963**	1 563 385

A register of treasury bills and debentures is available for inspection at the registered office of the Company.

11.2 Financial liabilities designated as at fair value through profit or loss

	Fair value R'000	Contractually payable at maturity R'000	Difference R'000	Change in fair value due to change in credit risk: Current year R'000	Change in fair value due to change in credit risk: Cumulative R'000
2009					
Long-term debt instruments	**492 763**	**500 000**	**(7 237)**	**(8 972)**	**(13 335)**
2008					
Long-term debt instruments*	488 409	500 000	(11 591)	(704)	(22 307)

Changes in fair value due to credit risk changes are assessed with reference to government stock R154, which has replaced the R153.

* Long-term debt instruments for 2008 have been restated to align with Nedbank Limited's disclosure.

		2009 R'000	2008 R'000
12	**LOANS AND ADVANCES TO CUSTOMERS**		
	The Bank operates in selected niche markets concentrating on asset-based finance. Loans and advances made are mostly in the form of instalment credit to individuals and mortgage lending to property developers, corporate borrowers and individuals.		
12.1	**Category analysis***		
	Home loans	**2 985 711**	1 620 947
	Commercial mortgages	**6 027 493**	6 171 879
	Other loans to clients	**5 086 591**	4 853 663
	Net investment in instalment sale and lease agreements	**37 420 300**	32 777 997
	Preference shares	**119 193**	122 104
		51 639 288	45 546 590
	Impairment of loans and advances (note 15)	**(1 188 518)**	(812 354)
		50 450 770	44 734 236
	* Loans and advances split for 2008 have been reclassified to align with Nedbank Limited's disclosure.		
	The preference shares have a nominal value of R110 million and earn dividends at a fixed rate of 9.4%. They are redeemable in April 2012.		
12.2	**Sectoral analysis**		
	Individuals	**36 951 798**	31 261 832
	Financial services, insurance and real estate	**5 071 098**	3 501 400
	Manufacturing	**601 155**	658 058
	Building and property development	**1 817 588**	2 287 855
	Transport, storage and communication	**1 110 647**	1 338 554
	Retailers, catering and accommodation	**1 425 454**	1 527 429
	Wholesale and trade	**226 669**	254 203
	Mining and quarrying	**168 296**	980 933
	Agriculture, forestry and fishing	**124 316**	24 144
	Government and public sector	**15 875**	26 561
	Other services	**4 126 392**	3 685 621
		51 639 288	45 546 590
12.3	**Geographical analysis**		
	South Africa	**51 639 288**	45 546 590
	Gauteng	**27 799 089**	25 254 856
	Western Cape	**6 562 521**	5 827 322
	Eastern Cape	**2 442 567**	2 236 686
	KwaZulu-Natal	**5 827 638**	4 916 887
	Free State	**2 316 493**	1 944 624
	North West	**1 112 452**	948 066
	Mpumalanga	**3 930 016**	3 153 840
	Northern Cape	**584 959**	463 039
	Limpopo	**1 063 553**	801 270
		51 639 288	45 546 590

		2009 R'000	2008 R'000
13	**OTHER ASSETS**		
	Sundry receivables	11 703	61 344
	Deferred acquisition costs	462 629	442 264
	Property inventory	1 179	1 179
	Non-financial asset sold	260 000	–
	Option	6 152	–
		741 663	504 787
14	**CURRENT TAXATION**		
	Normal South African taxation		
	– Current taxation liability	23 511	5 706
		23 511	5 706

15 IMPAIRMENT OF LOANS AND ADVANCES

15.1 Impairment of loans and advances

2009	Total impairment R'000	Specific impairment R'000	Portfolio impairment R'000
Opening balance	812 354	565 264	247 090
Amount written off	(631 947)	(631 947)	–
Net new impairments created	956 636	935 125	21 511
Impairments created	3 237 777	3 216 266	21 511
Impairments released	(2 281 141)	(2 281 141)	–
Recoveries of bad debts	51 475	51 475	–
Closing balance	1 188 518	919 917	268 601
2008			
Opening balance	902 840	752 155	150 685
Amount written off	(810 098)	(810 098)	–
Net new impairments created	700 538	604 133	96 405
Impairments created	2 062 922	1 966 517	96 405
Impairments released	(1 362 384)	(1 362 384)	–
Recoveries of bad debts	19 074	19 074	–
Closing balance	812 354	565 264	247 090

		2009 R'000	2008 R'000
15	**IMPAIRMENT OF LOANS AND ADVANCES (continued)**		
15.2	**Sectoral analysis**		
	Individuals	**850 815**	557 554
	Financial services, insurance and real estate	**116 762**	62 455
	Manufacturing	**13 842**	11 738
	Building and property development	**41 373**	40 809
	Transport, storage and communication	**25 573**	23 876
	Retailers, catering and accommodation	**32 821**	27 245
	Wholesale and trade	**5 219**	4 534
	Mining and quarrying	**3 875**	17 497
	Agriculture, forestry and fishing	**2 862**	431
	Government and public sector	**366**	474
	Other services	**95 010**	65 741
		1 188 518	812 354
15.3	**Geographical analysis**		
	South Africa	**1 188 518**	812 354
	Gauteng	**639 598**	450 437
	Western Cape	**151 102**	103 934
	Eastern Cape	**56 240**	39 893
	KwaZulu-Natal	**134 181**	87 696
	Free State	**53 337**	34 684
	North West	**25 614**	16 909
	Mpumalanga	**90 489**	56 251
	Northern Cape	**13 469**	8 259
	Limpopo	**24 488**	14 291
		1 188 518	812 354
15.4	**Ratio of impairments**		
	Impairment of loans and advances at end of year	**1 188 518**	812 354
	Total gross loans and advances	**51 639 288**	45 546 590
	Ratio (%)	**2.3%**	1.8%

16 PROPERTY AND EQUIPMENT

	Land and buildings		Computer equipment		Furniture and other equipment		Vehicles		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
Gross carrying amount										
Balance at 1 January	**236 036**	133 043	**92 908**	78 492	**40 993**	34 295	**4 604**	5 819	**374 541**	251 649
Acquisitions	**6 889**	86 599	**18 963**	22 588	**2 683**	6 698	**742**	1 004	**29 277**	116 889
Disposals	**(417)**	(1 206)	**(9 453)**	(8 172)	**(1 547)**	–	**(933)**	(2 219)	**(12 350)**	(11 597)
Revaluation	**–**	17 600	**–**	–	**–**	–	**–**	–	**–**	17 600
Balance at 31 December	**242 508**	236 036	**102 418**	92 908	**42 129**	40 993	**4 413**	4 604	**391 468**	374 541
Accumulated depreciation and impairment losses										
Balance at 1 January	**16 528**	9 339	**58 262**	43 981	**17 906**	14 222	**2 361**	2 712	**95 057**	70 254
Depreciation charge for the year	**11 363**	5 338	**14 209**	14 507	**5 247**	3 684	**748**	948	**31 567**	24 477
Disposals	**(52)**	(21)	**(2 699)**	(226)	**(58)**	–	**(588)**	(1 299)	**(3 397)**	(1 546)
Revaluation	**–**	1 872	**–**	–	**–**	–	**–**	–	**–**	1 872
Balance at 31 December	**27 839**	16 528	**69 772**	58 262	**23 095**	17 906	**2 521**	2 361	**123 227**	95 057
Carrying amount										
At 1 January	**219 508**	123 704	**34 646**	34 511	**23 087**	20 073	**2 243**	3 107	**279 484**	181 395
At 31 December	**214 669**	219 508	**32 646**	34 646	**19 034**	23 087	**1 892**	2 243	**268 241**	279 484

Registers providing the information regarding land and buildings, as required in terms of Schedule 4 of the Companies Act of 1973, are available for inspection at the registered office of the Company.

Land and buildings are revalued by an independent valuer at three-year intervals. Observable market data is used to perform the valuation. The latest independent valuation was performed in 2007.

17 INTANGIBLE ASSETS

17.1 Intangible assets

	Software development costs*	
	2009	2008
	R'000	R'000
Gross carrying amount		
Balance at 1 January	**–**	–
Development costs capitalised	**74 937**	–
Borrowing costs capitalised	**3 199**	–
Balance at 31 December	**78 136**	–
Accumulated amortisation and impairment losses		
Balance at 1 January	**–**	–
Balance at 31 December	**–**	–
Carrying amount		
At 1 January	**–**	–
At 31 December	**78 136**	–

* Software developments costs on the SAP project have been capitalised in accordance with the requirements of IAS 38 – Intangible Assets. This is calculated on the rate at which Nedbank lends funds to Imperial Bank. The SAP project is not complete and therefore is not ready for use. Amortisation of the intangible asset will commence once the project is completed.

17.2 Borrowing costs capitalised

Borrowing costs capitalised during the period	**3 199**	–

General borrowing costs on the SAP project (note 17.1) have been capitalised in accordance with the requirements of IAS 23 – Borrowing Costs. This is calculated on the rate at which Nedbank lends funds to Imperial Bank.

18 POST-EMPLOYMENT EMPLOYEE BENEFITS

All eligible employees are members of the Imperial Bank Pension Fund or Provident Fund, financed by Company and employee contributions. These funds are defined contribution plans and are governed by the Pension Funds Act of 1956. There are no further post-retirement benefit obligations.

Pension fund contributions expensed	**29 227**	25 723

	2009 R'000	2008 R'000
19 SHARE CAPITAL		
19.1 Ordinary share capital		
Authorised:		
500 000 000 (2008: 500 000 000) ordinary shares of R0.01 each	**5 000**	5 000
Issued:		
393 682 789 (2008: 393 682 789) fully paid ordinary shares of R0.01 each	**3 937**	3 937
Subject to the restrictions imposed by the Companies Act of 1973, the unissued shares are under the control of the directors until the forthcoming annual general meeting.		
Shareholders' analysis		
Nedbank Limited	**50.1%**	50.1%
Imperial Holdings Limited	**49.9%**	49.9%
	100.0%	100.0%
The ultimate controlling shareholder is Old Mutual plc, listed on the London Stock Exchange.		
19.2 Preference share capital		
Authorised:		
8 000 000 (2008: 8 000 000) non-redeemable, non-participating, non-cumulative preference shares of R0.0005 each	**4**	4
Issued:		
3 000 000 (2008: 3 000 000) non-redeemable, non-participating, non-cumulative preference shares of R0.0005 each	**2**	2
Share premium:		
Preference share premium	**298 045**	298 045
Total preference share capital and premium	**298 047**	298 047

All the preference shares were issued during 2006 and are listed on the JSE Limited (JSE) in the "Preference Shares" sector of the JSE list with the abbreviated name "IBL Pref", JSE preference share code IBLP and ISIN ZAE000081675.

		2009 R'000	2008 R'000
20	**AMOUNTS OWED TO DEPOSITORS**		
20.1	**Analysis**		
	Deposits and loan accounts		
	– Call and term deposits	**47 006 159**	40 170 321
	– Fixed deposits	**1 496 804**	2 000 817
	– Securitisation notes*	**1 584 039**	1 751 366
	– Notice deposits	**–**	12 475
		50 087 002	43 934 979
	Comprises:		
	– Amounts owed to depositors	**1 584 347**	1 954 132
	– Amounts owed to banks	**48 502 655**	41 980 847
		50 087 002	43 934 979
	* On 18 June 2007, Imperial Bank successfully securitised R1.7 billion of its motor vehicle instalment sale agreements. The transaction has been structured as a revolving R1.7 billion tranche for a period of 24 months, which ended on 20 July 2009, and thereafter a controlled amortisation. Although the instalment sale agreements have been legally ceded by Imperial Bank, the instalment sale assets remain on the Imperial Bank statement of financial position, as required by IAS 39 – Financial Instruments: Recognition and Measurement. Refer to note 29 for further information on securitisations.		
20.2	**Sectoral analysis**		
	Banks	**48 502 655**	41 980 847
	Business sector	**1 584 347**	1 954 132
		50 087 002	43 934 979
20.3	**Geographical analysis**		
	South Africa		
	Gauteng	**50 087 002**	43 934 979
21	**OTHER LIABILITIES**		
	Creditors and other liabilities	**107 889**	72 683
	Leave pay accrual (note 21.1)	**20 094**	14 649
	Deferred revenue	**31 306**	21 875
	Operating leases accelerated	**2 214**	1 505
		161 503	110 712
21.1	**Leave pay accrual**		
	Balance at beginning of year	**14 649**	15 090
	Movement for year	**5 445**	(441)
		20 094	14 649
22	**PROVISIONS**		
	Provision for bonus pay	**34 000**	27 300
	Other general provisions*	**18 049**	18 103
		52 049	45 403

* Other general provisions include the potential tax liability on the structured finance deals.

		2009 R'000	2008 R'000
23	**LONG-TERM DEBT INSTRUMENTS**		
	Rand-denominated		
	R500 million bonds repayable on 30 December 2010	492 763	488 409
	R300 million bonds repayable on 4 December 2013	302 239	303 341
	R350 million bonds repayable on 16 September 2015	351 651	–
		1 146 653	791 750

The R500 million bond (IPB2) is subordinated, unsecured and callable on 30 December 2010. The rate is fixed at 8.38%.

The R300 million bond (IPB3) is subordinated, unsecured and callable on 4 December 2013. The rate is variable at 3 month JIBAR plus 2.5%.

The R350 million bond (IPB4) is subordinated, unsecured and callable on 16 September 2015. The rate is variable at 3 month JIBAR plus 4.25%.

24	**CASH FLOW INFORMATION**		
24.1	**Reconciliation of profit from operations before direct taxation to cash generated by operating activities**		
	Profit from operations before direct taxation	599 183	543 458
	Adjusted for:		
	– Indirect taxation	50 449	51 310
	Non-cash items		
	– Fair value adjustments through profit and loss	(14 294)	29 409
	– Depreciation	31 567	24 477
	– Movement in leave-pay provision	5 445	(441)
	– Movement in other provisions	6 646	(22 300)
	– Operating lease deferrals	709	572
	– Movement in impairment of advances	1 008 111	719 612
	– Fair value adjustment on options	(6 152)	–
	– (Profit) on disposal of property and equipment	(506)	(285)
	– Deferred revenue/deferred acquisition costs	123 564	19 088
	– Long-term debt instruments' interest accruals	955	–
	– Borrowing costs capitalised	(3 199)	–
		1 802 478	1 364 900
24.2	**Cash received from clients**		
	Interest income and dividends from finance facilities	6 341 407	6 450 827
	Commission and fee income (note 4)	162 091	97 329
	Other income	16 071	19 404
		6 519 569	6 567 560

		2009 R'000	2008 R'000
24	**CASH FLOW INFORMATION (continued)**		
24.3	**Cash paid to clients, staff and suppliers**		
	Interest expense and similar charges	**(4 187 022)**	(4 699 196)
	Staff costs (note 5)	**(358 868)**	(306 229)
	Other operating expenses	**(222 676)**	(216 309)
		(4 768 566)	(5 221 734)
24.4	**Increase in operating assets**		
	Other short-term securities	**(783 578)**	(457 791)
	Government and public sector securities	**326 555**	(198 178)
	Loans and advances and other accounts	**(7 072 780)**	(10 252 147)
		(7 529 803)	(10 908 116)
24.5	**Increase in operating liabilities**		
	Other deposits	**6 152 023**	9 887 115
	Creditors and other liabilities	**(67 577)**	194 477
		6 084 446	10 081 592
24.6	**Taxation paid**		
	Amounts due at beginning of year	**(5 706)**	(2 392)
	Statement of comprehensive income charge	**(168 408)**	(182 245)
	Deferred taxation movement	**13 979**	55 256
	Total indirect taxation	**(50 449)**	(51 310)
	Amounts due at end of year	**23 511**	5 706
		(187 073)	(174 985)
25	**CONTINGENT LIABILITIES**		
	Liabilities under guarantees*	**363 806**	1 079 640

The Bank, in the ordinary course of business, enters into transactions which exposes the Bank to taxation, legal and business risks. Provisions are made for known liabilities which are expected to materialise. Possible obligations and known liabilities where no reliable estimate can be made or it is considered improbable that an outflow would result, are noted as a contingent liability. This is in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

In addition, in past years Imperial Bank entered into structured finance transactions with third parties using the taxation base of the Bank. Pursuant to the terms of the majority of these transactions, the underlying third party has contractually agreed to accept the risk of any taxation being imposed by SARS, although the obligation to pay in the first instance may rest with Imperial Bank Limited. In limited cases a provision is made where the credit quality of a client becomes doubtful.

* Contingent liabilities for 2008 have been restated to exclude unutilised facilities of R1.4 billion.

26 COMMITMENTS

26.1 Operating lease commitments

Companies in the Bank have entered into leases over fixed property, furniture and other equipment for varying periods. The charges will increase in future in line with negotiated escalations and expansions. The following are the minimum lease payments under non-cancellable leases:

	2010 R'000	2011 – 2014 R'000	2015 and beyond R'000
Land and buildings	9 447	24 063	16 784

	2009 R'000	2008 R'000
26.2 Commitments		
Irrevocable guarantees	**11 467**	3 409
Capital commitments		
Contracted	**4 943**	97 791
Not yet contracted	**40 941**	–
	57 351	101 201

26.3 Unutilised facilities

The Bank commits to extend credit to customers in the ordinary course of business. The contractual amount of this off-balance sheet commitment is as follows:

Unutilised facilities*	**977 455**	2 711 602

* Unutilised facilities for 2008 have been restated. This restatement has no impact on the Statement of Comprehensive Income or the Statement of Financial Position.

27 RELATED PARTIES

27.1 Relationships between parent and subsidiaries

The parent company of Imperial Bank is Nedbank Limited, which holds 50.1% of the Company's ordinary shares. The ultimate controlling party is Old Mutual plc, incorporated in the United Kingdom.

Material subsidiaries of the Group are identified on page 93.

27.2 Key management personnel compensation

27.2.1 Directors' compensation

Compensation paid to the Board of Directors is aggregated below, together with the aggregate compensation paid to the executive directors.

	2009 R'000	2008 R'000
Executive directors		
R van Wyk	**3 653**	2 819
– Salary	**1 646**	1 511
– Bonus – short term	**1 500**	750
– Bonus – long term	**161**	240
– Retirement fund contributions	**337**	309
– Benefits	**9**	9
P C W Hibbit	**1 792**	1 544
– Salary	**1 079**	830
– Bonus – short term	**600**	475
– Bonus – long term	**27**	60
– Retirement fund contributions	**77**	170
– Benefits	**9**	9
Non-executive directors		
Fees:	**1 557**	1 337
O S Arbee*	**70**	87
L E Bakoro	**220**	192
C J W Ball	**232**	212
H R Brody*	**227**	208
M J Croucamp	**382**	350
N P Mnxasana*	**119**	87
P K Ward	**146**	16
P A Wessels*	**161**	185

* Directors' fees marked with an asterisk do not accrue to the individuals but to either Imperial Holdings or Nedbank Limited.

27.2.2 Compensation of other members of the Executive Committee

	9 669	11 334
Salary	**5 621**	7 061
Bonus – short term	**2 925**	2 775
Bonus – long term	**379**	552
Retirement fund	**582**	857
Benefits	**162**	89

27 RELATED PARTIES (continued)

27.3 Identity of related parties with whom material transactions have occurred

Imperial Bank and its subsidiaries, in the ordinary course of business, enter into various financial services transactions with associates, joint ventures and other related parties within the greater Nedbank, Imperial Holdings and Old Mutual group. The following material transactions occurred between related parties:

2009 Statement of financial position information	Balance due from/(to) R'000	Terms and conditions
Parent – Nedbank Limited		
Deposit	(47 556 543)	No fixed terms of payment at the Nedbank prime replicating portfolio rate
Fixed deposit	(1 496 804)	Fixed deposit held until maturity
Current account	300 344	Current account at the Nedbank prime replicating portfolio rate
Loan	615 952	Call and term loan
Swaps	(157 483)	Net swaps
Bonds	(502 771)	IPB3 & IPB4
Non-controlling shareholder – Imperial Holdings Limited		
Option	6 152	Option
Fellow subsidiaries*		
Mutual and Federal Ltd	(12 184)	Bonds
Nedgroup Insurance companies	(4 501)	Fixed and call deposit
Nedgroup Pension Fund	(3 201)	IPB2
Old Mutual Ltd	(136 797)	Bonds & IPB2
Synthesis	(463 698)	Bonds
Associated companies**		
Associated Motor Holdings (Pty) Ltd	(8 032)	Alliance partner
Dream World Investments 239 (Pty) Ltd	119 193	Preference shares
Eagle Bonds One (Pty) Ltd	3 988	Bonds
Medical Aid Pre-Funder	(3 748)	Call deposit
Regent Insurance Ltd	(151 120)	IPB3
Regent Life Assurance Annuities Fund	(24 606)	Call deposit
Regent Life Assurance Sinking Fund	(3 700)	Call deposit
SAFAIR Lease Finance (Pty) Ltd	4 393	Net swaps
Farm Bothasfontein (Kyalami) (Pty) Ltd	13 888	Guarantees
Imperial Logistics Ltd	2 250	Guarantees
Cargo Africa (Pty) Ltd	1 989	Instalment sale agreement
Fourways Haulage (Pty) Ltd	7 562	Instalment sale agreement
Megafreight Services (Pty) Ltd	26 942	Guarantees
National Airways Corporation (Pty) Ltd	2 106	Loan
43 Air School (Pty) Ltd	9 262	Loan
Fuelogic (Pty) Ltd	44 100	Suretyship

27 RELATED PARTIES (continued)

27.3 Identity of related parties with whom material transactions have occurred (continued)

Statement of comprehensive income information	Interest received/ (paid) R'000	Other amounts received/ (paid) R'000
Parent – Nedbank Limited		
Deposit	(3 647 320)	
Fixed deposit	(185 751)	
Current account	1 820	
Loan	51 786	
Swaps	(87 346)	
Bonds	(24 059)	
Non-controlling shareholder – Imperial Holdings Limited		
Fair value adjustment on option		6 152
Dealer incentive commission		(91 750)
Fellow subsidiaries*		
Mutual and Federal Ltd	(1 598)	
Nedbank Group Internal Audit		(1 106)
Nedgroup Insurance companies	(6 898)	
Old Mutual Ltd	(13 124)	
Synthesis	(46 365)	
Associated companies**		
Associated Motor Holdings (Pty) Ltd		(26 713)
Dream World Investments 239 (Pty) Ltd	11 089	
Regent Insurance Ltd	(18 518)	5 947
Regent Life Assurance Annuities Fund	(1 926)	
Regent Life Assurance Company Corporate Fund	(1 125)	
Regent Life Assurance Iph Fund	(3 427)	
SAFAIR Lease Finance (Pty) Ltd	4 315	
Fourways Haulage (Pty) Ltd	1 057	
Fuelogic (Pty) Ltd	16 937	

* Subsidiaries and fellow subsidiaries within the ultimate holding company, Old Mutual plc, listed on the London Stock Exchange.

** Companies within the Imperial Holdings Limited Group.

27 RELATED PARTIES (continued)

27.3 Identity of related parties with whom material transactions have occurred (continued)

2008 Statement of financial position information	Balance due from/(to) R'000	Terms and conditions
Parent – Nedbank Limited		
Deposit	(40 060 681)	No fixed terms of payment at the Nedbank prime replicating portfolio rate
Fixed deposit	(1 960 653)	Fixed deposit held until maturity
Current account	12 564	Current account at the Nedbank prime replicating portfolio rate
Loan	2 166	Term loan
Swaps	263 494	Net swaps
Bond	(151 670)	IPB3
Fellow subsidiaries*		
Mutual and Federal Ltd	(18 456)	Bonds
Nedgroup Insurance companies	(41 871)	Fixed and call deposit
Nedgroup Pension Fund	(3 201)	IPB2
Old Mutual Ltd	(144 264)	Bonds
Synthesis	(512 689)	Bonds
Associated companies**		
Dream World Investments 239 (Pty) Ltd	122 104	Preference shares
Eagle Bonds One (Pty) Ltd	5 195	Bonds
Medical Aid Pre-Funder	2 166	Call deposit
Regent Insurance Ltd		
Call deposit	(29 621)	Call deposit
Bond	(69 768)	IPB3
Regent Life Assurance Annuities Fund		
Call deposit	(22 679)	Call deposit
Bond	(56 624)	IPB3
Regent Life Assurance Company Corporate Fund		
Call deposit	(2 321)	Call deposit
Bond	(13 145)	IPB3
Regent Life Assurance Iph Fund		
Call deposit	(47 523)	Call deposit
Bond	(7 078)	IPB3
Regent Life Assurance Sinking Fund		
Call deposit	(3 410)	Call deposit
Bond	(5 056)	IPB3
SAFAIR Lease Finance (Pty) Ltd	8 181	Net swaps
Farm Bothasfontein (Kyalami) (Pty) Ltd***	12 338	Guarantees
Imperial Logistics Ltd***	2 250	Guarantees
Cargo Africa (Pty) Ltd***	3 707	Instalment sale agreement
Fourways Haulage (Pty) Ltd***	11 443	Instalment sale agreement
Megafreight Services (Pty) Ltd***	29 472	Guarantees
National Airways Corporation (Pty) Ltd***	1 904	Loan
43 Air School (Pty) Ltd***	10 628	Loan
Tyco Trucks (Pty) Ltd***	2 015	Various accounts

27 RELATED PARTIES (continued)

27.3 Identity of related parties with whom material transactions have occurred (continued)

Statement of comprehensive income information	Interest received/ (paid) R'000	Other amounts received/ (paid) R'000
Parent – Nedbank Limited		
Deposit	(4 128 420)	
Fixed deposit	(169 989)	
Current account	1 349	
Swaps	(15 391)	
Non-controlling shareholder – Imperial Holdings Limited		
Dealer incentive commission		(119 048)
Fellow subsidiaries*		
Mutual and Federal Ltd	(2 210)	
Nedbank Group Internal Audit		(1 573)
Nedbank Insurance companies	(4 906)	
Old Mutual Ltd	(36 258)	
Synthesis	(61 122)	
Associated companies**		
Associated Motor Holdings (Pty) Ltd		(1 213)
Dream World Investments 239 (Pty) Ltd	11 066	
Regent Insurance Ltd	(4 122)	5 260***
Regent Life Assurance Annuities Fund	(2 909)	
Regent Life Assurance Iph Fund	(6 949)	
SAFAIR Lease Finance (Pty) Ltd	(5 164)	
43 Air School (Pty) Ltd***	1 482	
Fuelogic (Pty) Ltd***	19 158	

* Subsidiaries and fellow subsidiaries within the ultimate holding company, Old Mutual plc, listed on the London Stock Exchange.

** Companies within the Imperial Holdings Limited Group.

*** Information regarding these transactions was unavailable in 2008. It has now been disclosed for completeness.

28 GROUP RISK DISCLOSURES

28.1 Group liquidity risk analysis

		Term to maturity				
	2009 R'000	Demand	1 – 12 months	1 – 5 years	Over 5 years	Non-determinable
ASSETS						
Cash and cash equivalents	300 800	300 800				
Other short-term securities	2 346 963	1 034 572	1 312 391			
Derivative financial instruments*	50 921		5 877	31 067	13 977	
Government and other securities	202 608		101 023	101 585		
Loans and advances to clients	50 450 770	2 764 698	9 737 276	28 566 020	9 382 776	
Other assets	741 663		741 663			
Investment securities	3 970			3 970		
Property and equipment	268 241					268 241
Intangible assets	78 136					78 136
Mandatory deposits with central bank	1 215 575	1 215 575				
Total assets	55 659 647	5 315 645	11 898 230	28 702 642	9 396 753	346 377
EQUITY AND LIABILITIES						
Ordinary share capital	3 937					3 937
Ordinary share premium	1 097 747					1 097 747
Reserves	2 361 329					2 361 329
Total ordinary shareholders' equity	3 463 013	–	–	–	–	3 463 013
Preference share capital and premium	298 047					298 047
Total shareholders' equity	3 761 060	–	–	–	–	3 761 060
Total liabilities	51 898 587	2 903 488	11 180 488	30 672 424	6 804 782	337 405
Bank overdraft	6 920	6 920				
Derivative financial instruments*	244 957		16 561	176 659	51 737	
Amounts owed to depositors	50 087 002	2 896 568	10 595 514	30 193 526	6 401 394	
Other liabilities	161 503		52 139			109 364
Provisions	52 049					52 049
Current taxation	23 511		23 511			
Deferred taxation	175 992					175 992
Long-term debt instruments	1 146 653		492 763	302 239	351 651	
Total equity and liabilities	55 659 647	2 903 488	11 180 488	30 672 424	6 804 782	4 098 465
Remaining contractual maturities						
Balance sheet liabilities	60 801 043	3 239 608	15 078 264	35 310 711	6 835 055	337 405
Bank overdraft	6 920	6 920				
Derivative financial instruments*	244 957		16 561	176 659	51 737	
Amounts owed to depositors	58 599 740	3 232 688	14 380 326	34 585 332	6 401 394	
Other liabilities	161 503		52 139			109 364
Provisions	52 049					52 049
Current taxation	23 511		23 511			
Deferred taxation	175 992					175 992
Long-term debt instruments	1 536 371		605 727	548 720	381 924	
Off-balance sheet liabilities	1 352 728	1 352 728	–	–	–	–
Revocable guarantees	363 806	363 806				
Irrevocable guarantees	11 467	11 467				
Loan commitments	977 455	977 455				
Total liabilities	62 153 771	4 592 336	15 078 264	35 310 711	6 835 055	337 405

28 GROUP RISK DISCLOSURES (continued)

28.1 Group liquidity risk analysis (continued)

		Term to maturity				
	2008 R'000	Demand	1 – 12 months	1 – 5 years	Over 5 years	Non-determin-able
ASSETS						
Cash and cash equivalents	46 693	46 693				
Other short-term securities	1 563 385		1 563 385			
Derivative financial instruments*	37 619		86	37 533		
Government and other securities	529 163		217 618	311 545		
Loans and advances to clients	44 734 236	3 152 887	8 218 572	24 515 545	8 847 232	
Other assets	504 787		504 787			
Investment securities	5 183			5 183		
Property and equipment	279 484					279 484
Mandatory deposits with central bank	1 067 545	1 067 545				
Total assets	48 768 095	4 267 125	10 504 448	24 869 806	8 847 232	279 484
EQUITY AND LIABILITIES						
Ordinary share capital	3 937					3 937
Ordinary share premium	1 097 747					1 097 747
Reserves	1 960 630					1 960 630
Total ordinary shareholders' equity	3 062 314	–	–	–	–	3 062 314
Preference share capital and premium	298 047					298 047
Total shareholders' equity	3 360 361	–	–	–	–	3 360 361
Total liabilities	45 407 734	152 003	608 452	44 241 897	149 483	255 899
Derivative financial instruments*	357 171		309	207 494	149 368	
Amounts owed to depositors	43 934 979	152 003	540 208	43 242 653	115	
Other liabilities	110 712		62 229			48 483
Provisions	45 403					45 403
Current taxation	5 706		5 706			
Deferred taxation	162 013					162 013
Long-term debt instruments	791 750			791 750		
Total equity and liabilities	48 768 095	152 003	608 452	44 241 897	149 483	3 616 260
Remaining contractual maturities						
Balance sheet liabilities	53 496 906	621 089	4 440 355	48 030 080	149 483	255 899
Derivative financial instruments*	357 171		309	207 494	149 368	
Amounts owed to depositors	51 680 692	621 089	4 287 022	46 772 466	115	
Other liabilities	110 712		62 229			48 483
Provisions	45 403					45 403
Current taxation	5 706		5 706			
Deferred taxation	162 013					162 013
Long-term debt instruments	1 135 209		85 089	1 050 120		
Off-balance sheet liabilities	2 715 011	2 715 011	–	–	–	–
Irrevocable guarantees**	3 409	3 409				
Loan commitments**	2 711 602	2 711 602				
Total liabilities	56 211 917	3 336 099	4 440 355	48 030 080	149 483	255 899

* Derivative financial instruments have been reclassified into different maturity buckets to align with Nedbank Limited's disclosure.

** Irrevocable guarantees and loan commitments for 2008 have been restated.

Imperial Bank's ALCO meets monthly to manage liquidity and interest rate risk, and reports to the Board Risk Committee quarterly. The Bank has no appetite or mandate to take proprietary trading risk or market risk. Liquidity risk is negligible given Nedbank Limited's commitment to provide funds as required. However, the ALCO does monitor maturity mismatches and fixed rate hedge effectiveness. It also ensures liquid assets are maintained at required levels and instruments purchased are cost-effective.

Imperial Bank does not fund advances in foreign currency, and has no cross-border exposure. This removes foreign exchange risk and currency translation risk.

28 GROUP RISK DISCLOSURES (continued)

28.2 Group credit risk analysis

Maximum exposure to credit risk per financial assets

	2009 R'000			2008 R'000		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
Mandatory reserve deposits with central bank	1 215 575		1 215 575	1 067 545		1 067 545
Loans and advances*	50 450 770	1 341 261	51 792 031	44 734 236	2 711 602	47 445 838
Home loans	2 985 711	144 851	3 130 562	1 620 947		1 620 947
Commercial mortgages	6 027 493	767 749	6 795 242	6 171 879	2 711 602	8 883 481
Other loans to clients	5 086 591		5 086 591	4 853 663		4 853 663
Net investment in instalment sale and lease agreements	37 420 300	428 661	37 848 961	32 777 997		32 777 997
Preference shares	119 193		119 193	122 104		122 104
Less: Impairment of loans and advances	(1 188 518)		(1 188 518)	(812 354)		(812 354)
Investments and securities	2 866 044	–	2 866 044	2 205 768	–	2 205 768
Government and government-guaranteed securities	2 549 571		2 549 571	2 092 548		2 092 548
Investment securities	3 970		3 970	5 183		5 183
Short-term funds and securities	300 800		300 800	46 693		46 693
Other	11 703		11 703	61 344		61 344
Derivative financial instruments – assets	50 921		50 921	37 619		37 619
Guarantees – irrevocable		11 467	11 467		3 409	3 409
	54 583 310	1 352 728	55 936 038	48 045 168	2 715 011	50 760 179

28 GROUP RISK DISCLOSURES (continued)

28.2 Group credit risk analysis (continued)

	2009 R'000	2008 R'000
Loans and advances		
Gross statement of financial position value of loans and advances*		
Neither past due nor impaired	**49 445 918**	44 009 266
Past due but not specifically impaired	**569 938**	627 724
Impaired loans and advances	**1 623 432**	909 600
Total statement of financial position gross loans and advances	**51 639 288**	45 546 590
Divisional breakdown of impaired loans and advances*	**1 623 432**	909 600
– Motor Finance	**838 292**	651 143
– Property Finance	**464 421**	131 563
– Supplier Asset Finance	**206 655**	70 348
– Professional Finance	**113 889**	56 403
– Treasury and Eliminations	**175**	143
Restructures less than and equal to four months**		
Risk bucket indicator prior to restructure	**715 471**	307 428
– Standard	**342 791**	133 825
– Special mention	**239 890**	130 351
– Substandard	**119 116**	37 591
– Doubtful	**12 571**	4 681
– Loss	**1 103**	980
Restructured loans and advances that have been rehabilitated and included in "Neither past due nor impaired"***	**1 386 933**	746 924
Analysis of gross balance sheet value by Basel II categories		
– Standard	**49 445 918**	44 009 266
– Special mention	**569 938**	627 724
– Substandard	**142 356**	112 842
– Doubtful	**49 037**	19 751
– Loss	**1 432 039**	777 007
	51 639 288	45 546 590

* Gross loans and advances split has been reclassified in order to align with Nedbank Limited's disclosure.

** This relates to loans and advances that have been restructured and are still in the four-month period. In line with the Bank's impairment methodology these loans carry an additional impairment associated with the risk bucket indicator prior to restructuring. These loans are included in the "Neither past due nor impaired" category.

*** This relates to those loans and advances that have been restructured, have passed the four-month period from the date of the restructure and due to good performance do not carry an additional impairment. These loans are included in the "Neither past due nor impaired" category.

28 GROUP RISK DISCLOSURES (continued)

28.2 Group credit risk analysis (continued)

Imperial Bank's impairment methodology on loans and advances:

Legal loans and advances
All loans and advances classified as legal (> 90 days) are impaired using the following formula:

Outstanding balance less the net present value (NPV) of expected future cash flows.

- As per the Bank's credit policy, security values are determined on a forced sale basis.
- In Motor Finance, the collections procedure manual specifies the security value as a percentage of trade value. This percentage is reviewed from time to time by the Motor Finance Executive Committee based on collections achieved and used car prices obtained. Professional Finance adopts a similar approach.
- In Property Finance, the security value is taken from the latest annual valuation (external valuation or desktop, based on nature of property and materiality) or an immediate revaluation if the most recent valuation is deemed to be stale, or conditions with the specific property or area have changed.
- In Supplier Asset Finance, the security value is determined via a conservative forced sale value based on latest market pricing for the specific asset. On specialised equipment, including aviation, an independent expert valuation may be called for.
- If the security value cannot be determined accurately, or the realisation of security is of serious concern, 100% impairment is raised.

Arrears (pre-legal) loans and advances
Impairments on arrear accounts in Motor Finance are calculated based on the outstanding balances less the NPV of the expected future recoveries. This impairment loss is raised on a portfolio basis.

Arrear accounts in Property Finance, Supplier Asset Finance and Professional Finance are scrutinised on a case-by-case basis. Specific impairments are raised, with approval from the Impairment Committee, if felt necessary.

Impairments on arrears accounts are IFRS compliant and are always based on the NPV of the expected future cash flows.

Performing loans and advances
An IBNR portfolio impairment is raised on all performing loans and advances. The impairment is based on the probability of default and the loss given default. The annual probabilities of default are scaled to the relevant emergence periods.

Restructured loans and advances
Restructured loans and advances carry the risk bucket indicator prior to the restructure for a period of four months after the initial restructure. Similarly, the restructured credit exposure will retain the higher impairment associated with the risk bucket into which the loan fell prior to the restructure being processed, for a minimum period of four months.

Statement of financial position value of debt and similar securities, other than loans and advances, according to rating agency designation (based on Standard and Poor's ratings or equivalent)

R'000	Treasury bills	Other eligible bills	Debt securities	Total
Investment grade (AAA to BBB)	1 634 976	711 987	3 970	2 350 933
Of which issued by:				
– Governments and government-guaranteed securities	1 634 976	711 987		2 346 963
– Other			3 970	3 970
	1 634 976	711 987	3 970	2 350 933

28 GROUP RISK DISCLOSURES (continued)

28.3 Group market risk analysis

28.3.1 Group interest rate risk analysis

		Interest rate sensitive					
	2009 R'000	< 3 months	3 months < 6 months	6 months < 1 year	1 year < 5 years	> 5 years	Trading and non-rate sensitive
ASSETS							
Cash and cash equivalents	300 800	300 800					
Other short-term securities	2 346 963	2 346 963					
Derivative financial instruments	50 921						50 921
Government and other securities	202 608			101 023	101 585		
Loans and advances to customers	50 450 770	41 588 926	308 194	644 514	5 718 105	2 191 031	
Other assets	741 663						741 663
Investment securities	3 970				3 970		
Property and equipment	268 241						268 241
Intangible assets	78 136						78 136
Mandatory deposits with central bank	1 215 575						1 215 575
Total assets	**55 659 647**	**44 236 689**	**308 194**	**745 537**	**5 823 660**	**2 191 031**	**2 354 536**
EQUITIES AND LIABILITIES							
Ordinary share capital	3 937						3 937
Ordinary share premium	1 097 747						1 097 747
Reserves	2 361 329						2 361 329
Total ordinary shareholders' equity	3 463 013	–	–	–	–	–	3 463 013
Preference share capital and premium	298 047						298 047
Total shareholders' equity	3 761 060	–	–	–	–	–	3 761 060
Total liabilities	51 898 587	48 652 872	375 768	1 545 510	666 425	–	658 012
Bank overdraft	6 920	6 920					
Derivative financial instruments	244 957						244 957
Amounts owed to depositors	50 087 002	47 992 062	375 768	1 052 747	666 425		
Other liabilities	161 503						161 503
Provisions	52 049						52 049
Current taxation	23 511						23 511
Deferred taxation	175 992						175 992
Long-term debt instruments	1 146 653	653 890		492 763			
Total equity and liabilities	55 659 647	48 652 872	375 768	1 545 510	666 425	–	4 419 072

28 GROUP RISK DISCLOSURES (continued)

28.3 Group market risk analysis (continued)

28.3.1 Group interest rate risk analysis (continued)

		Interest rate sensitive					
	2008 R'000	< 3 months	3 months < 6 months	6 months < 1 year	1 year < 5 years	> 5 years	Trading and non-rate sensitive
ASSETS							
Cash and cash equivalents	46 693	46 693					
Other short-term securities	1 563 385	1 563 385					
Derivative financial instruments	37 619						37 619
Government and other securities	529 163	217 618			311 545		
Loans and advances to customers	44 734 236	36 330 847	19 515	43 934	4 023 232	4 316 708	
Other assets	504 787						504 787
Investment securities	5 183				5 183		
Property and equipment	279 484						279 484
Mandatory deposits with central bank	1 067 545						1 067 545
Total assets	48 768 095	38 158 543	19 515	43 934	4 339 960	4 316 708	1 889 435
EQUITIES AND LIABILITIES							
Ordinary share capital	3 937						3 937
Ordinary share premium	1 097 747						1 097 747
Reserves	1 960 630						1 960 630
Total ordinary shareholders' equity	3 062 314	–	–	–	–	–	3 062 314
Preference share capital and premium	298 047						298 047
Total shareholders' equity	3 360 361	–	–	–	–	–	3 360 361
Total liabilities	45 407 734	41 789 178	339 428	690 416	1 792 849	114 857	681 005
Derivative financial instruments	357 171						357 171
Amounts owed to depositors	43 934 979	41 485 837	339 428	690 416	1 304 441	114 857	
Other liabilities	110 712						110 712
Provisions	45 403						45 403
Current taxation	5 706						5 706
Deferred taxation	162 013						162 013
Long-term debt instruments	791 750	303 342			488 408		
Total equity and liabilities	48 768 095	41 789 179	339 428	690 416	1 792 849	114 857	4 041 366

28 GROUP RISK DISCLOSURES (continued)

28.3 Group market risk analysis (continued)

28.3.2 Sensitivity analysis for market risk

Method used in preparing the sensitivity analysis

- The interest rate risk of the Bank is best understood by analysing the balance sheet repricing characteristics.
- 82% of the Bank's assets are linked to variable rates with 18% at fixed rates.
- 88% of the Bank's funding liabilities are sourced from Nedbank Limited under the Memorandum of Understanding. The applicable cost of funds is the prime replicating portfolio rate which is made up of the Nedbank Limited call, 1-month, 3-month and 12-month rates.
- A 100 basis point instantaneous parallel decline in the interest rates will result in a R46.9 million loss in NII over a 12-month period.
- A 25 basis point decline in the prime/call gap would result in a R50.8 million loss for the bank over a 12-month period.
- The Bank's capital is partly invested in the two- to five-year fixed rate asset finance transactions with the balance invested in prime linked assets.

Sensitivity analysis

An analysis of the Group's sensitivity to a decrease in the market interest rates is as follows:

	2009		2008	
	100 bp parallel decline	**25 bp prime/ call gap decline**	100 bp parallel decline	25 bp prime/ call gap decline
Impact on net interest income (Rm)	**(46.9)**	**(50.8)**	(23.4)	(43.7)
As a percentage of total shareholders' equity (%)	**(1.25)**	**(1.35)**	(0.71)	(1.32)

The following model assumptions are used in the above sensitivity analysis:

- The planned capital management actions are included in the modelling.
- The statement of financial position maturity profile is expected to remain unchanged during the modelling period.
- Rates spreads have been adjusted to align with forecasts.
- There have been no material changes to the model assumptions during the year under review.

29 SECURITISATIONS

The Bank was party to securitisation transactions involving motor vehicle financing.

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction, partial continued recognition of the assets to the extent of the Bank's continuing involvement in those assets or derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer. Full derecognition only occurs when the Bank transfers both its contractual right to receive cash flows from the financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk.

The following table shows the carrying amount of securitised assets, stated at the amount of the Bank's continuing involvement where appropriate, together with the associated liabilities:

	2009		2008	
	Carrying amount of assets	**Associated liabilities**	Carrying amount of assets	Associated liabilities
	R'000	**R'000**	R'000	R'000
Loans and advances to customers				
Motor vehicle financing	**1 672 740**	**1 593 683**	1 781 406	1 751 366

30 SUBSEQUENT EVENTS

30.1 The preference share dividend of 374.73973 cents per share has been approved by the Board of Directors on 10 February 2010.

30.2 Subsequent to year-end, regulatory approval in terms of the Banks Act of 1990 was obtained to enable Nedbank Limited to acquire the 49.9% of ordinary shares held by Imperial Holdings. All conditions precedent to the acquisition have therefore been fulfilled and the acquisition will now be implemented by the parties.

30.3 With effect from 10 February 2010, Osman Arbee has resigned as a director of the Bank.

Analysis of Investments in Subsidiaries for the year ended 31 December 2009

	Group				Company			
	Issued capital		Effective holding		Book value of investments		Net indebtedness	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	R'000	R'000	**%**	%	**R'000**	R'000	**R'000**	R'000
NRB Risk Solutions (Pty) Ltd	**329**	329	**100**	100	**43 018**	43 018	**424 718**	332 348
Motor Finance Corporation (Pty) Ltd	**0***	0*	**100**	100	**0***	0*	**–**	–
	329	329			**43 018**	43 018	**424 718**	332 348

Imperial Bank Limited holds 100% of the shareholding and voting power of the above subsidiaries.

Net indebtedness arise with no fixed terms of repayment and are charged interest at a variable rate linked to prime.

The book value is carried at the directors' valuation.

* Represents amounts less than R'000.

Value-added Statement for the year ended 31 December 2009

	2009 R'000	%	2008 R'000	%
Value added is the wealth created from providing quality services to clients				
Net interest income	**2 033 065**	**202%**	1 732 543	192%
Impairment losses on loans and advances	**(956 636)**	**(95%)**	(700 538)	(78%)
Margin on lending	**1 076 429**	**107%**	1 032 005	114%
Non-margin-related income	**199 114**	**20%**	87 609	10%
Other expenditure	**(267 043)**	**(27%)**	(218 617)	(24%)
	1 008 500	**100%**	900 997	100%
Value is allocated to:				
Employees				
Salaries, wages and other benefits	**358 868**	**35%**	306 229	34%
Government				
Normal taxation	**168 408**	**17%**	182 245	20%
Value-added taxation	**50 449**	**5%**	51 310	6%
Retentions for growth	**430 775**	**43%**	361 213	40%
Depreciation and amortisation	**31 567**	**3%**	24 477	3%
Reserves	**399 208**	**40%**	336 736	37%
	1 008 500	**100%**	900 997	100%

Contents

Statement of comprehensive income	96
Statement of financial position	97
Statement of changes in shareholders' equity	98
Statement of cash flow	99
Statement of financial position classifications of financial instruments	100
Notes to the financial statements	104
Value-added statement	135

Company Statement of Comprehensive Income for the year ended 31 December 2009

	Note	2009 R'000	2008 R'000
Interest and similar income	2	**6 197 918**	6 431 864
Interest expense and similar charges	3	**4 258 722**	4 763 075
Net interest income		**1 939 196**	1 668 789
Impairment losses on loans and advances	16	**959 083**	697 101
Income from lending activities		**980 113**	971 688
Non-interest revenue	4	**193 455**	95 485
Operating income		**1 173 568**	1 067 173
Operating expenses	5	**597 411**	493 352
Net operating income		**576 157**	573 821
Indirect taxation	6	**49 176**	49 811
Profit from operations before direct taxation		**526 981**	524 010
Direct taxation	7	**146 150**	146 924
Net profit for the year		**380 831**	377 086
Other comprehensive income net of taxation		**–**	11 823
– Gains on property revaluation		**–**	15 727
– Taxation on other comprehensive income		**–**	(3 904)
Total comprehensive income for the year		**380 831**	388 909
Profit attributable to:			
– Equity holders of the parent		**350 755**	347 191
– Non-controlling interest – Preference shareholders		**30 076**	29 895

Company Statement of Financial Position at 31 December 2009

	Note	2009 R'000	2008 R'000
ASSETS			
Cash and cash equivalents	9	**300 792**	46 435
Other short-term securities	11	**2 346 963**	1 563 385
Derivative financial instruments	10	**43 282**	26 978
Government and other securities	11	**202 608**	529 163
Loans and advances to customers	12 & 16	**50 403 995**	44 659 961
Other assets	13	**735 746**	503 986
Investment in subsidiary companies	15	**43 018**	43 018
Investment securities	11	**325 640**	329 899
Property and equipment	17	**267 248**	278 282
Intangible assets	18	**78 136**	–
Mandatory deposits with central bank	9	**1 215 575**	1 067 795
Total assets		**55 963 003**	49 048 902
EQUITY AND LIABILITIES			
Ordinary share capital	20.1	**3 937**	3 937
Ordinary share premium		**1 097 747**	1 097 747
Reserves		**2 268 864**	1 918 109
Total ordinary shareholders' equity		**3 370 548**	3 019 793
Preference share capital and premium	20.2	**298 047**	298 047
Total shareholders' equity		**3 668 595**	3 317 840
Total liabilities		**52 294 408**	45 731 062
Bank overdraft	9	**6 920**	–
Derivative financial instruments	10	**234 770**	349 871
Amounts owed to depositors	21	**50 172 992**	44 007 334
Loans from subsidiary companies	15	**424 718**	332 348
Other liabilities	22	**126 745**	103 215
Provisions	23	**51 992**	44 087
Current taxation	14	**22 020**	1 334
Deferred taxation	8	**107 598**	101 123
Long-term debt instruments	11 & 24	**1 146 653**	791 750
Total equity and liabilities		**55 963 003**	49 048 902
Contingent liabilities*	26	**363 806**	1 079 640

* Contingent liabilities for 2008 have been restated to exclude unutilised facilities of R1.4 billion.

Company Statement of Changes in Shareholders' Equity
for the year ended 31 December 2009

	Number of ordinary shares	Number of preference shares	Ordinary share capital R'000	Ordinary share premium R'000	Revaluation reserve R'000	General credit risk reserve* R'000	Accu-mulated profit R'000	Total ordinary share-holders' equity R'000	Preference share capital and premium R'000	Total share-holders' equity R'000
Balance at 31 December 2006	288 222 599	3 000 000	2 882	348 802	–	180 821	1 044 219	1 576 724	298 062	1 874 786
Transfer to/(from) reserves						48 550	(48 550)	–		–
Total comprehensive income for the period					35 361		452 710	488 071		488 071
Preference dividends paid							(26 003)	(26 003)		(26 003)
Ordinary shares issued	51 787 025		518	299 482				300 000		300 000
Share issue and repurchase expenses								–	(15)	(15)
Balance at 31 December 2007	340 009 624	3 000 000	3 400	648 284	35 361	229 371	1 422 376	2 338 792	298 047	2 636 839
Transfer (from)/to reserves						(229 371)	229 371	–		–
Total comprehensive income for the period					11 823		377 086	388 909		388 909
Ordinary dividends paid							(128 013)	(128 013)		(128 013)
Preference dividends paid							(29 895)	(29 895)		(29 895)
Ordinary shares issued	53 673 165		537	449 463				450 000		450 000
Balance at 31 December 2008	**393 682 789**	**3 000 000**	**3 937**	**1 097 747**	**47 184**	**–**	**1 870 925**	**3 019 793**	**298 047**	**3 317 840**
Total comprehensive income for the period							**380 831**	**380 831**		**380 831**
Preference dividends paid							**(30 076)**	**(30 076)**		**(30 076)**
Balance at 31 December 2009	**393 682 789**	**3 000 000**	**3 937**	**1 097 747**	**47 184**	**–**	**2 221 680**	**3 370 548**	**298 047**	**3 668 595**

* Represents non-distributable reserves transferred from other distributable reserves in order to comply with the Banks Act, 1990.

Company Statement of Cash Flows for the year ended 31 December 2009

	Note	2009 R'000	2008 R'000
Cash received from clients	25.2	**6 492 147**	6 557 183
Cash paid to clients, staff and suppliers	25.3	**(4 813 209)**	(5 252 720)
Recoveries on loans previously written off		**51 262**	19 014
Cash generated by operating activities	25.1	**1 730 200**	1 323 477
Change in funds for operating activities		**(1 392 164)**	(792 031)
Increase in operating assets	25.4	**(7 552 539)**	(10 498 367)
Increase in operating liabilities	25.5	**6 160 375**	9 706 336
Net cash generated by operating activities before taxation		**338 036**	531 446
Taxation paid	25.6	**(168 165)**	(166 176)
Net cash generated by operating activities		**169 871**	365 270
Net cash utilised in investing activities		**(94 578)**	(106 777)
Acquisition of property and equipment		**(29 015)**	(116 656)
Proceeds on disposal of property and equipment		**9 374**	9 879
Acquisition of intangible asset		**(74 937)**	–
Net cash from financing activities		**319 924**	77 092
Proceeds from issue of ordinary shares		**–**	450 000
Dividends paid		**(30 076)**	(157 908)
Redemption of long-term debt instrument			(515 000)
Proceeds from issue of long-term debt instrument		**350 000**	300 000
Net increase in cash and cash equivalents		**395 217**	335 585
Cash and cash equivalents at the beginning of the year		**1 114 230**	778 645
Cash and cash equivalents at the end of the year	9	**1 509 447**	1 114 230

Company Statement of Financial Position Classifications of Financial Instruments
at 31 December 2009

	2009	Held-for-trading			
	R'000	R'000			
2009		Level 1	Level 2	Level 3	Total
ASSETS					
Cash and cash equivalents	300 792				
Other short-term securities	2 346 963				
Derivative financial instruments	43 282		43 282		43 282
Government and other securities	202 608				
Loans and advances to customers*	50 403 995				
Other assets	735 746				
Investment in subsidiary companies	43 018				
Investment securities	325 640				
Property and equipment	267 248				
Intangible assets	78 136				
Mandatory deposits with central bank	1 215 575				
Total assets	55 963 003		43 282		43 282
EQUITY AND LIABILITIES					
Ordinary share capital	3 937				
Ordinary share premium	1 097 747				
Reserves	2 268 864				
Total ordinary shareholders' equity	3 370 548				
Preference share capital and premium	298 047				
Total shareholders' equity	3 668 595				
Total liabilities	52 294 408		234 770		234 770
Bank overdraft	6 920				
Derivative financial instruments	234 770		234 770		234 770
Amounts owed to depositors	50 172 992				
Loans from subsidiary companies	424 718				
Other liabilities	126 745				
Provisions	51 992				
Current taxation	22 020				
Deferred taxation	107 598				
Long-term debt instruments**	1 146 653				
Total equity and liabilities	55 963 003		234 770		234 770

* Loans and advances and investments in short-term securities' fair values are determined using discounted cash flow models, where future cash flows are discounted using current market rates.

** Long-term debt instruments at amortised cost approximates its fair value.

The statement of financial position above provides an analysis of financial instruments' classifications grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

Designated as at fair value through profit or loss				At amortised cost	Non-financial assets and liabilities
R'000				R'000	R'000
Level 1	Level 2	Level 3	Total		
				300 792	
	2 346 963		2 346 963		
202 608			202 608		
	6 478 759		6 478 759	43 925 236	
	6 152		6 152	729 594	
					43 018
325 640			325 640		
					267 248
					78 136
				1 215 575	
528 248	8 831 874		9 360 122	46 171 197	388 402
					3 937
					1 097 747
					2 268 864
					3 370 548
					298 047
					3 668 595
492 763			492 763	51 308 136	258 739
				6 920	
				50 172 992	
				424 718	
				49 616	77 129
					51 992
					22 020
					107 598
492 763			492 763	653 890	
492 763			492 763	51 308 136	3 927 334

The Company does not have Level 3 instruments.
There were no transfers between levels during the year.

The Company designates all significant fixed rate instruments as at fair value through profit or loss in accordance with the fair value option under IAS 39 – Financial Instruments: Recognition and Measurement. Loans and receivables and financial liabilities that are not carried at fair value are primarily comprised of variable rate financial assets and liabilities and reprice as interest rates change. In respect of all loans and advances, as well as financial liabilities at amortised cost, the Company has assessed potential changes in credit risk for performing advances using internal credit models and is satisfied that there are no significant changes in fair value due to credit risk. For impaired loans and advances, the carrying value, as determined by the Company's IAS 39 credit models, is considered the best estimate of fair value. Therefore, the Company is satisfied, after considering these internal credit models together with other assumptions and the variable interest rate exposure, that the carrying value of these loans and advances and financial liabilities at amortised cost approximates fair value.

Company Statement of Financial Position Classifications of Financial Instruments
at 31 December 2009

	2008	Held-for-trading			
	R'000	R'000			
2008		Level 1	Level 2	Level 3	Total
ASSETS					
Cash and cash equivalents	46 435				
Other short-term securities	1 563 385				
Derivative financial instruments	26 978		26 978		26 978
Government and other securities	529 163				
Loans and advances to customers	44 659 961				
Other assets	503 986				
Investment in subsidiary companies	43 018				
Investment securities	329 899				
Property and equipment	278 282				
Mandatory deposits with central bank	1 067 795				
Total assets	49 048 902		26 978		26 978
EQUITY AND LIABILITIES					
Ordinary share capital	3 937				
Ordinary share premium	1 097 747				
Reserves	1 918 109				
Total ordinary shareholders' equity	3 019 793				
Preference share capital and premium	298 047				
Total shareholders' equity	3 317 840				
Total liabilities	45 731 062		349 871		349 871
Derivative financial instruments	349 871		349 871		349 871
Amounts owed to depositors	44 007 334				
Loans from subsidiary companies	332 348				
Other liabilities	103 215				
Provisions	44 087				
Current taxation	1 334				
Deferred taxation	101 123				
Long-term debt instruments*	791 750				
Total equity and liabilities	49 048 902		349 871		349 871

* Long-term instruments for 2008 have been reclassified to align with Nedbank Limited's disclosure.

Designated as at fair value through profit or loss				At amortised cost	Non-financial assets and liabilities
R'000				R'000	R'000
Level 1	Level 2	Level 3	Total		
				46 435	
	1 563 385		1 563 385		
529 163			529 163		
	4 564 947		4 564 947	40 095 014	
				503 986	
					43 018
329 899			329 899		
					278 282
				1 067 795	
859 062	6 128 332		6 987 394	41 713 230	321 300
					3 937
					1 097 747
					1 918 109
					3 019 793
					298 047
					3 317 840
488 409			488 409	44 675 043	217 739
				44 007 334	
				332 348	
				32 020	71 195
					44 087
					1 334
					101 123
488 409			488 409	303 341	
488 409			488 409	44 675 043	3 535 579

		2009 R'000			2008 R'000		
		Financial instruments at fair value through profit & loss	Financial instruments not at fair value through profit & loss	Total	Financial instruments at fair value through profit & loss	Financial instruments not at fair value through profit & loss	Total
1	**ACCOUNTING POLICIES**						
	Refer to pages 34 to 50 for the accounting policies.						
2	**INTEREST AND SIMILAR INCOME***						
	Mortgage loans	241 846	1 085 508	1 327 354	89 874	1 470 790	1 560 664
	– Interest earned	241 846	1 047 118	1 288 964	89 874	1 369 350	1 459 224
	– Deferred revenue and acquisition costs		38 390	38 390		101 440	101 440
	Lease and instalment debtors	495 259	4 045 279	4 540 538	151 012	4 336 356	4 487 368
	– Interest earned	495 259	4 207 219	4 702 478	151 012	4 457 347	4 608 359
	– Deferred revenue and acquisition costs	–	(161 940)	(161 940)	–	(120 991)	(120 991)
	Term loans and other	38 194	88 935	127 129	61 002	98 364	159 366
	Government and public sector securities	191 808	–	191 808	213 400	–	213 400
	Preference shares	–	11 089	11 089	–	11 066	11 066
		967 107	5 230 811	6 197 918	515 288	5 916 576	6 431 864
	Interest income on impaired financial assets			61 708			129 901
	* Interest income disclosed above includes interest income on impaired financial assets.						
3	**INTEREST EXPENSE AND SIMILAR CHARGES**						
	Deposit and loan accounts	–	3 799 607	3 799 607	–	4 317 682	4 317 682
	Derivative instruments	145 900	–	145 900	65 193	–	65 193
	Long-term debt instruments	42 307	40 789	83 096	102 933	3 341	106 274
	Other deposits	–	2 854	2 854	–	–	–
	Securitisation notes	–	230 464	230 464	–	273 926	273 926
	Borrowing costs capitalised	–	(3 199)	(3 199)	–	–	–
		188 207	4 070 515	4 258 722	168 126	4 594 949	4 763 075
4	**NON-INTEREST REVENUE**						
	Commission and fee income*	–	162 486	162 486	–	96 875	96 875
	– Insurance commission	–	29 935	29 935	–	27 339	27 339
	– Fees	–	132 551	132 551	–	69 536	69 536
	Fair value adjustments through profit and loss**	16 118	–	16 118	(10 559)	–	(10 559)
	– Designated as at fair value through profit and loss	(126 311)	–	(126 311)	276 967	–	276 967
	– Held for trading	142 429	–	142 429	(287 526)	–	(287 526)
	Other income	–	14 851	14 851	–	9 169	9 169
	– Rent received	–	906	906	–	2 225	2 225
	– Fair value adjustment on option	–	6 152	6 152	–	–	–
	– Profit on disposal of property and equipment		506	506		277	277
	– Other	–	7 287	7 287	–	6 667	6 667
		16 118	177 337	193 455	(10 559)	106 044	95 485

* All commission and fee income other than amounts included in determining the effective interest rate relates to financial instruments that are not classified as financial instruments at fair value through profit and loss.

** The net gains and losses on financial instruments includes all realised and unrealised fair value changes, interest and dividends.

		2009 R'000	2008 R'000
5	**OPERATING EXPENSES**		
	Staff costs*	**352 091**	297 194
	– Salaries and wages	**352 091**	297 194
	Computer processing	**47 531**	39 871
	– Depreciation for computer equipment	**14 209**	14 488
	– Other computer processing expenses	**33 322**	25 383
	Occupation and accommodation	**34 309**	26 240
	– Depreciation for owner-occupied buildings	**11 304**	5 305
	– Operating lease charges for land and buildings	**12 683**	13 095
	– Other occupation and accommodation expenses	**10 322**	7 840
	Marketing and public relations	**10 879**	14 366
	Fees and insurances	**23 406**	21 754
	– Auditors' remuneration	**8 118**	9 372
	– Audit fees – internal	**3 767**	1 573
	– Audit fees – external	**4 148**	6 572
	– Other services	**203**	1 227
	– Other fees and insurances	**15 288**	12 382
	Office equipment and consumables	**44 454**	38 097
	– Depreciation for furniture and other equipment	**5 149**	3 521
	– Other office equipment and consumables	**39 305**	34 576
	Vehicles and transport expenses	**519**	692
	– Depreciation for vehicles	**519**	692
	Sundry expenses	**57 509**	53 925
	Fees to alliance partners	**26 713**	1 213
		597 411	493 352

* Refer to page 121 on related parties for a detailed breakdown of directors' compensation.

6	**INDIRECT TAXATION**		
	Value-added taxation	**49 176**	49 811
		49 176	49 811

Value-added taxation comprises that portion which is irrecoverable as a result of the interest earned in the banking sector.

		2009 R'000	2008 R'000
7	**DIRECT TAXATION**		
7.1	**Charge for the year**		
	South African normal taxation		
	– Current	136 675	110 143
	– Deferred	7 307	28 328
	– Change due to taxation rate decreasing from 29% to 28%	–	(1 986)
	– Secondary taxation on companies	2 135	10 397
	Total direct taxes	146 117	146 882
	Prior year under provision – current taxation	865	1 209
	Prior year over provision – deferred taxation	(832)	(1 167)
		146 150	146 924
7.2	**Taxation rate reconciliation**		
	Standard rate of South African normal taxation	28.0%	28.0%
	Reduction in tax rate	0.0%	(0.4%)
	Non-taxable dividend income	(0.6%)	(0.6%)
	Non-taxable capital profit	(0.3%)	0.0%
	Secondary taxation on companies	0.4%	2.0%
	Other	0.2%	(1.0%)
	Total direct taxation on income as a percentage of profit before direct taxation	27.7%	28.0%

		2009 R'000	2008 R'000
8	**DEFERRED TAXATION**		
	8.1 **Reconciliation of deferred taxation balances**		
	Deferred taxation liability		
	Opening balance	**101 123**	72 042
	Rate change from 29% to 28%	**–**	(1 986)
	Prior year adjustment – Statement of comprehensive income	**(832)**	(1 167)
	Current year temporary differences	**7 307**	32 234
	– Recognised in profit and loss	**7 307**	28 328
	– Income and expenditure accruals deducted	**6 853**	36 859
	– Impairment of loans and advances	**1 278**	(9 124)
	– Other	**(824)**	593
	– Recognised in equity	**–**	3 906
	– Property and equipment, leases and other assets	**–**	3 906
	Balance at end of year	**107 598**	101 123
	8.2 **Analysis of deferred taxation**		
	Deferred taxation liability		
	Property and equipment, leases and other assets	**–**	3 849
	Impairment of loans and advances	**(21 550)**	(22 828)
	Revaluation of property and equipment	**18 348**	18 348
	Income and expenditure accruals	**112 254**	102 385
	Other	**(1 454)**	(631)
		107 598	101 123
9	**CASH AND CASH EQUIVALENTS**		
	Coins and bank notes	**17**	17
	Money at call and short notice	**300 525**	46 168
	Balances with central bank other than mandatory deposits	**250**	250
		300 792	46 435
	Bank overdrafts	**(6 920)**	–
	Mandatory deposits with central bank	**1 215 575**	1 067 795
		1 509 447	1 114 230

Money at call and short notice constitutes amounts withdrawable in 32 days or less. Mandatory deposits are not available for use in the Company's day-to-day operations.

10 DERIVATIVE FINANCIAL INSTRUMENTS

These transactions have been entered into in the normal course of business and no material losses are anticipated other than those for which provision has been made in the statement of comprehensive income. There are no commitments or contingent commitments under derivative instruments that are settled other than with cash. The principal types of derivative contracts into which the Company enters are described below:

Swaps

These are over-the-counter (OTC) agreements between two parties to exchange periodic payments of interest, or related index, over a set period based on notional principal amounts. The Company enters into swap transactions in several markets. Interest rate swaps are used to economically hedge the interest rate risk of the Company.

Risk monitoring

Details of the Company's risk management structure, policies and methods are noted on pages 24 to 29 and the interest rate risk analysis is detailed on pages 131 to 132.

		2009 R'000	2008 R'000
10.1	**Total carrying amount of derivative financial instruments**		
	Gross carrying amount of assets	**43 282**	26 978
	Gross carrying amount of liabilities	**(234 770)**	(349 871)
	Net carrying amount	**(191 488)**	(322 893)

A detailed breakdown of the notional principal, carrying amount and fair value of the various types of derivative financial instruments held by the Company is presented in the following tables:

10.2 Notional principal of derivative financial instruments

This represents the gross notional amounts of all outstanding contracts at year-end. This gross notional amount is the sum of the absolute amount of all purchases and sales of derivative instruments. The notional amounts do not represent amounts exchanged by the parties and therefore represent only the measure of involvement by the Company in derivative contracts and not its exposure to market or credit risks arising from such contracts. The amounts actually exchanged are calculated on the basis of the notional amounts and other terms of the derivative, which relate to interest rates, securities prices or financial and other indices.

	2009			2008		
	Notional principal R'000	**Positive value R'000**	**Negative value R'000**	Notional principal R'000	Positive value R'000	Negative value R'000
Banking derivatives						
Interest rate swaps	**10 704 740**	**2 208 295**	**8 496 445**	8 978 516	1 217 820	7 760 696
Interest rate caps	**–**	**–**	**–**	11 000	11 000	–
Total notional principal	**10 704 740**	**2 208 295**	**8 496 445**	8 989 516	1 228 820	7 760 696

10.3 Carrying amount of derivative financial instruments

The amounts disclosed represent the value of all derivative instruments held. The fair value of a derivative financial instrument is the amount at which it could be exchanged in a current transaction between willing parties, other than a forced liquidation or sale. Fair values are obtained from quoted market prices and discounted cash flow models. When it is not practicable, owing to constraints of timeliness or cost, to determine the fair value of a derivative instrument with sufficient reliability, such derivative is included in the following table at a value calculated on an accrual basis. In terms of that basis a value is obtained by taking into account the original cost of the derivative and only the realised gains or losses in respect of the instrument.

	2009			2008		
	Net carrying amount R'000	**Carrying amount of assets R'000**	**Carrying amount of liabilities R'000**	Net carrying amount R'000	Carrying amount of assets R'000	Carrying amount of liabilities R'000
Banking derivatives						
Interest rate swaps	**(191 488)**	**43 282**	**(234 770)**	(322 979)	26 892	(349 871)
Interest rate caps	**–**	**–**	**–**	86	86	–
Total carrying amount	**(191 488)**	**43 282**	**(234 770)**	(322 893)	26 978	(349 871)

11 FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Company has satisfied the criteria for designation of an instrument as at fair value through profit or loss in terms of the accounting policy as stipulated in the annual financial statements.

Various fixed rate instruments are entered into by the Company. The overall interest rate risk of the Company is then hedged by ALCO by way of interest rate swaps, thus having the interest rate risk passed out to the market. The swaps meet the definition of "derivatives" and are therefore held at fair value in terms of IAS 39. The fixed rate instruments, however, do not meet this definition. Therefore, to avoid an accounting mismatch by holding the fixed rate instrument at amortised cost and the balance of the hedging schemes' instruments at fair value the fixed rate instruments are designated as at fair value, through profit or loss and are therefore held at fair value.

Various instruments are designated as at fair value through profit and loss consistent with the relevant entity's documented risk management or investment strategy. In these investment strategies the fair value is the instrument attribute that is managed and reviewed on a regular basis. Business strategies, operating mandates and/or investment strategies are aligned with the fair value of the instruments. The risk of the portfolio is measured and monitored on a fair value basis. Performance measurement is directly aligned to the fair value and is reported to key management personnel on a regular basis.

11.1 Financial assets designated as at fair value through profit or loss

	2009 R'000	2008 R'000
Maximum exposure to credit risk		
Government and other securities	**202 608**	529 163
Investment securities	**325 640**	329 899
Loans and advances designated as at fair value through profit or loss*	**6 478 759**	4 564 947
Other short-term securities	**2 346 963**	1 563 385
	9 353 970	6 987 394

* This amount is included as part of the loans and advances balance in the statement of financial position.

No credit derivatives are issued on any of the above financial assets.

Changes in credit risk were identified at a division level on an individual basis by review of historical records. Each individual transaction was assessed for signs of significant credit deterioration. Where significant deterioration was identified, the collateral and provision amounts were taken into account to achieve fair value.

The credit margin is kept fixed on the financial instruments that are not listed on a recognised exchange, up until the date an impairment event occurs.

	2009 R'000	2008 R'000
11.1.1 Government and other securities		
Analysis		
Government and government-guaranteed securities	**202 608**	529 163
Sectoral analysis		
Government and public sector	**202 608**	529 163
Valuation		
– Carrying amount	**202 608**	529 163
– Market value	**202 608**	529 163

	2009 R'000	2008 R'000
11 FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)		
11.1 Financial assets designated as at fair value through profit or loss (continued)		
11.1.2 Investment securities		
Carrying amount		
Listed investments		
Eagle Bonds	**3 970**	5 183
Octane ABS1	**273 685**	276 360
Unlisted investments		
Octane ABS1 subordinated loan	**47 985**	48 356
	325 640	329 899
Valuation		
Listed at market value	**277 655**	281 543
Unlisted directors' valuation	**47 985**	48 356
	325 640	329 899
The Eagle Bonds were issued on 10 June 2003 at a nominal value of R10 million bearing a coupon of 9.956%. Interest payments and instalments are received on a quarterly basis and the bond matures on 31 July 2012.		
11.1.3 Other short-term securities		
Analysis		
Treasury bills	**1 634 976**	1 182 129
SARB debentures	**711 987**	381 256
	2 346 963	1 563 385
Sectoral analysis		
Government and public sector	**2 346 963**	1 563 385
Valuation		
– Carrying amount	**2 346 963**	1 563 385
– Market value (listed)	**2 346 963**	1 563 385

A register of treasury bills and debentures is available for inspection at the registered office of the Company.

11.2 Financial liabilities designated as at fair value through profit or loss

	Fair value R'000	Contractually payable at maturity R'000	Difference R'000	Change in fair value due to change in credit risk: Current year R'000	Change in fair value due to change in credit risk: Cumulative R'000
2009					
Long-term debt instruments	**492 763**	**500 000**	**(7 237)**	**(8 972)**	**(13 335)**
2008					
Long-term debt instruments*	488 409	500 000	(11 591)	(704)	(22 307)

Changes in fair value due to credit risk changes are assessed with reference to government stock R154, which has replaced the R153.

* Long-term debt instruments for 2008 have been restated to align with Nedbank Limited's disclosure.

		2009 R'000	2008 R'000
12	**LOANS AND ADVANCES TO CUSTOMERS**		
	The Company operates in selected niche markets concentrating on asset-based finance. Loans and advances made are mostly in the form of instalment credit to individuals and mortgage lending to property developers, corporate borrowers and individuals.		
12.1	**Category analysis***		
	Home loans	**2 985 711**	1 620 946
	Commercial mortgages	**6 028 515**	6 175 065
	Other loans to clients	**5 073 662**	4 812 479
	Net investment in instalment sale and lease agreements	**37 377 766**	32 714 015
	Preference shares	**119 193**	122 104
		51 584 847	45 444 609
	Impairment of loans and advances (note 16)	**(1 180 852)**	(784 648)
		50 403 995	44 659 961
	* Loans and advances split for 2008 have been reclassified to align with Nedbank Limited's disclosure.		
	The preference shares have a nominal value of R110 million and earn dividends at a fixed rate of 9.4%. They are redeemable in April 2012.		
12.2	**Sectoral analysis**		
	Individuals	**36 925 633**	31 217 498
	Financial services, insurance and real estate	**5 067 796**	3 494 266
	Manufacturing	**597 993**	649 040
	Building and property development	**1 814 091**	2 281 335
	Transport, storage and communication	**1 110 109**	1 337 471
	Retailers, catering and accommodation	**1 425 454**	1 527 429
	Wholesale and trade	**216 537**	236 180
	Mining and quarrying	**168 296**	980 722
	Agriculture, forestry and fishing	**124 367**	23 082
	Government and public sector	**15 673**	23 188
	Other services	**4 118 898**	3 674 398
		51 584 847	45 444 609
12.3	**Geographical analysis**		
	South Africa	**51 584 847**	45 444 609
	Gauteng	**27 767 400**	25 195 356
	Western Cape	**6 555 578**	5 820 174
	Eastern Cape	**2 441 690**	2 234 291
	KwaZulu-Natal	**5 820 081**	4 899 356
	Free State	**2 313 371**	1 940 639
	North West	**1 110 903**	943 159
	Mpumalanga	**3 928 664**	3 150 614
	Northern Cape	**584 146**	459 750
	Limpopo	**1 063 014**	801 270
		51 584 847	45 444 609

		2009 R'000	2008 R'000
13	**OTHER ASSETS**		
	Sundry receivables	**5 853**	60 615
	Deferred acquisition costs	**462 562**	442 192
	Property inventory	**1 179**	1 179
	Non-financial asset sold	**260 000**	–
	Option	**6 152**	–
		735 746	503 986
14	**CURRENT TAXATION**		
	Normal South African taxation		
	– Current taxation liability	**22 020**	1 334
		22 020	1 334
15	**INVESTMENT IN SUBSIDIARY COMPANIES**		
	Cost of investment	**43 018**	43 018
	Loans from subsidiary companies	**(424 718)**	(332 348)

16 **IMPAIRMENT OF LOANS AND ADVANCES**

16.1 **Impairment of loans and advances**

2009	Total impairment R'000	Specific impairment R'000	Portfolio impairment R'000
Opening balance	**784 648**	**538 840**	**245 808**
Amount written off	**(614 141)**	**(614 141)**	**–**
Net new impairments created	**959 083**	**937 270**	**21 813**
Impairments created	**2 568 642**	**2 546 829**	**21 813**
Impairments released	**(1 609 559)**	**(1 609 559)**	**–**
Recoveries of bad debts	**51 262**	**51 262**	**–**
Closing balance	**1 180 852**	**913 231**	**267 621**
2008			
Opening balance	776 362	625 752	150 610
Amount written off	(707 829)	(707 829)	–
Net new impairments created	697 101	601 903	95 198
Impairments created	2 041 875	1 946 677	95 198
Impairments released	(1 344 774)	(1 344 774)	–
Recoveries of bad debts	19 014	19 014	–
Closing balance	784 648	538 840	245 808

		2009 R'000	2008 R'000
16	**IMPAIRMENT OF LOANS AND ADVANCES (continued)**		
16.2	**Sectoral analysis**		
	Individuals	**845 612**	538 926
	Financial services, insurance and real estate	**116 059**	60 351
	Manufacturing	**13 695**	11 210
	Building and property development	**41 070**	39 402
	Transport, storage and communication	**25 423**	23 100
	Retailers, catering and accommodation	**32 645**	26 381
	Wholesale and trade	**4 959**	4 079
	Mining and quarrying	**3 854**	16 938
	Agriculture, forestry and fishing	**2 848**	399
	Government and public sector	**359**	400
	Other services	**94 328**	63 462
		1 180 852	784 648
16.3	**Geographical analysis**		
	South Africa	**1 180 852**	784 648
	Gauteng	**635 401**	434 915
	Western Cape	**150 131**	100 522
	Eastern Cape	**55 918**	38 589
	KwaZulu-Natal	**133 288**	84 619
	Free State	**52 979**	33 518
	North West	**25 441**	16 290
	Mpumalanga	**89 972**	54 415
	Northern Cape	**13 378**	7 941
	Limpopo	**24 344**	13 839
		1 180 852	784 648
16.4	**Ratio of impairments**		
	Impairment of loans and advances at end of year	**1 180 852**	784 648
	Total gross loans and advances	**51 584 847**	45 444 609
	Ratio (%)	**2.3%**	1.7%

17 PROPERTY AND EQUIPMENT

	Land and buildings		Computer equipment		Furniture and other equipment		Vehicles		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
Gross carrying amount										
Balance at 1 January	**235 816**	132 888	**92 908**	78 200	**38 928**	32 247	**3 285**	4 313	**370 937**	247 648
Acquisitions	**6 788**	86 534	**18 963**	22 588	**2 683**	6 681	**581**	853	**29 015**	116 656
Transfers	**–**	–	**–**	55	**–**	–	**–**	–	**–**	55
Disposals	**(417)**	(1 206)	**(9 453)**	(7 935)	**(1 547)**	–	**(757)**	(1 881)	**(12 174)**	(11 022)
Revaluation	**–**	17 600	**–**	–	**–**	–	**–**	–	**–**	17 600
Balance at 31 December	**242 187**	235 816	**102 418**	92 908	**40 064**	38 928	**3 109**	3 285	**387 778**	370 937
Accumulated depreciation and impairment losses										
Balance at 1 January	**16 472**	9 316	**58 263**	43 961	**16 209**	12 688	**1 711**	2 229	**92 655**	68 194
Depreciation charge for the year	**11 304**	5 305	**14 209**	14 488	**5 149**	3 521	**519**	692	**31 181**	24 006
Transfers	**–**	–	**–**	3	**–**	–	**–**	–	**–**	3
Disposals	**(52)**	(21)	**(2 699)**	(189)	**(58)**	–	**(497)**	(1 210)	**(3 306)**	(1 420)
Revaluation	**–**	1 872	**–**	–	**–**	–	**–**	–	**–**	1 872
Balance at 31 December	**27 724**	16 472	**69 773**	58 263	**21 300**	16 209	**1 733**	1 711	**120 530**	92 655
Carrying amount										
At 1 January	**219 344**	123 572	**34 645**	34 239	**22 719**	19 559	**1 574**	2 084	**278 282**	179 454
At 31 December	**214 463**	219 344	**32 645**	34 645	**18 764**	22 719	**1 376**	1 574	**267 248**	278 282

Registers providing the information regarding land and buildings, as required in terms of Schedule 4 of the Companies Act of 1973, are available for inspection at the registered office of the Company.

Land and buildings are revalued by an independent valuer at three-year intervals. Observable market data is used to perform the valuation. The latest independent valuation was performed in 2007.

18 INTANGIBLE ASSETS

18.1 Intangible assets

	Software development costs*	
	2009	2008
	R'000	R'000
Gross carrying amount		
Balance at 1 January	**–**	–
Development costs capitalised	**74 937**	–
Borrowing costs capitalised	**3 199**	–
Balance at 31 December	**78 136**	–
Accumulated amortisation and impairment losses		
Balance at 1 January	**–**	–
Balance at 31 December	**–**	–
Carrying amount		
At 1 January	**–**	–
At 31 December	**78 136**	–

* Software developments costs on the SAP project have been capitalised in accordance with the requirements of IAS 38 – Intangible Assets. This is calculated on the rate at which Nedbank lends funds to Imperial Bank. The SAP project is not complete and therefore is not ready for use. Amortisation of the intangible asset will commence once the project is completed.

18.2 Borrowing costs capitalised

Borrowing costs capitalised during the period	**3 199**	–

General borrowing costs on the SAP project (note 18.1) have been capitalised in accordance with the requirements of IAS 23 – Borrowing Costs. This is calculated on the rate at which Nedbank lends funds to Imperial Bank.

19 POST-EMPLOYMENT EMPLOYEE BENEFITS

All eligible employees are members of the Imperial Bank Pension Fund or Provident Fund, financed by Company and employee contributions. These funds are defined contribution plans and are governed by the Pension Funds Act of 1956. There are no further post-retirement benefit obligations.

Pension fund contributions expensed	**28 473**	24 882

		2009 R'000	2008 R'000
20	**SHARE CAPITAL**		
20.1	**Ordinary share capital**		
	Authorised:		
	500 000 000 (2008: 500 000 000) ordinary shares of R0.01 each	**5 000**	5 000
	Issued:		
	393 682 789 (2008: 393 682 789) fully paid ordinary shares of R0.01 each	**3 937**	3 937
	Subject to the restrictions imposed by the Companies Act of 1973, the unissued shares are under the control of the directors until the forthcoming annual general meeting.		
	Shareholders' analysis		
	Nedbank Limited	**50.1%**	50.1%
	Imperial Holdings Limited	**49.9%**	49.9%
		100.0%	100.0%
	The ultimate controlling shareholder is Old Mutual plc, listed on the London Stock Exchange.		
20.2	**Preference share capital**		
	Authorised:		
	8 000 000 (2008: 8 000 000) non-redeemable, non-participating, non-cumulative preference shares of R0.0005 each	**4**	4
	Issued:		
	3 000 000 (2008: 3 000 000) non-redeemable, non-participating, non-cumulative preference shares of R0.0005 each	**2**	2
	Share premium:		
	Preference share premium	**298 045**	298 045
	Total preference share capital and premium	**298 047**	298 047

All the preference shares were issued during 2006 and are listed on the JSE Limited (JSE) in the "Preference Shares" sector of the JSE list with the abbreviated name "IBL Pref", JSE preference share code IBLP and ISIN ZAE000081675.

		2009 R'000	2008 R'000
21	**AMOUNTS OWED TO DEPOSITORS**		
21.1	**Analysis**		
	Deposits and loan accounts		
	– Call and term deposits	**47 250 538**	40 245 256
	– Fixed deposits	**1 496 804**	2 000 817
	– Deposits from Octane*	**1 425 650**	1 748 786
	– Notice deposits	**–**	12 475
		50 172 992	44 007 334
	Comprises:		
	– Amounts owed to depositors	**1 584 347**	2 023 152
	– Amounts owed to banks	**48 588 645**	41 984 182
		50 172 992	44 007 334
	* On 18 June 2007, Imperial Bank successfully securitised R1.7 billion of its motor vehicle instalment sale agreements. The transaction has been structured as a revolving R1.7 billion tranche for a period of 24 months, which ended on 20 July 2009, and thereafter a controlled amortisation. Although the instalment sale agreements have been legally ceded by Imperial Bank, the instalment sale assets remain on the Imperial Bank statement of financial position, as required by IAS 39 – Financial Instruments: Recognition and Measurement. Refer to note 30 for further information on securitisations.		
21.2	**Sectoral analysis**		
	Banks	**48 588 645**	41 984 182
	Business sector	**1 584 347**	2 023 152
		50 172 992	44 007 334
21.3	**Geographical analysis**		
	South Africa		
	Gauteng	**50 172 992**	44 007 334
22	**OTHER LIABILITIES**		
	Creditors and other liabilities	**99 034**	83 747
	Leave pay accrual (note 22.1)	**19 529**	14 156
	Deferred revenue	**5 968**	3 807
	Operating leases accelerated	**2 214**	1 505
		126 745	103 215
22.1	**Leave pay accrual**		
	Balance at beginning of year	**14 156**	14 350
	Movement for year	**5 373**	(194)
		19 529	14 156
23	**PROVISIONS**		
	Provision for bonus pay	**33 943**	25 984
	Other general provisions*	**18 049**	18 103
		51 992	44 087

* Other general provisions include the potential tax liability on the structured finance deals.

		2009 R'000	2008 R'000
24	**LONG-TERM DEBT INSTRUMENTS**		
	Rand-denominated		
	R500 million bonds repayable on 30 December 2010	**492 763**	488 409
	R300 million bonds repayable on 4 December 2013	**302 239**	303 341
	R350 million bonds repayable on 16 September 2015	**351 651**	–
		1 146 653	791 750
	The R500 million bond (IPB2) is subordinated, unsecured and callable on 30 December 2010. The rate is fixed at 8.38%.		
	The R300 million bond (IPB3) is subordinated, unsecured and callable on 4 December 2013. The rate is variable at 3 month JIBAR plus 2.5%.		
	The R350 million bond (IPB4) is subordinated, unsecured and callable on 16 September 2015. The rate is variable at 3 month JIBAR plus 4.25%.		
25	**CASH FLOW INFORMATION**		
25.1	**Reconciliation of profit from operations before direct taxation to cash generated by operating activities**		
	Profit from operations before direct taxation	**526 981**	524 010
	Adjusted for:		
	– Indirect taxation	**49 176**	49 811
	Non-cash items		
	– Fair value adjustments through profit and loss	**(16 118)**	10 559
	– Depreciation	**31 181**	24 006
	– Movement in leave-pay provision	**5 373**	(194)
	– Movement in other provisions	**7 905**	(20 677)
	– Operating lease deferrals	**709**	572
	– Movement in impairment of advances	**1 010 345**	716 115
	– Fair value adjustment on options	**(6 152)**	–
	– (Profit) on disposal of property and equipment	**(506)**	(276)
	– Deferred revenue/deferred acquisition costs	**123 550**	19 551
	– Long term debt instruments' interest accruals	**955**	–
	– Borrowing costs capitalised	**(3 199)**	–
		1 730 200	1 323 477
25.2	**Cash received from clients**		
	Interest income and dividends from finance facilities	**6 321 468**	6 451 415
	Commission and fee income (note 4)	**162 486**	96 875
	Other income	**8 193**	8 893
		6 492 147	6 557 183

		2009 R'000	2008 R'000
25	**CASH FLOW INFORMATION (continued)**		
	25.3 **Cash paid to clients, staff and suppliers**		
	Interest expense and similar charges	**(4 260 966)**	(4 763 075)
	Staff costs (note 5)	**(352 091)**	(297 194)
	Other operating expenses	**(200 152)**	(192 451)
		(4 813 209)	(5 252 720)
	25.4 **Increase in operating assets**		
	Other short-term securities	**(783 578)**	(457 791)
	Government and public sector securities	**326 555**	(198 178)
	Loans and advances and other accounts	**(7 095 516)**	(9 842 398)
		(7 552 539)	(10 498 367)
	25.5 **Increase in operating liabilities**		
	Other deposits	**6 165 658**	9 662 157
	Creditors and other liabilities	**(5 283)**	44 179
		6 160 375	9 706 336
	25.6 **Taxation paid**		
	Amounts due at beginning of year	**(1 334)**	(2 558)
	Statement of comprehensive income charge	**(146 150)**	(146 924)
	Deferred taxation movement	**6 475**	31 783
	Total indirect taxation	**(49 176)**	(49 811)
	Amounts due at end of year	**22 020**	1 334
		(168 165)	(166 176)
26	**CONTINGENT LIABILITIES**		
	Liabilities under guarantees*	**363 806**	1 079 640

The Company in the ordinary course of business enters into transactions which expose the Company to taxation, legal and business risks. Provisions are made for known liabilities which are expected to materialise. Possible obligations and known liabilities where no reliable estimate can be made or it is considered improbable that an outflow would result, are noted as a contingent liability. This is in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

In addition, in past years Imperial Bank entered into structured finance transactions with third parties using the taxation base of the Company. Pursuant to the terms of the majority of these transactions, the underlying third party has contractually agreed to accept the risk of any taxation being imposed by SARS, although the obligation to pay in the first instance may rest with Imperial Bank Limited. In limited cases a provision is made where the credit quality of a client becomes doubtful.

* Contingent liabilities for 2008 have been restated to exclude unutilised facilities of R1.4 billion.

27 COMMITMENTS

27.1 Operating lease commitments

The Company entered into leases over fixed property, furniture and other equipment for varying periods. The charges will increase in future in line with negotiated escalations and expansions. The following are the minimum lease payments under non-cancellable leases.

	2010 R'000	2011 – 2014 R'000	2015 and beyond R'000
Land and buildings	9 447	24 063	16 784

	2009 R'000	2008 R'000
27.2 Commitments		
Irrevocable guarantees	**11 467**	3 409
Capital commitments		
Contracted	**4 943**	97 791
Not yet contracted	**40 941**	–
	57 351	101 201

27.3 Unutilised facilities

The Bank commits to extend credit to customers in the ordinary course of business. The contractual amount of this off-balance sheet commitment is as follows:

Unutilised facilities*	**977 455**	2 711 602

* Unutilised facilities for 2008 have been restated. This restatement has no impact on the Statement of Comprehensive Income or the Statement of Financial Position.

28 RELATED PARTIES

28.1 Relationships between parent and subsidiaries

The parent company of Imperial Bank is Nedbank Limited, which holds 50.1% of the Company's ordinary shares. The ultimate controlling party is Old Mutual plc, incorporated in the United Kingdom.

Material subsidiaries of the Company are identified on page 93.

28.2 Key management personnel compensation

28.2.1 Directors' compensation

Compensation paid to the Board of Directors is aggregated below, together with the aggregate compensation paid to the executive directors.

	2009	2008
	R'000	R'000
Executive directors		
R van Wyk	**3 653**	2 819
– Salary	**1 646**	1 511
– Bonus – short term	**1 500**	750
– Bonus – long term	**161**	240
– Retirement fund contributions	**337**	309
– Benefits	**9**	9
P C W Hibbit	**1 792**	1 544
– Salary	**1 079**	830
– Bonus – short term	**600**	475
– Bonus – long term	**27**	60
– Retirement fund contributions	**77**	170
– Benefits	**9**	9
Non-executive directors		
Fees:	**1 557**	1 337
O S Arbee*	**70**	87
L E Bakoro	**220**	192
C J W Ball	**232**	212
H R Brody*	**227**	208
M J Croucamp	**382**	350
N P Mnxasana*	**119**	87
P K Ward	**146**	16
P A Wessels*	**161**	185

* Directors' fees marked with an asterisk do not accrue to the individuals but to either Imperial Holdings or Nedbank Limited.

28.2.2 Compensation of other members of the Executive Committee

	9 669	11 334
Salary	**5 621**	7 061
Bonus - short term	**2 925**	2 775
Bonus - long term	**379**	552
Retirement fund	**582**	857
Benefits	**162**	89

28 RELATED PARTIES (continued)

28.3 Identity of related parties with whom material transactions have occurred

The Company and its subsidiaries, in the ordinary course of business, enter into various financial services transactions with associates, joint ventures and other related parties within the greater Nedbank, Imperial Holdings and Old Mutual group. The following material transactions occurred between related parties:

2009 Statement of financial position information	Balance due from/(to) R'000	Terms and conditions
Parent – Nedbank Limited		
Deposit	(47 556 543)	No fixed terms of payment at the Nedbank prime replicating portfolio rate
Fixed deposit	(1 496 804)	Fixed deposit held until maturity
Current account	300 344	Current account at the Nedbank prime replicating portfolio rate
Loan	615 952	Call and term loan
Swaps	(157 483)	Net swaps
Bonds	(502 771)	IPB3 & IPB4
Non-controlling shareholder – Imperial Holdings Limited		
Option	6 152	Option
Subsidiaries		
NRB Risk Solutions Ltd	(92 811)	No fixed terms of payment at the internal funding rate
Motor Finance Corporation (Pty) Ltd	(6 813)	No fixed terms of payment at the internal funding rate
Special-purpose vehicle		
Octane (Pty) Ltd	273 682	Deposit
Octane (Pty) Ltd	(244 376)	Transaction account
Octane (Pty) Ltd	47 985	Subordinated loan
Octane (Pty) Ltd	(323 080)	No fixed terms of payment at the internal funding rate
Octane (Pty) Ltd	(2 548)	Swaps
Fellow subsidiaries*		
Mutual and Federal Ltd	(12 184)	Bonds
Nedgroup Insurance companies	(4 501)	Fixed and call deposit
Nedgroup Pension Fund	(3 201)	IPB2
Old Mutual Ltd	(136 797)	Bonds
Associated companies**		
Associated Motor Holdings (Pty) Ltd	(8 032)	Joint venture
Dream World Investments 239 (Pty) Ltd	119 193	Preference shares
Eagle Bonds One (Pty) Ltd	3 988	Bonds
Medical Aid Pre-Funder	(3 748)	Call deposit
Regent Insurance Ltd	(151 120)	IPB3
Regent Life Assurance Annuities Fund	(24 606)	Call deposit
Regent Life Assurance Sinking Fund	(3 700)	Call deposit
SAFAIR Lease Finance (Pty) Ltd	4 393	Net swaps
Farm Bothasfontein (Kyalami) (Pty) Ltd	13 888	Guarantees
Imperial Logistics Ltd	2 250	Guarantees
Cargo Africa (Pty) Ltd	1 989	Instalment sale agreement
Fourways Haulage (Pty) Ltd	7 562	Instalment sale agreement
Megafreight Services (Pty) Ltd	26 942	Guarantees
National Airways Corporation (Pty) Ltd	2 106	Loan
43 Air School (Pty) Ltd	9 262	Loan
Fuelogic (Pty) Ltd	44 100	Suretyship

28 RELATED PARTIES (continued)

28.3 Identity of related parties with whom material transactions have occurred (continued)

Statement of comprehensive income information	Interest received/ (paid) R'000	Other amounts received/ (paid) R'000
Parent – Nedbank Limited		
Deposit	(3 647 320)	
Fixed deposit	(185 751)	
Current account	1 820	
Loan	51 781	
Swaps	(87 346)	
Bonds	(24 059)	
Non-controlling shareholder – Imperial Holdings Limited		
Fair value adjustment on option		6 152
Dealer incentive commission		(91 750)
Special-purpose vehicle – Octane (Pty) Ltd		
Swaps	7 942	
Transaction account	(11 637)	
Deposits	27 971	
Subordinated loan	25 366	
Loan	(3 914)	
Service and administration fees		1 826
Fellow subsidiaries*		
Mutual and Federal Ltd	(1 598)	
Nedbank Group Internal Audit		(1 106)
Nedgroup Insurance companies	(6 898)	
Old Mutual Ltd	(13 124)	
Associated companies**		
Associated Motor Holdings (Pty) Ltd		(26 713)
Dream World Investments 239 (Pty) Ltd	11 089	
Regent Insurance Ltd	(18 518)	5 947
Regent Life Assurance Annuities Fund	(1 926)	
Regent Life Assurance Company Corporate Fund	(1 125)	
Regent Life Assurance Iph Fund	(3 427)	
SAFAIR Lease Finance (Pty) Ltd	4 315	
Fourways Haulage (Pty) Ltd	1 057	
Fuelogic (Pty) Ltd	16 937	

* Subsidiaries and fellow subsidiaries within the ultimate holding company, Old Mutual plc, listed on the London Stock Exchange.

** Companies within the Imperial Holdings Limited Group.

28 RELATED PARTIES (continued)

28.3 Identity of related parties with whom material transactions have occurred (continued)

2008 Statement of financial position information	Balance due from/(to) R'000	Terms and conditions
Parent – Nedbank Limited		
Deposit	(40 060 681)	No fixed terms of payment at the Nedbank prime replicating portfolio rate
Fixed deposit	(1 960 653)	Fixed deposit held until maturity
Current account	12 564	Current account at the Nedbank prime replicating portfolio rate
Loan	2 166	Term loan
Swaps	263 494	Net swaps
Bonds	(151 670)	IPB3
Subsidiaries		
NRB Risk Solutions Ltd	22 278	No fixed terms of payment at the internal funding rate
Special-purpose vehicle		
Octane (Pty) Ltd	(1 748 786)	Deposits
Octane (Pty) Ltd	3 340	Swaps
Fellow subsidiaries*		
Mutual and Federal Ltd	(18 456)	Bonds
Nedgroup Insurance companies	(41 871)	Term and fixed deposit
Nedgroup Pension Fund	(3 201)	Bonds
Old Mutual Ltd	(144 264)	Bonds
Associated companies**		
Dream World Investments 239 (Pty) Ltd	122 104	Preference shares
Eagle Bonds One (Pty) Ltd	5 195	Bonds
Medical Aid Pre-Funder	2 166	Call deposit
Call deposit	(29 621)	Call deposit
Bond	(69 768)	IPB3
Regent Life Assurance Annuities Fund		
Call deposit	(22 679)	Call deposit
Bond	(56 624)	IPB3
Regent Life Assurance Company Corporate Fund		
Call deposit	(2 321)	Call deposit
Bond	(13 145)	IPB3
Regent Life Assurance Iph Fund		
Call deposit	(47 523)	Call deposit
Bond	(7 078)	IPB3
Regent Life Assurance Sinking Fund		
Call deposit	(3 410)	Call deposit
Bond	(5 056)	IPB3
SAFAIR Lease Finance (Pty) Ltd	8 181	Net swaps
Farm Bothasfontein (Kyalami) (Pty) Ltd***	12 338	Guarantees
Imperial Logistics (Pty) Ltd***	2 250	Guarantees
Cargo Africa (Pty) Ltd***	3 707	Instalment sale agreement
Fourways Haulage (Pty) Ltd***	11 443	Instalment sale agreement
Megafreight Services (Pty) Ltd***	29 472	Guarantees
National Airways Corporation (Pty) Ltd***	1 904	Loan
43 Air School (Pty) Ltd***	10 628	Loan
Tyco Trucks (Pty) Ltd***	2 015	Various accounts

28 RELATED PARTIES (continued)

28.3 Identity of related parties with whom material transactions have occurred (continued)

Statement of comprehensive income information	Interest received/ (paid) R'000	Other amounts received/ (paid) R'000
Parent – Nedbank Limited		
Deposit	(4 128 420)	
Fixed deposit	(169 989)	
Current account	1 349	
Swaps	(15 391)	
Non-controlling shareholder – Imperial Holdings Limited		
Dealer incentive commission		(119 048)
Subsidiaries		
Octane (Pty) Ltd	285 937	
Fellow subsidiaries*		
Mutual and Federal Ltd	(2 210)	
Nedbank Group Internal Audit		(1 573)
Nedgroup Insurance companies	(4 906)	
Old Mutual Ltd	(36 258)	
Associated companies**		
Associated Motor Holdings (Pty) Ltd		(1 213)
Dream World Investments 239 (Pty) Ltd	11 066	
Regent Insurance Ltd	(4 122)	5 260***
Regent Life Assurance Annuities Fund	(2 909)	
Regent Life Assurance Iph Fund	(6 949)	
SAFAIR Lease Finance (Pty) Ltd	(5 164)	
43 Air School (Pty) Ltd***	1 482	
Fuelogic (Pty) Ltd***	19 158	

* Subsidiaries and fellow subsidiaries within the ultimate holding company, Old Mutual plc, listed on the London Stock Exchange.

** Companies within the Imperial Holdings Limited Group.

*** Information regarding these transactions was unavailable in 2008. It has now been disclosed for completeness.

29 COMPANY RISK DISCLOSURES

29.1 Company liquidity risk analysis

		Term to maturity				
	2009 R'000	Demand	1 – 12 months	1 – 5 years	Over 5 years	Non-determin-able
ASSETS						
Cash and cash equivalents	300 792	300 792				
Other short-term securities	2 346 963	1 034 572	1 312 391			
Derivative financial instruments	43 282		5 876	23 429	13 977	
Government and other securities	202 608		101 023	101 585		
Loans and advances to clients	50 403 995	2 762 135	9 728 248	28 539 535	9 374 077	
Other assets	735 746		735 746			
Investment in subsidiary companies	43 018					43 018
Investment securities	325 640			277 655	47 985	
Property and equipment	267 248					267 248
Intangible assets	78 136					78 136
Mandatory deposits with central bank	1 215 575	1 215 575				
Total assets	55 963 003	5 313 074	11 883 284	28 942 204	9 436 039	388 402
EQUITY AND LIABILITIES						
Ordinary share capital	3 937					3 937
Ordinary share premium	1 097 747					1 097 747
Reserves	2 268 864					2 268 864
Total ordinary shareholders' equity	3 370 548	–	–	–	–	3 370 548
Preference share capital and premium	298 047					298 047
Total shareholders' equity	3 668 595	–	–	–	–	3 668 595
Total liabilities	52 294 408	3 333 179	11 194 663	30 714 075	6 815 772	236 719
Bank overdraft	6 920	6 920				
Derivative financial instruments	234 770		16 560	166 473	51 737	
Amounts owed to depositors	50 172 992	2 901 541	10 613 704	30 245 363	6 412 384	
Loans from subsidiary companies	424 718	424 718				
Other liabilities	126 745		49 616			77 129
Provisions	51 992					51 992
Current taxation	22 020		22 020			
Deferred taxation	107 598					107 598
Long-term debt instruments	1 146 653		492 763	302 239	351 651	
Total equity and liabilities	55 963 003	3 333 179	11 194 662	30 714 075	6 815 772	3 905 314
Remaining contractual maturities						
Balance sheet liabilities	60 874 782	3 333 179	15 098 937	35 359 901	6 846 045	236 719
Bank overdraft	6 920	6 920				
Derivative financial instruments	234 770		16 560	166 473	51 737	
Amounts owed to depositors	58 363 648	2 901 541	14 405 014	34 644 709	6 412 384	
Loans from subsidiary companies	424 718	424 718				
Other liabilities	126 745		49 616			77 129
Provisions	51 992					51 992
Current taxation	22 020		22 020			
Deferred taxation	107 598					107 598
Long-term debt instruments	1 536 371		605 727	548 720	381 924	
Off-balance sheet liabilities	1 352 728	1 352 728	–	–	–	–
Revocable guarantees	363 806	363 806				
Irrevocable guarantees	11 467	11 467				
Loan commitments	977 455	977 455				
Total liabilities	62 227 510	4 685 907	15 098 937	35 359 901	6 846 045	236 719

29 COMPANY RISK DISCLOSURES (continued)

29.1 Company liquidity risk analysis (continued)

		Term to maturity				
	2008 R'000	Demand	1 – 12 months	1 – 5 years	Over 5 years	Non-determin-able
ASSETS						
Cash and cash equivalents	46 435	46 435				
Other short-term securities	1 563 385		1 563 385			
Derivative financial instruments*	26 978		86	26 892		
Government and other securities	529 163		217 618	311 545		
Loans and advances to clients	44 659 961	3 147 652	8 204 927	24 474 839	8 832 543	
Other assets	503 986		503 986			
Investment in subsidiary companies	43 018					43 018
Investment securities	329 899		12 716	274 183	43 000	
Property and equipment	278 282					278 282
Mandatory deposits with central bank	1 067 795	1 067 795				
Total assets	49 048 902	4 261 882	10 502 718	25 087 459	8 875 543	321 300
EQUITY AND LIABILITIES						
Ordinary share capital	3 937					3 937
Ordinary share premium	1 097 747					1 097 747
Reserves	1 918 109					1 918 109
Total ordinary shareholders' equity	3 019 793	–	–	–	–	3 019 793
Preference share capital and premium	298 047					298 047
Total shareholders' equity	3 317 840	–	–	–	–	3 317 840
Total liabilities	45 731 062	861 220	3 705 474	40 819 806	149 466	195 096
Derivative financial instruments*	349 871		310	200 193	149 368	
Amounts owed to depositors	44 007 334	528 872	3 650 501	39 827 863	98	
Loans from subsidiary companies	332 348	332 348				
Other liabilities	103 215		53 329			49 886
Provisions	44 087					44 087
Current taxation	1 334		1 334			
Deferred taxation	101 123					101 123
Long-term debt instruments	791 750			791 750		
Total equity and liabilities	49 048 902	861 220	3 705 474	40 819 806	149 466	3 512 936
Remaining contractual maturities						
Balance sheet liabilities	53 739 733	861 220	4 434 144	48 099 807	149 466	195 096
Derivative financial instruments*	349 871		310	200 193	149 368	
Amounts owed to depositors	51 672 546	528 872	4 294 082	46 849 494	98	
Loans from subsidiary companies	332 348	332 348				
Other liabilities	103 215		53 329			49 886
Provisions	44 087					44 087
Current taxation	1 334		1 334			
Deferred taxation	101 123					101 123
Long-term debt instruments	1 135 209		85 089	1 050 120		
Off-balance sheet liabilities	2 715 011	2 715 011	–	–	–	–
Irrevocable guarantees**	3 409	3 409				
Loan commitments**	2 711 602	2 711 602				
Total liabilities	56 454 744	3 576 231	4 434 144	48 099 807	149 466	195 096

* Derivative financial instruments have been reclassified into different maturity buckets to align with Nedbank Limited's disclosure.

** Irrevocable guarantees and loan commitments for 2008 have been restated.

Imperial Bank's ALCO meets monthly to manage liquidity and interest rate risk, and reports to the Board Risk Committee quarterly. The Bank has no appetite or mandate to take proprietary trading risk or market risk. Liquidity risk is negligible given Nedbank Limited's commitment to provide funds as required. However, the ALCO does monitor maturity mismatches and fixed rate hedge effectiveness. It also ensures liquid assets are maintained at required levels and instruments purchased are cost-effective.

Imperial Bank does not fund advances in foreign currency, and has no cross-border exposure. This removes foreign exchange risk and currency translation risk.

29 COMPANY RISK DISCLOSURES (continued)

29.2 Company credit risk analysis

Maximum exposure to credit risk per financial assets

	2009 R'000			2008 R'000		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
Mandatory reserve deposits with central bank	1 215 575		1 215 575	1 067 795		1 067 795
Loans and advances*	50 403 995	1 341 261	51 745 256	44 659 961	2 711 602	47 371 563
Home loans	2 985 711	144 851	3 130 562	1 620 946		1 620 946
Commercial mortgages	6 028 515	767 749	6 796 264	6 175 065	2 711 602	8 886 667
Other loans to clients	5 073 662		5 073 662	4 812 479		4 812 479
Net investment in instalment sale and lease agreements	37 377 766	428 661	37 806 427	32 714 015		32 714 015
Preference shares	119 193	–	119 193	122 104		122 104
Less: Impairment of loans and advances	(1 180 852)		(1 180 852)	(784 648)		(784 648)
Investments and securities	2 860 186	–	2 860 186	2 204 781	–	2 204 781
Government and government-guaranteed securities	2 549 571		2 549 571	2 092 548		2 092 548
Investment securities	3 970		3 970	5 183		5 183
Short-term funds and securities	300 792		300 792	46 435		46 435
Other	5 853		5 853	60 615		60 615
Derivative financial instruments – assets	43 282	–	43 282	26 978	–	26 978
Guarantees – irrevocable	–	11 467	11 467		3 409	3 409
	54 523 038	1 352 728	55 875 766	47 959 515	2 715 011	50 674 526

29 COMPANY RISK DISCLOSURES (continued)

29.2 Company credit risk analysis (continued)

	2009 R'000	2008 R'000
Loans and advances		
Gross statement of financial position value of loans and advances*		
Neither past due nor impaired	**49 402 392**	43 944 198
Past due but not specifically impaired	**568 802**	622 706
Impaired loans and advances	**1 613 653**	877 705
Total gross loans and advances	**51 584 847**	45 444 609
Divisional breakdown of impaired loans and advances*	**1 613 653**	877 705
– Motor Finance	**838 292**	651 143
– Property Finance	**464 421**	131 563
– Supplier Asset Finance	**196 876**	38 453
– Professional Finance	**113 889**	56 403
– Treasury and Eliminations	**175**	143
Restructures less than and equal to four months**		
Risk bucket indicator prior to restructure	**715 471**	307 429
– Standard	**342 791**	133 825
– Special mention	**239 890**	130 351
– Substandard	**119 116**	37 591
– Doubtful	**12 571**	4 681
– Loss	**1 103**	980
Restructured loans and advances that have been rehabilitated and included in "Neither past due nor impaired"***	**1 386 933**	744 550
Analysis of gross statement of financial position value by Basel II categories		
– Standard	**49 402 392**	43 944 198
– Special mention	**568 802**	622 706
– Substandard	**143 492**	112 685
– Doubtful	**49 037**	19 751
– Loss	**1 421 124**	745 269
	51 584 847	45 444 609

* Gross loans and advances split has been reclassified in order to align with Nedbank Limited's disclosure.

** This relates to loans and advances that have been restructured and are still in the four-month period. In line with the Company's impairment methodology these loans carry an additional impairment associated with the risk bucket indicator prior to restructuring. These loans are included in the "Neither past due nor impaired" category.

*** This relates to those loans and advances that have been restructured, have passed the four-month period from the date of the restructure and due to good performance do not carry an additional impairment. These loans are included in the "Neither past due nor impaired" category.

29 COMPANY RISK DISCLOSURES (continued)

29.2 Company credit risk analysis (continued)

Imperial Bank's impairment methodology on loans and advances:

Legal loans and advances
All loans and advances classified as legal (> 90 days) are impaired using the following formula:

Outstanding balance less the net present value (NPV) of expected future cash flows.

- As per the Company's credit policy, security values are determined on a forced sale basis.
- In Motor Finance, the collections procedure manual specifies the security value as a percentage of trade value. This percentage is reviewed from time to time by the Motor Finance Executive Committee based on collections achieved and used car prices obtained. Professional Finance adopts a similar approach.
- In Property Finance, the security value is taken from the latest annual valuation (external valuation or desktop, based on nature of property and materiality) or an immediate revaluation if the most recent valuation is deemed to be stale, or conditions with the specific property or area have changed.
- In Supplier Asset Finance, the security value is determined via a conservative forced sale value based on latest market pricing for the specific asset. On specialised equipment, including aviation, an independent expert valuation may be called for.
- If the security value cannot be determined accurately, or the realisation of security is of serious concern, 100% impairment is raised.

Arrears (pre-legal) loans and advances
Impairments on arrear accounts in Motor Finance are calculated based on the outstanding balances less the NPV of the expected future recoveries. This impairment loss is raised on a portfolio basis.

Arrear accounts in Property Finance, Supplier Asset Finance and Professional Finance are scrutinised on a case-by-case basis. Specific impairments are raised, with approval from the Impairment Committee, if felt necessary.

Impairments on arrears accounts are IFRS compliant and are always based on the NPV of the expected future cash flows.

Performing loans and advances
An IBNR portfolio impairment is raised on all performing loans and advances. The impairment is based on the probability of default and the loss given default. The annual probabilities of default are scaled to the relevant emergence periods.

Restructured loans and advances
Restructured loans and advances carry the risk bucket indicator prior to the restructure for a period of four months after the initial restructure. Similarly, the restructured credit exposure will retain the higher impairment associated with the risk bucket into which the loan fell prior to the restructure being processed, for a minimum period of four months.

Statement of financial position value of debt and similar securities, other than loans and advances, according to rating agency designation (based on Standard and Poor's ratings or equivalent)

R'000	Treasury bills	Other eligible bills	Debt securities	Total
Investment grade (AAA to BBB)	1 634 976	711 987	3 970	2 350 933
Of which issued by:				
– Governments and government-guaranteed securities	1 634 976	711 987		2 346 963
– Other			3 970	3 970
	1 634 976	711 987	3 970	2 350 933

29 COMPANY RISK DISCLOSURES (continued)

29.3 Company market risk analysis

29.3.1 Company interest rate risk analysis

		Interest rate sensitive					
	2009 R'000	< 3 months	3 months < 6 months	6 months < 1 year	1 year < 5 years	> 5 years	Trading and non-rate sensitive
ASSETS							
Cash and cash equivalents	300 792	300 792					
Other short-term securities	2 346 963	2 346 963					
Derivative financial instruments	43 282						43 282
Government and other securities	202 608			101 023	101 585		
Loans and advances to customers	50 403 995	41 550 367	307 908	643 916	5 712 804	2 189 000	
Other assets	735 746						735 746
Investment in subsidiary companies	43 018						43 018
Investment securities	325 640	321 652			3 988		
Property and equipment	267 248						267 248
Intangible assets	78 136						78 136
Mandatory deposits with central bank	1 215 575						1 215 575
Total assets	**55 963 003**	**44 519 774**	**307 908**	**744 939**	**5 818 377**	**2 189 000**	**2 383 005**
EQUITIES AND LIABILITIES							
Ordinary share capital	3 937						3 937
Ordinary share premium	1 097 747						1 097 747
Reserves	2 268 864						2 268 864
Total ordinary shareholders' equity	3 370 548	–	–	–	–	–	3 370 548
Preference share capital and premium	298 047						298 047
Total shareholders' equity	3 668 595	–	–	–	–	–	3 668 595
Total liabilities	52 294 408	49 036 815	491 087	1 555 812	667 569	–	543 125
Bank overdraft	6 920	6 920					
Derivative financial instruments	234 770						234 770
Amounts owed to depositors	50 172 992	48 074 455	376 413	1 054 555	667 569		
Loans from subsidiary companies	424 718	301 550	114 674	8 494			
Other liabilities	126 745						126 745
Provisions	51 992						51 992
Current taxation	22 020						22 020
Deferred taxation	107 598						107 598
Long-term debt instruments	1 146 653	653 890		492 763			
Total equity and liabilities	55 963 003	49 036 815	491 087	1 555 812	667 569	–	4 211 720

29 COMPANY RISK DISCLOSURES (continued)

29.3 Company market risk analysis (continued)

29.3.1 Company interest rate risk analysis (continued)

		Interest rate sensitive					
	2008 R'000	<3 months	3 months < 6 months	6 months < 1 year	1 year < 5 years	> 5 years	Trading and non-rate sensitive
ASSETS							
Cash and cash equivalents	46 435	46 435					
Other short-term securities	1 563 385	1 563 385					
Derivative financial instruments	26 978						26 978
Government and other securities	529 163	217 618			311 545		
Loans and advances to customers	44 659 961	36 270 526	19 483	43 860	4 016 552	4 309 540	
Other assets	503 986						503 986
Investment in subsidiary companies	43 018						43 018
Investment securities	329 899	312 000			5 183		12 716
Property and equipment	278 282						278 282
Mandatory deposits with central bank	1 067 795						1 067 795
Total assets	49 048 902	38 409 964	19 483	43 860	4 333 280	4 309 540	1 932 775
EQUITIES AND LIABILITIES							
Ordinary share capital	3 937						3 937
Ordinary share premium	1 097 747						1 097 747
Reserves	1 918 109						1 918 109
Total ordinary shareholders' equity	3 019 793	–	–	–	–	–	3 019 793
Preference share capital and premium	298 047						298 047
Total shareholders' equity	3 317 840	–	–	–	–	–	3 317 840
Total liabilities	45 731 062	42 093 468	429 721	698 200	1 794 997	115 046	599 630
Derivative financial instruments	349 871						349 871
Amounts owed to depositors	44 007 334	41 554 159	339 987	691 553	1 306 589	115 046	
Loans from subsidiary companies	332 348	235 967	89 734	6 647			
Other liabilities	103 215						103 215
Provisions	44 087						44 087
Current taxation	1 334						1 334
Deferred taxation	101 123						101 123
Long-term debt instruments	791 750	303 342			488 408		
Total equity and liabilities	49 048 902	42 093 468	429 721	698 200	1 794 997	115 046	3 917 470

29 COMPANY RISK DISCLOSURES (continued)

29.3 Company market risk analysis (continued)

29.3.2 Sensitivity analysis for market risk

Method used in preparing the sensitivity analysis

- The interest rate risk of the Company is best understood by analysing the balance sheet repricing characteristics.
- 82% of the Company's assets are linked to variable rates with 18% at fixed rates.
- 88% of the Company's funding liabilities are sourced from Nedbank Limited as per the Memorandum of Understanding. The applicable cost of funds is the prime replicating portfolio rate which is made up of the Nedbank Limited call, 1-month, 3-month and 12-month rates.

- A 100 basis point instantaneous parallel decline in the interest rates will result in a R46.9 million loss in NII over a 12-month period.
- A 25 basis point decline in the prime/call gap would result in a R50.8 million loss for the Company over a 12-month period.
- The Company's capital is partly invested in the two- to five-year fixed rate asset finance transactions with the balance invested in prime linked assets.

Sensitivity analysis

An analysis of the Company's sensitivity to a decrease in the market interest rates is as follows:

	2009		2008	
	100 bp parallel decline	**25 bp prime/ call gap decline**	100 bp parallel decline	25 bp prime/ call gap decline
Impact on net interest income (Rm)	**(46.9)**	**(50.8)**	(23.4)	(43.7)
As a percentage of total shareholders' equity (%)	**(1.28)**	**(1.38)**	(0.71)	(1.32)

The following model assumptions are used in the above sensitivity analysis:

- The planned capital management actions are included in the modelling.
- The statement of financial position maturity profile is expected to remain unchanged during the modelling period.
- Rates spreads have been adjusted to align with forecasts.
- There have been no material changes to the model assumptions during the year under review.

30 SECURITISATIONS

The Company was party to securitisation transactions involving motor vehicle financing.

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction, partial continued recognition of the assets to the extent of the Company's continuing involvement in those assets or derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer. Full derecognition only occurs when the Company transfers both its contractual right to receive cash flows from the financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk.

The following table shows the carrying amount of securitised assets, stated at the amount of the Company's continuing involvement where appropriate, together with the associated liabilities:

	2009		2008	
	Carrying amount of assets	Associated liabilities	Carrying amount of assets	Associated liabilities
	R'000	R'000	R'000	R'000
Loans and advances to customers				
Motor vehicle financing	1 672 740	1 593 683	1 781 406	1 751 366

31 SUBSEQUENT EVENTS

31.1 The preference share dividend of 374.73973 cents per share has been approved by the Board of Directors on 10 February 2010.

31.2 Subsequent to year-end, regulatory approval in terms of the Banks Act of 1990 was obtained to enable Nedbank Limited to acquire the 49.9% of ordinary shares held by Imperial Holdings. All conditions precedent to the acquisition have therefore been fulfilled and the acquisition will now be implemented by the parties.

31.3 With effect from 10 February 2010, Osman Arbee has resigned as a director of the Bank.

Value-added Statement for the year ended 31 December 2009

	2009 R'000	%	2008 R'000	%
Value added is the wealth created from providing quality services to clients				
Net interest income	**1 939 196**	**209%**	1 668 789	192%
Impairment losses on loans and advances	**(959 083)**	**(103%)**	(697 101)	(80%)
Margin on lending	**980 113**	**106%**	971 688	112%
Non-margin-related income	**193 455**	**20%**	95 485	11%
Other expenditure	**(245 320)**	**(26%)**	(196 158)	(23%)
	928 248	**100%**	871 015	100%
Value is allocated to:				
Employees				
Salaries, wages and other benefits	**352 091**	**38%**	297 194	34%
Government				
Normal taxation	**146 150**	**16%**	146 924	17%
Value-added taxation	**49 176**	**5%**	49 811	6%
Retentions for growth	**380 831**	**41%**	377 086	43%
Depreciation and amortisation	**31 181**	**4%**	24 006	3%
Reserves	**349 650**	**37%**	353 080	40%
	928 248	**100%**	871 015	100%

Home Loan and Mortgage Disclosures* for the year ended 31 December 2009

Disclosure requirements in terms of the Home Loan and Mortgage Disclosures Act of 2000

1. The total number and rand amount of applications:

	2009		2008	
	Number	R'000	Number	R'000
(a) Received	1 265	1 529 253	870	1 250 388
(b) Approved	666	783 770	676	964 131
(c) Declined	57	87 849	26	42 406
(d) Disbursed	127	135 870	488	559 570

2. The total number of applications received, approved, declined, and disbursed, respectively, in respect of:

(a) Race groups (African, White, Indian, Coloured)

	African				White			
	2009		2008		2009		2008	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Received	153	157 489	102	138 564	868	1 086 775	607	888 734
Approved	65	77 683	68	95 629	467	547 851	481	698 628
Declined	19	20 875	8	6 850	31	60 288	16	33 606
Disbursed	7	5 033	52	63 897	97	106 072	344	404 231

(b) Province

	Received		Approved	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
Eastern Cape	102 057	127 880	59 716	99 331
Free State	137 997	91 374	84 348	76 663
Gauteng	528 582	392 738	228 728	280 617
KwaZulu-Natal	275 839	252 473	147 405	198 048
Limpopo	18 531	16 846	10 513	12 037
Mpumalanga	37 695	48 148	19 313	34 402
North West	36 801	50 018	20 036	41 965
Northern Cape	16 492	24 437	10 952	19 941
Western Cape	375 259	246 474	202 759	201 127
Total	1 529 253	1 250 388	783 770	964 131

* This information has not been audited.

Indian				Coloured				Total			
2009		2008		2009		2008		2009		2008	
Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
187	229 989	119	178 951	57	55 000	42	44 139	1265	1 529 253	870	1 250 388
103	125 630	97	135 785	31	32 606	30	34 089	666	783 770	676	964 131
4	4 030	1	1 750	3	2 656	1	200	57	87 849	26	42 406
18	19 568	70	72 484	5	5 197	22	18 958	127	135 870	488	559 570

Declined		Disbursed	
2009	2008	2009	2008
R'000	R'000	R'000	R'000
13 859	7 803	10 280	48 535
4 504	5 802	19 535	35 759
40 638	15 723	39 459	138 902
10 842	3 100	12 939	124 870
1 548	674	2 272	5 958
2 500	1 928	480	17 029
3 289	3 176	4 080	19 575
–	–	1 638	15 239
10 669	4 200	45 187	153 703
87 849	42 406	135 870	559 570

Analysis of Preference Shareholders for the year ended 31 December 2009

	Number of shareholders	% of holders	Number of shares	% of issued share capital
Analysis of preference shares				
Range				
1 – 999	4	22.21	726	0.02
1 000 – 9 999	10	55.56	36 760	1.23
10 000 – 99 999	1	5.56	67 112	2.24
100 000 and more	3	16.67	2 895 402	96.51
Totals	**18**	**100.00**	**3 000 000**	**100.00**
Major holders				
(5% or more of the preference shares in issue)				
Beneficial holder				
Broker propriety			2 962 514	98.75
Distribution of shareholders				
Category				
Individuals	10	55.56	22 785	0.76
Nominee companies and trusts	6	33.33	2 971 514	99.05
Private companies	2	11.11	5 701	0.19
Totals	**18**	**100.00**	**3 000 000**	**100.00**
Shareholder spread				
Public	18	100.00	3 000 000	100.00
Non-public	nil	nil	nil	nil
Totals	**18**	**100.00**	**3 000 000**	**100.00**

	2009 R'000	2008 R'000
Risk type		
Credit risk	**39 938 134**	35 315 511
Corporate	**13 195 453**	12 390 204
Public sector entities	**9**	107
Local government and municipalities	**6 026**	4 479
Banks	**60 890**	42 869
Retail	**26 347 048**	22 562 942
Securitisation	**259 280**	261 821
Counterparty credit risk	**69 428**	53 089
Operational risk	**2 868 545**	1 745 000
Other assets	**1 079 934**	745 115
Total risk-weighted assets	**43 886 613**	37 805 626
Minimum regulatory capital requirements	**4 278 945**	3 686 049
Qualifying capital and reserves	**4 905 868**	4 188 056
Tier 1	**3 559 518**	3 205 904
Ordinary share capital	**3 937**	3 937
Ordinary share premium	**1 097 747**	1 097 747
Non-redeemable, non-participating, non-cumulative preference shares	**298 047**	298 047
Reserves	**2 179 715**	1 817 009
Deductions		
50% of first loss credit enhancement provided in respect of a securitisation scheme	**(19 928)**	(10 836)
Tier 2	**1 346 350**	982 152
Long-term debt instruments	**1 150 000**	800 000
Revaluation reserves (50%)	**23 591**	23 591
General allowance for credit impairment	**192 687**	169 397
Deductions		
50% of first loss credit enhancement provided in respect of a securitisation scheme	**(19 928)**	(10 836)
Total surplus capital	**626 923**	502 007
Capital adequacy ratio	**11.2%**	11.1%

Notes

Corporate Information

Imperial Bank Limited
Registration Number 1995/012641/06

Directors

O S Arbee	(7)	Resigned with effect from 10 February 2010
L E Bakoro	(2) (4) (8)	
C J W Ball	(2) (3) (4) (9)	
H R Brody	(3) (4) (7) (8) (9)	Chairman
M J Croucamp	(3) (4)	
P C W Hibbit	(1) (5) (9)	Chief Financial Officer
N P Mnxasana	(2)	
R van Wyk	(1) (5) (9)	Chief Executive Officer
P K Ward	(2) (4)	
P A Wessels	(3) (4) (6) (9)	

Company secretary
G Tyusha

(1) Executive director of Imperial Bank Limited
(2) Member of the Audit Committee
(3) Member of the Remuneration Committee
(4) Member of the Risk and Capital Management Committee
(5) Member of ALCO
(6) Executive of Nedbank Limited
(7) Executive of Imperial Holdings Limited
(8) Member of the Directors' Affairs Committee
(9) Member of the Large Credit Exposures Committee

Business address and registered office
24 Achter Road
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Sunninghill
2191

Postal address
PO Box 6093
Rivonia
2128

Auditor
Deloitte & Touche

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