

Bidvest Bank Limited Interim Financial Results

for the period ending 31 December 2009



Bidvest Bank Limited

Income statement	Six months ended 31 December			Year ended 30 June
	2009 (Unaudited) R'000	2008 (Unaudited) R'000	2007 (Unaudited) R'000	2009 (Audited) R'000
Interest income	48 488	57 009	30 015	108 842
Interest expense	(18 213)	(26 101)	(10 553)	(49 578)
Net Interest income	30 275	30 908	19 462	59 264
Fee and commission income	92 402	97 855	62 843	190 606
Fee and commission expense	(26 986)	(18 464)	(11 865)	(42 985)
Net fee and commission income	65 416	79 391	50 978	147 621
Net trading income	117 923	135 807	79 400	251 084
Change in fair value of investment securities	-	-	(1 340)	-
Other income	1 707	1 281	1 158	3 477
Net Operating income	215 321	247 387	149 658	461 446
Net credit impairment charges	(2 323)	(4 346)	(1 735)	(2 276)
Net operating income after credit impairment charges	212 998	243 041	147 923	459 170
Operating expenditure	(141 310)	(129 030)	(96 046)	(271 657)
Employment costs	(61 468)	(53 705)	(40 479)	(121 525)
Property rentals	(17 337)	(15 969)	(10 805)	(38 534)
Depreciation and amortisation	(8 645)	(6 463)	(4 907)	(14 257)
Communication costs	(4 078)	(4 112)	(2 616)	(8 296)
Marketing costs	(4 092)	(6 528)	(9 325)	(10 233)
Computing costs	(9 787)	(7 102)	(6 135)	(16 234)
Risk costs	(16 131)	(12 391)	(8 433)	(26 988)
Other operating expenditure	(19 772)	(22 760)	(13 346)	(35 590)
Net operating income before indirect taxation	71 688	114 011	51 877	187 513
Indirect taxation	(3 904)	(5 678)	(4 405)	(4 748)
Profit before direct taxation	67 784	108 333	47 472	182 765
Direct taxation	(21 867)	(28 938)	(13 993)	(50 134)
Profit for the period	45 917	79 395	33 479	132 631
Statistics				
Number of branches	88	82	61	83
Number of employees	690	703	471	699
Cost to income ratio (%)	65.63	52.16	64.18	58.90
Average exchange rates				
USD	7.65	8.87	6.94	8.97
GBP	12.53	15.14	14.10	14.30
EUR	11.12	12.38	9.79	12.01

Bidvest Bank Limited

Balance sheet	31 December			30 June
	2009 (Unaudited) R'000	2008 (Unaudited) R'000	2007 (Unaudited) R'000	2009 (Audited) R'000
Assets				
Cash and balances with banks	816 495	669 356	271 556	752 374
Derivative financial assets	28 695	24 611	5 584	49 356
Loans and advances	716 639	589 216	434 955	598 625
Investment securities	58 874	56 967	35 153	62 808
Equipment	46 644	36 231	20 179	41 438
Intangible assets	25 985	20 543	4 255	26 436
Other assets	32 501	99 125	33 804	43 502
Total assets	1 725 833	1 496 049	805 486	1 574 539
Equity and liabilities				
Equity	652 529	548 831	419 785	604 983
Share capital	167 779	167 779	167 779	167 779
Reserves	484 750	381 052	252 006	437 204
Liabilities	1 073 304	947 218	385 701	969 556
Derivative financial liabilities	23 680	33 206	4 635	41 492
Deposits	931 305	709 839	293 939	83 386
Trade accruals	22 257	24 896	17 290	37 470
Outstanding banking credits	85 680	134 501	56 129	48 772
Straight lining of leases	2 830	2 142	1 287	2 363
Other liabilities	7 552	42 634	12 421	7 073
Total equity and liabilities	1 725 833	1 496 049	805 486	1 574 539
Return on assets (%)	5.32	10.61	8.31	8.42
Return on equity (%)	14.07	28.93	15.95	21.92
Closing exchange rates				
USD	7.38	9.37	6.81	7.71
GBP	11.90	13.59	13.62	12.75
EUR	10.63	13.21	10.02	10.86

Bidvest Bank Limited

Notes to the interim financial statements
for the period ended 31 December 2009

1. Financial risk management

1.1 Introduction and overview

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

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

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

Disclosure requirements under both IFRS 7 and Pillar 3 of Basel II are driven by an overall objective of increasing the transparency of financial institutions. Such transparency allows the reader to be more informed before making decisions.

The disclosures under IFRS 7 focus on financial instruments and provide a presentation by class of financial instrument, taking into account the nature of the information to be disclosed and the characteristics of the underlying financial instruments. The principles in IAS 32 (Financial Instruments: Presentation) and IAS 39 for recognising, measuring and presenting financial assets and liabilities are taken into account in IFRS 7.

On the other hand, the disclosures under Basel II focus on capital management and allow the reader to assess the institution's capital adequacy through a presentation by class of financial exposure. These asset classes support the supervisory review process as well as regulatory reporting requirements to the extent that underlying risk characteristics and Basel II defined risk mitigation factors are taken into account. The Bank's credit portfolio is subject to the Standardised Approach of Basel II.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method or comparison to similar instruments for which market observable prices exist.

Risk management framework

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Risk and Capital Management Committee, Asset and Liability Committee, Credit Committee and Operational Risk Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board on their activities.

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

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

1. Financial risk management (continued)

1.2 Credit risk

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

Management of credit risk

The Board has delegated responsibility for the management of credit risk to its Credit Committee. A separate Credit Department is responsible for oversight of the Bank's credit risk, including:

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

Impaired loans

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

Allowances for impairment

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

The past due not impaired balance equals nil as at December 31 2009 (2008: Nil) up to 30 days which relates to loans and advances to customers only.

Write-off policy

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

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Notes to the interim financial statements
for the period ended 31 December 2009

1. Financial risk management (continued)

1.2 Credit Risk

Exposure to credit risk

	Gross maximum exposure		Loans and advances		Other financial assets	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Individually impaired						
Gross amount						
Grade Ba (Exceptional business credit)	-	-	-	-	-	-
Grade Bb (Good business credit)	-	-	-	-	-	-
Grade Bc (Average business credit)	1 588	515	1 588	515	-	-
Grade Bd (High risk credit)	1 504	1 356	1 504	1 356	-	-
Grade Be (Marginally acceptable business credit)	-	-	-	-	-	-
Unrated	44	141	44	141	-	-
Total	3 136	2 012	3 136	2 012	-	-
Allowance for impairment	(1 243)	(764)	(1 243)	(764)	-	-
Carrying amount	1 893	1 248	1 893	1 248	-	-
Loans and advances collectively impaired						
Gross amount						
Grade Ba	31 663	63 534	31 663	63 534	-	-
Grade Bb	55 689	89 306	55 689	89 306	-	-
Grade Bc	84 974	142 330	84 974	142 330	-	-
Grade Bd	12 848	8 203	12 848	8 203	-	-
Grade Be	-	-	-	-	-	-
Unrated	15 860	3 176	15 860	3 176	-	-
Total	201 034	306 549	201 034	306 549	-	-
Allowance for impairment	(6 939)	(7 567)	(6 939)	(7 567)	-	-
Carrying amount	194 095	298 982	194 095	298 982	-	-
Neither past due nor impaired						
Gross amount						
Grade Ba	398 925	272 754	398 925	272 754	-	-
Grade Bb	9 284	-	9 284	-	-	-
Grade Bc	94 109	-	94 109	-	-	-
Grade Ba (Banks)	215 627	208 906	18 333	16 232	140 031	192 674
Grade Bb (Banks)	461 905	281 694	-	-	461 905	281 694
Unrated	277 366	375 691	-	-	277 366	375 691
Total carrying amount	1 653 204	1 439 275	716 639	589 216	921 066	850 059
Less financial instruments not exposed to credit risk	(195 569)	(195 093)				
	1 457 635	1 244 182				
Represented by the following balance sheet items:						
Balance with banks	620 926	474 263				
Derivative financial assets	28 695	24 611				
Loans and advances	716 639	589 216				
Investment securities	58 874	56 967				
Other assets	32 501	99 125				
	1 457 635	1 244 182				

The maximum exposure to credit risk is represented by the carrying amount of each financial asset including derivatives in the balance sheet, as well as off balance sheet transactions. Instalment sales and finance lease agreements have been included in the above credit risk analysis.

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Notes to the interim financial statements
for the period ended 31 December 2009

1. Financial risk management (continued)

1.2 Credit risk (continued)

Security held

The Bank holds financial collateral and other security against loans and advances to customers in the form of mortgage bonds over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of security assessed at the time of borrowing, and are updated regularly, and are reported below:

Security value

	Loans and advances to customers		Loans and advances to banks	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Against individually impaired				
Asset based finance	253	-	-	-
Cash, debtors, stock	-	341	-	-
Property	35	51	-	-
Unsecured	1 605	856	-	-
Total	1 893	1 248	-	-
Collectively impaired				
Asset based finance	95 336	114 187	18 333	16 232
Cash, debtors, stock	50 704	94 315	-	-
Property	42 001	42 997	-	-
Equity	1 193	6 961	-	-
Guarantees	40 297	-	-	-
Unsecured	8 240	13 792	-	-
Total	237 771	272 252	18 333	16 232
Neither past due nor impaired				
Asset based finance	105 643	82 904	-	-
Guarantees	352 999	216 580	-	-
Unsecured	-	-	-	-
Carrying amount	698 306	572 984	18 333	16 232

Security valuation

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

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Notes to the interim financial statements
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1. Financial risk management (continued)

1.2 Credit risk (continued)

The aforementioned table represents the method applied by the credit committee in determining the value of security.

Credit risk by sector

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

	Loans and advances to customers		Loans and advances to banks		Investment security	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Concentration by sector						
Manufacturing	25 564	38 840	-	-	-	-
Construction	13 981	27 327	-	-	-	-
Wholesale and retail trade, repair of specified items, hotels and restaurants	412 729	376 058	-	-	-	-
Transport, storage and Communication	30 943	58 488	-	-	-	-
Financial intermediation and insurance	24 273	15 334	18 333	16 232	20 711	19 198
Real estate	21 783	12 782	-	-	-	-
Business services	145 107	30 658	-	-	-	-
Community, social and personal services	14 672	4 078	-	-	-	-
Electricity, gas and water supply	74	117	-	-	-	-
Mining and quarrying	1 607	2 296	-	-	-	-
Private households	7 574	4 083	-	-	-	-
Other	-	2 923	-	-	38 163	37 770
Total	698 306	572 984	18 333	16 232	58 874	56 968
Of which:						
Sovereign (central government and central bank)	12 622	3 852	-	-	-	-
Public sector entities	-	-	-	-	-	-
Local government/municipalities	-	-	-	-	-	-

The Bank also monitors concentrations of credit risk by geographical area and apart from a few small accounts at foreign banks has exposure in South Africa only.

Settlement risk / Counterparty risk

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

Off balance sheet credit risk

The Bank's off balance sheet credit risk exposure amounted to R24,6 million made up by Letters of Guarantee of R6,3 million, Letters of Credit of R15,1 million, and unutilised uncommitted facilities of R3,2 million.

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Notes to the interim financial statements
for the period ended 31 December 2009

1. Financial risk management (continued)

1.2 Credit risk (continued)

External credit assessment

It is the policy of the Bank to only invest with A1 rated Banks.

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

	Gross (Impairment)		Net	Guarantees & suretyship	Pledge of assets	Total	Carrying value for which no collateral is held
	R'000	R'000					
2009							
Not past due	721 686	(6 939)	714 747	393 297	313 209	706 506	8 241
Past due 0-30 days	932	(558)	374	-	288	288	86
Past due 31-180 days	1 103	(208)	895	-	-	-	895
Past due 181-365 days	1 100	(477)	623	-	-	-	623
Total	724 821	(8 182)	716 639	393 297	313 497	706 794	9 845

	Gross (Impairment)		Net	Guarantees & suretyship	Pledge of assets	Total	Carrying value for which no collateral is held
	R'000	R'000					
2008							
Not past due	595 536	(7 567)	587 969	216 580	357 598	574 178	13 790
Past due 0-30 days	63	(13)	50	-	63	63	-
Past due 31-180 days	1 356	(498)	858	-	-	-	858
Past due 181-365 days	593	(254)	339	-	452	452	-
Total	597 548	(8 332)	589 216	216 580	358 113	574 693	14 648

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

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Notes to the interim financial statements
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1. Financial risk management (continued)

1.2 Credit risk (continued)

	2009 R'000	2008 R'000
Movements in impairments		
Specific impairments		
Call and term loans	(1 015)	(751)
Opening balance 1 July 2009	(1 229)	(386)
Income statement charge	(34)	(365)
Bad debts written off	248	-
Mortgage loans	(0)	(13)
Opening balance 1 July 2009	(10)	(16)
Income statement reversal	10	3
Instalment sales and leases	(228)	-
Opening balance 1 July 2009	(87)	-
Income statement charge	(141)	-
Bad debts written off	-	-
Portfolio impairment	(6 939)	(7 567)
Opening balance 1 July 2009	(4 781)	(3 584)
Income statement charge	(2 158)	(3 983)
Carrying value at end of period	(8 182)	(8 331)
Specific impairment	(1 243)	(764)
Portfolio impairment	(6 939)	(7 567)

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Notes to the interim financial statements
for the period ended 31 December 2009

1. Financial risk management (continued)

1.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The daily liquidity position is monitored daily. All liquidity policies and procedures are subject to review and approval by the Asset and Liability Committee (ALCO). Daily reports cover the liquidity position of the Bank and are submitted regularly to ALCO. The maturities of financial liabilities are presented to ALCO on a regular basis.

Residual contractual maturities of financial liabilities

	Carrying amount	Gross nominal outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
	R'000	R'000	R'000	R'000	R'000	R'000
December 31 2009						
Non-derivative liabilities						
Other liabilities	(118 319)	(118 319)	(118 319)	-	-	-
Deposits	(931 305)	(931 305)	(743 664)	(135 077)	(52 342)	(222)
Trading: outflow (liabilities)	(23 680)	(736 909)	(6 745)	(10 354)	(6 581)	-
Trading: inflow (assets)	28 695	737 767	6 738	12 251	9 190	516
	(1 044 609)	(1 048 766)	(861 990)	(133 180)	(49 733)	294
December 31 2008						
Non-derivative liabilities						
Other liabilities	(204 173)	(204 173)	(204 173)	-	-	-
Deposits	(709 839)	(709 839)	(633 832)	(36 220)	(39 565)	(222)
Trading: outflow (liabilities)	(33 206)	(737 767)	(13 617)	(15 485)	(4 103)	-
Trading: inflow (assets)	24 611	736 909	8 796	13 988	1 827	-
	(922 607)	(914 870)	(842 826)	(37 717)	(41 841)	(222)

The aforementioned table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity.

The gross nominal inflow (outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment. The disclosure for derivatives shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneously gross settlement (e.g. forward exchange contracts).

1.4 Market risks

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

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

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Notes to the interim financial statements
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1. Financial risk management (continued)

1.4 Market risks (continued)

Exposure to interest rate risk – non-trading portfolios

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

	Carrying amount R'000	Less than 3 months R'000	3-12 month R'000	1-5 years R'000	More than 5 years R'000
December 31 2009					
Cash and balances with banks	816 495	816 495	-	-	-
Loans and advances	716 639	470 311	50 587	185 066	10 675
Investment securities	58 874	20 711	5 062	5 283	27 817
Deposits	(931 305)	(878 741)	(52 342)	(222)	-
	660 703	428 776	3 307	190 127	38 492
December 31 2008					
Cash and balances with banks	669 356	669 356	-	-	-
Loans and advances	589 216	326 606	38 086	211 501	13 040
Investment securities	56 967	19 198	-	15 836	21 934
Deposits	(709 839)	(670 052)	(39 565)	(222)	-
	605 700	345 108	(1 479)	227 115	34 974

The management of interest rate risk against interest rate gaps is accomplished through monitoring the sensitivity of the Bank's financial assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or rise. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates for a six month period (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	200bp parallel increase R'000	200bp parallel decrease R'000
December 31 2009		
Cumulative impact before tax on net interest income:	2 329	(2 215)
December 31 2008		
Cumulative impact before tax on net interest income:	1 067	(958)

Overall non-trading interest rate risk positions are managed by the Treasury Department, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

Bidvest Bank Limited

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1. Financial risk management (continued)

1.4 Market risk (continued)

Foreign exchange rate sensitivities

Foreign currency profile

Currency profile

R'000

December 31 2009

Assets

	ZAR	GBP	USD	EUR	OTHER	TOTAL
Cash and balances with banks	613 403	19 836	140 970	24 035	18 251	816 495
Derivative financial assets	28 695	-	-	-	-	28 695
Loans and advances	712 392	-	4 246	-	-	716 639
Investment securities	58 874	-	-	-	-	58 874
Other assets	32 200	-	-	-	301	32 501
Equipment	46 644	-	-	-	-	46 644
Intangible assets	25 985	-	-	-	-	25 985
	1 518 193	19 836	145 216	24 035	18 552	1 725 833
Commitments to purchase	-	63 076	678 133	166 127	48 013	955 349
	1 518 193	82 912	823 349	190 162	66 565	2 681 182
December 31 2008	1 245 285	23 389	163 914	43 548	19 913	1 496 049
Commitments to purchase	-	8 128	367 771	112 007	4 078	491 984
	1 245 285	31 517	531 685	155 555	23 991	1 988 033
December 31 2009						
Equity and liabilities						
Share capital	1 800	-	-	-	-	1 800
Share premium	165 979	-	-	-	-	165 979
Reserves	484 750	-	-	-	-	484 750
Derivative financial liabilities	23 680	-	-	-	-	23 680
Deposits	791 671	20 959	87 007	21 059	10 609	931 305
Other liabilities	12 053	11 556	87 465	7 167	80	118 319
	1 479 933	32 515	174 472	28 226	10 689	1 725 833
Commitments to sell	-	51 733	646 934	165 226	49 053	912 946
	1 479 933	84 248	821 406	193 452	59 742	2 638 779
December 31 2008	1 254 523	19 863	203 330	3 836	14 499	1 496 051
Commitments to sell	-	18 337	343 950	131 449	7 603	501 339
	1 254 523	38 200	547 280	135 285	22 101	1 997 389

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Notes to the interim financial statements
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1. Financial risk management (continued)

1.4 Market risk (continued)

Foreign exchange rate sensitivities (continued)

Foreign currency profile (continued)

	GBP	USD	EUR	OTHER	TOTAL
	R'000	R'000	R'000	R'000	R'000
2009					
Net open position	(1 335)	1 944	(3 290)	6 828	4 147
2008					
Net open position	(6 678)	(15 596)	7 435	14 718	(121)
Closing spot exchange rate					
	GBP	USD	EUR		
2009	R11,90	R7,38	R10,63		
2008	R13,59	R9,37	R13,21		
Average exchange rate					
	GBP	USD	EUR		
2009	R12,14	R7,48	R10,93		
2008	R14,81	R9,97	R13,40		

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

Foreign currency sensitivity based on a 10% movement in exchange rate.

	2009	2008
	R'000	R'000
GBP	134	668
USD	194	1 560
EUR	329	744
Derivative financial instruments		
Foreign exchange contracts (FECs)		
- derivative financial assets	28 695	24 611
- derivative financial liabilities	(23 680)	(33 206)
Net fair values	5 015	(8 595)
Notional amount	1 474 675	723 208

The notional amount is the sum of the absolute value of all bought and sold contracts. The amount does not represent the market risk or credit risk exposure of the Bank, and should only be used in assessing the Bank's participation in derivative contracts. Derivatives are held for banking purposes.

1. Financial risk management (continued)

1.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, and reputational risk, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

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

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

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

The Bank utilises the Standardised Approach under Basel II to calculate capital requirements for operational risks.

1.6 Reputational risk

The reputation of the Bank is a significant asset and accounts for a large percentage of its equity. The Bank manages reputational risk by an integrated strategy, understanding the correlation between sustainable performance and reputation, and between corporate image and corporate reputation.

The following basic strategies are followed to manage reputational risk:

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

Notes to the interim financial statements
for the period ended 31 December 2009

1. Financial risk management (continued)

1.7 Capital management

Regulatory capital

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

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

- Primary capital, which includes ordinary share capital, share premium and retained earnings.
- Secondary capital, which includes collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

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

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

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

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

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

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

Balance sheet forecasting based on business and strategy planning allows management to ensure that minimum required capital ratios are adhered to.

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

Bidvest Bank Limited

Notes to the interim financial statements
for the period ended 31 December 2009

1. Financial risk management (continued)

1.7 Capital management (continued)

Regulatory capital (continued)

	2009 R'000	2008 R'000
Net qualifying capital and reserves		
Primary capital	485 112	485 112
Share capital	1 800	1 800
Share premium	165 979	165 979
Appropriated retained earnings	317 333	317 333
	49 010	43 567
Less: preference share impairment	23 024	23 024
Less: intangible asset impairment	25 986	20 543
Total qualifying capital and reserves	436 102	441 545
Non qualifying capital and reserves	216 427	107 286
Retained earnings not formally appropriated	161 823	59 236
Fair value reserve for available-for-sale equity securities	1 015	1 417
Share based payment reserve	4 579	3 066
Impairment	49 010	43 567
Total capital and reserves	<u>652 529</u>	<u>548 831</u>

Bidvest Bank Limited

Notes to the interim financial statements
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1. Financial risk management (continued)

1.7 Capital management (continued)

Regulatory capital (continued)

Risk-weighted exposure

	Capital requirement 2009 R'000	Risk- weighted exposure 2009 R'000	Capital requirement 2008 R'000	Risk- weighted exposure 2008 R'000
Credit risk Retail bank, corporate bank and central treasury	205 269	2 105 322	231 393	2 373 264
Market risk Retail bank, corporate bank and central treasury	1 019	10 450	3 086	31 647
Operational risk Retail bank, corporate bank and central treasury	64 376	660 263	53 336	547 040
Equity risk Retail bank, corporate bank and central treasury	157	1 611	119	1 223
Other assets	7 746	79 448	14 955	153 380
Totals	278 567	2 857 094	302 889	3 106 554

Capital ratios

	2009	2008
Total capital adequacy ratio	15,26%	14,21%
Total primary capital adequacy ratio	15,26%	14,21%