BIDVEST BANK LIMITED

(Registration number 2000/006478/06)

BASEL III

CONSOLIDATED PILLAR 3 DISCLOSURE

AS AT 31 MARCH 2021

Contents

1. Pillar 3 public disclosure

1.1 Introduction

The Basel III International Convergence of Capital Measurement and Capital Standards saw the development of a third Pillar namely Market Discipline. This third pillar complements pillars I and II, the minimum capital requirements (Pillar I) and the Supervisory Review Process (Pillar II). Pillar III sets out disclosure requirements which allows market participants to assess key pieces of information on the capital, risk exposures, risk assessment processes, and hence the capital adequacy of Bidvest Bank on a top consolidated level.

Transparency and effective communication between the Bank and its stakeholders, as well as the general public, is of the utmost importance. The Bank therefore provides information that will enable the users of such information to form a fair opinion of the financial condition of the Bank.

In light of the above, the Bank's Disclosure Policy, as approved by the Board of Directors (the Board), has been developed not only to meet the criteria of the Regulations, but also to implement a process to ensure the effectiveness of the Bank's disclosures.

The Bank's Pillar III Disclosure is subject to internal control measures and appropriate review by the Bank's Audit Committee, chaired by an independent non-executive director. The Pillar III Disclosure is prepared as stipulated in the Bank's Board approved Disclosure Policy which policy is subject to annual review. The Disclosure Policy provides guidance on public disclosure and deals with the following aspects:

- Goals and objectives
- Appropriateness assessment
- Approach and materiality
- Disclosure requirements
- Internal control processes and procedures
- Risk Data Aggregation and Risk Reporting (RDARR)
- Validation of information
- Frequency and medium of information
- Guiding principles for the Bank's pillar III disclosures
- BIS revised pillar III public disclosure requirements

1.2 Goals and objectives

The information disclosed by the Bank is consistent with that available to senior management and the Board in their assessment and management of the risks of the Bank. By disclosing the information, the Bank aims to meet the following goals and objectives:

- inform the market regularly about the Bank's exposure to all risk areas;
- provide a consistent and understandable disclosure of information that will enhance decision-making and comparability;

- provide a fair presentation of the Bank's financial position, including its capital adequacy position, financial performance, business activities, risk profile and risk mitigation practices; and
- provide reliable, relevant and timely information.

1.3 Appropriateness assessment

The review of the Bank's disclosure strikes an appropriate balance between the need for meaningful disclosure and the protection of proprietary and confidential information, where the disclosure of information could make the Bank's investment in products or systems less valuable, and therefore undermine its competitive position, or which may be contrary to the provisions of any agreement.

The Bank further assesses whether the information disclosed adequately reflects the financial position of the Bank, and reasonably reflects the Bank's position in the banking environment.

The Board reviews the Bank's Disclosure Policy annually, to asses, whether the Bank's disclosure documents fulfil the requirements of the Regulations and whether any additional disclosures should be made, or the Bank's disclosure documents be amended. During such reviews, it will be determined whether the Bank's disclosures meet industry standards.

1.4 Nature and extent of information

In order for the Bank to maintain a high level of transparency between itself and the market, the Bank has adopted the following approach towards determining the materiality, nature and extent of the information that will be disclosed to the public:

- information is considered to be material if its omission or misstatement could change or influence a user relying on that information to take banking, economic or investment decisions. Materiality is determined in accordance with the International Accounting Standards (IAS) and accounting concepts;
- the nature and extent of the information will be in compliance with the International Financial Reporting Standards (IFRS);
- the nature and extent of the information disclosed will be in compliance with the minimum requirements as set out in the Regulations and Basel III;
- the information will be consistent with the Bank's audited financial statements and subject to internal control and verification; and
- the information shall be consistent with that available to the directors and senior management to enable them to assess and manage the Bank's risk exposures.

2. Risk management (OVA)

The Board recognises the importance of on-going identification and management of risk in order to maintain a sound financial and reputational condition. The Board adopts a Risk Management Policy to affirm its awareness of the need to establish a program for enterprise risk management (ERM). The Board further commits to providing sufficient personnel and other resources to ensure full implementation of an enterprise risk management program. The Board also acknowledges that each of the Bank's activities has an element of risk. Due to the diverse nature of the Bank's business units, products and services, and the fact that not all risk can be transferred to third parties through insurance policies, contracts or waivers, the management of residual risk at all levels of the Bank is imperative. The Board has delegated responsibility for Risk Management Policy matters to the Risk and Capital Management Committee which is a sub-committee of the Board.

The Bank maintains an ERM Policy and ERM framework to coordinate the many aspects of risk. The Bank's Risk Management Policy articulates the content of the Bank's ERM and Risk Appetite.

The Board expects executive management of the Bank to be committed to building a risk culture, increased awareness and a shared responsibility for risk management at all levels of the Bank. A clearly defined Risk Management Policy including a Risk Appetite Statement supports this.

Risk is an inherent component of the Bank's activities. The ability to effectively identify, assess, measure, respond, monitor and report on risk in activities is critical to the achievement of the Bank's mission and strategic objectives. This risk management approach reflects the Bank's values, influences the Bank's culture and guides the Bank's operations. It is captured in policy statements, Board and management directives, operating procedures, training programs, and is demonstrated in daily activities by management and staff.

ERM is a group of structured and consistent risk management processes that are applied across the Bank. The ERM program identifies, assesses, prioritises, and provides a formal structure for the internal and external risks that impact the organization. These activities are categorised under commonly accepted categories of risk.

The ERM program is driven by a formal approach that is aligned with the Bank's profile and strategic objectives. It is enhanced by formalising roles within the Bank, active committees, policies and procedures, reporting, communication, and technology. The ERM program produces various risk mitigation activities within the business units. The resulting strategic, financial, and operational risk mitigation activities implemented strengthen the Bank, reduce the potential for unexpected losses, and manage the volatility experienced by the Bank.

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board sub-committees are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All Board subcommittees 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, 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 Board is satisfied that the risk management system and processes for identifying, evaluating and managing significant ` identified.

A documented and regularly tested business continuity plan exists to ensure continuity of business-critical activities.

2.1 Risk measurement systems

The Bank's risk system serves as the risk tool that allows the Bank to:

- Record new and current risks
- Determine impact and likelihood of risks
- Assign inherent risk ratings to the risk
- Document root causes
- List controls and mitigating actions against the risks
- Assign residual risk ratings to the risk
- Generate automatic e mail instructions on actions required
- Generate a complete risk register
- Generate risk registers per business units
- Create reports and dashboards

2.2 Risk reporting

Risk reporting takes place on daily, weekly, monthly and quarterly basis through various forums and committees. Quarterly reporting to the Risk and Capital Management Committee contains details of significant operational losses, measured against appetite levels, as well as other ad-hoc topics which were relevant during the quarter under consideration. The report contains relevant information on Capital risk, credit risk, liquidity risk, market risk, regulatory risk and interest rate risk, amongst others. Reporting of risks per business unit includes:

- heat map, risk distribution and overview of top risks;
- trend analysis of the KRI framework (with commentary on indicators falling outside acceptable tolerance levels);
- trend analysis of unresolved internal audit findings;
- review status of risk register action plans, policies, procedures and BIAs, with commentary in relation to overdue items; and
- executive summaries on new risks/concerns identified, and incidents of operational losses occurred.

2.3 Stress testing

Credit risk

The Bank uses stress testing and scenario analysis as a supplementary risk management tool, as well as to determine the amount of capital held for Pillar II capital within the Internal Capital Adequacy Assessment Process (ICAAP).

Stress scenarios applied to credit risk include downgrade assumptions affecting Expected Credit Losses. Sector concentration risk stress testing is performed in order to determine the amount of required capital based on historical information on sector performance. Asset class stress testing assumes down grade scenarios causing an increase in the risk weighting of a particular asset class.

Interest rate risk

Potential changes in net interest income (NII) are quantified by applying potential interest rate movements to the cumulative mismatch position in each defined time band and in each currency book. The GAP model assumes that the derived potential rate movements will occur by way of a parallel rate shock to all maturities along the yield curve. The potential rate change applied to a gap depends on whether the gap is asset-sensitive (more assets re-pricing than liabilities) or liability-sensitive (more liabilities re-pricing than assets). The risk to an asset-sensitive position is that rates will fall. If this occurs, more assets will re-price at a lower rate than liabilities, thereby squeezing the net interest margin and reducing NII. The risk to a liability-sensitive position is that rates will rise also causing a squeeze as higher borrowing costs are not offset by an equivalent earnings rate on assets. Various scenarios are run, and the scenario which results in the biggest loss (either NII or EVE) is used in calculation of economic capital.

Operational risk

The Bank applies the Modified Standardised Approach by adjusting the business lines' beta factors to calculate the internal capital requirement for operational risk under Pillar II. The Bank assumes a low risk appetite for operational risk and applies a 1% limit against the aggregate of the allocated operational risk capital, thus an upward adjustment of 1% across the beta factors of all the business lines is applied. A behavioural analysis for the applicable business lines across the seven event type categories is based on a three-year average of actual operational losses reported to the SARB. This behavioural analysis aims at determining the most likely event categories to be affected by operational losses as well as the relative extent to which said categories will be affected by operational losses. The operational risk strategy is aimed at limiting operational losses, as opposed to the effective recovery thereof; hence, the behavioural analysis is based on gross losses as opposed to losses net of any recoveries. The calculated appetite per event type category is a function of the behavioural analysis for each revenue line. The Bank assumes a low risk appetite for operational risk and a 1% limit is applied against the aggregate of the allocated operational risk capital.

Liquidity risk

The Bank performs a reverse stress test on its Liquidity Coverage Ratio (LCR) to reach a Point of Non-Viability (PONV) which would result in a post-stress ratio less than the regulatory required minimum of 100%.

Other assets

Other assets which includes Full Maintenance leases and Operating Rentals are stress tested in a similar manner as the credit risk component, by multiplying the Bank's Net Book Value (NBV) of each sector by the worst performing quarter of each industrial sector based on historic information.

Equity investment risk

The Bank utilises a historical simulation method to calculate a Value at Risk (VaR) figure over a one-year horizon. Daily profit and loss (PnL) values are calculated over the period. The value which sits on the normal distribution (Gaussian bell curve) is assumed and a one-year VaR figure is calculated by multiplying the confidence interval chosen's (99.50%) scalar of 2.58, with the Net Open Position (NOP) and the portfolio sigma.

Exchange rate risk

The Bank uses the variance covariance method to estimate its FX VaR. This method uses a one-year data set and uses a 99.50% confidence under the normal distribution.

2.4 Risk mitigation

The Bank considered one or more of the following risk strategies to mitigate the risk or reduce the exposure to the risk:

- Manage: Controls or action plans are implemented to mitigate the risk
- Taking or increasing the risk in order to pursue an opportunity
- Removing the risk source
- Changing the likelihood or consequence
- Transfer: The risk is transferred to another party (e.g. a service is outsourced to a third-party vendor). Because risk transfer is an imperfect substitute for sound controls and risk management programmes, the Bank views risk transfer tools as complementary to, rather than a replacement for, thorough internal operational risk control. Having mechanisms in place to quickly identify, recognise and rectify distinct risk errors can greatly reduce exposures. Careful consideration is given to the extent to which risk mitigation tools such as insurance truly reduce risk, transfer the risk to another business sector or area, or create a new risk (e.g. counterparty risk).
- Finance: Financial measures may be taken to absorb the impact of expected or unexpected losses (e.g. provisioning for losses, pricing services or fees according to the level of the risk undertaken, issuing capital to protect against unforeseen losses or insuring against losses).
- Avoid: Discontinuing products, services or processes when the risks associated with these starts to exceed the potential benefits that can be derived.

3. Risk governance (OVA)

3.1 Board of Directors

The Board is responsible for approving new policies and changes to all policies; participating in committees with managers, reviewing status; providing guidance on strategies and risk appetite; staying apprised of significant risk exposures; and ensuring that risks are managed within tolerance levels.

3.2 Audit Committee & Internal Audit

The Audit Committee is a Board level committee responsible for providing assistance to the Board in fulfilling their need for consistency and their responsibility to the shareholders and investment community related to corporate accounting, reporting practices, the quality and integrity of financial reports, and the quality and effective administration of the controls and procedures of all systems and work processes. In terms of the Banks Act (Act 94 of 1990, amended 2007) the Audit Committee is responsible to assist the Board in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied in the Bank in the day-to-day management of its business. The Committee will facilitate and promote communication on the matters referred to above, between the Board and senior management, the external auditors and the internal auditors. The Committee will also be responsible to introduce such measures as, in the Committee's opinion, may serve to enhance the credibility and objectivity of financial statements and reports about the affairs of the Bank.

It will be the task of the Internal Audit Department to provide reasonable assurance over the effectiveness and integrity of the Bank's risk management system in identifying, prioritising, managing and communicating significant exposure to risk and to provide reasonable assurance that the controls as designed are the most appropriate to mitigate risks in a cost-effective manner. Internal controls and procedures will be assessed in terms of the Internal Audit Charter of the Bank.

3.3 Asset and Liability Committee

The Asset and Liability Committee (ALCO) is chaired by an independent non-executive director, to oversee liquidity and interest rate risk programs, shock tests, monitor key risk indicators, develop and agree policies and procedures, set limits, prioritises activities and investments, and provide input to the senior management and the Board regarding the management of risks.

3.4 Credit Committee

The Credit Committee is chaired by an independent non-executive director and oversees credit risk activities, assessments and stress tests, develops and agrees on policies and procedures, sets limits, monitors key risk indicators, prioritises activities and investments, and provides input to the senior management and the Board regarding the management of credit risks.

3.5 Risk and Capital Management Committee

The Risk and Capital Management Committee is chaired by an independent non-executive director, and oversees compliance and operational risk programs, assessments, develops and agrees on policies and procedures, sets limits, monitors key risk indicators, prioritises activities and investments, and provides input to the senior management and the Board regarding the management of risks and the status of the programs, including matters relating to the Bank's capital adequacy levels.

4. Interrelationship of risk management functions (OVA)

4.1 The four lines of defence

The Bank adopts the four lines of defence model.

First line of defence

Business units are the first line of defence. They take risks and are responsible and accountable for the ongoing management of such risks. This includes identifying, assessing and reporting such exposures, taking into account the Bank's risk appetite and its policies, procedures and controls. The manner in which the business line executes its responsibilities reflects the Bank's existing risk culture.

Second line of defence

The second line of defence includes an independent risk management function. The Risk Management function complements the business line's risk activities through its monitoring and reporting responsibilities. Among other things, it is responsible for overseeing the Bank's risk-taking activities and assessing risks and issues independently from the business line. The function promotes the importance of senior management and business line managers in identifying and assessing risks critically rather than relying only on surveillance conducted by the risk management function. Among other things, the Finance function plays a critical role in ensuring that business performance and profit and loss results are accurately captured and reported to the Board, management and business lines that will use such information as a key input to risk and business decisions.

The second line of defence also includes an independent and effective Compliance function. The Compliance function, should among other things, routinely monitor compliance with laws, corporate governance rules, regulations, codes and policies to which the Bank is subject. The Board approves compliance policies that are communicated to all staff. The Compliance function assesses the extent to which policies are observed and reports to senior management and, as appropriate, to the Board on how the Bank is managing its compliance risk. The function also has sufficient authority, stature, independence, resources and access to the Board.

Third line of defence

The third line of defence consists of an independent and effective internal audit function. Among other things, it provides independent review and objective assurance on the quality and effectiveness of the Bank's internal control system, the first and second lines of defence and the risk governance framework including links to organisational culture, as well as strategic and business planning, compensation and decision-making processes. Internal audit is not involved in developing, implementing or operating the risk management function or other first or second line of defence functions.

Fourth line of defence

Assurance from external independent bodies such as the external auditors and other external bodies. External bodies may not have the existing familiarity with the organisation that an internal audit function has, but they can bring a new and valuable perspective. Additionally, their outsider status is clearly visible to third parties, so that they can not only be independent but be seen to be independent.

4.2 Risk culture

Values and Ethics

The Board of Directors (the Board) endorses the Bank's commitment to the conduct of the business in accordance with the highest ethical standards, as expressed in the Code of Conduct, and to responsibility, accountability, fairness and transparency. Bank employees receive training on and are required to acknowledge and accept the Code of Conduct at induction. During the year employees were required to participate in an online survey to confirm their adherence to the Code of Conduct, and policies including the Conflict of Interests policy. The Bank's commitment to ethical conduct in its business is expressed in policies addressing procurement, fraud, criminal activity, zero tolerance, money laundering, proceeds of crime, discrimination and sexual harassment. The responsibility for implementing and executing the Code of Conduct and ethics policies lies with management, and disciplinary action is taken against employees who contravene the policies.

Related Parties

The Conflicts of Interest policy regulates the conduct of dealings with related parties, to ensure that potential conflicts of interest are avoided, and all related party transactions are fully disclosed.

Declarations of related party transactions are required to be made at least quarterly and are reported to the Audit Committee. The directors are required to make declarations of interest at each directors' meeting in accordance with the provisions of the Companies Act, the

Corporate Governance Policy and the Board Charter and Code of Conduct.

Whistleblowing

The Bank participates in the Bidvest Group confidential anti-fraud tip-off line: all reports are investigated, and disciplinary or other appropriate action taken. The Protected Disclosure Policy, to which all employees are subject, specifies the protection of whistle-blowers and their recourse for any occupational detriment they may suffer. In appropriate cases rewards may be given.

5. Main ERM categories (OVA)

The Bank is exposed to various forms of risk in strategic, tactical and daily activities. The main risks the Bank is exposed to are set out in broad categories below.

5.1 Bank Specific Risks

Credit risk

The current and prospective risk to earnings or capital arising from an obligor's failure to meet the term of any contract with the Bank or otherwise perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer or borrower performance. Credit risk is managed within the risk appetite of the Bank. Acceptable credit risk identified in a credit application is mitigated through sufficient underlying security. To enhance the return on funds, and therefore shareholder value, a certain amount of risk has to be taken in the lending activities of the Bank. The risk tolerance of the Bank is, however, low and therefore all credit risk is mitigated through sound credit principles, and all lending done against appropriate security, except where other factors deem it not necessary to obtain specific security.

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

Interest rate risk

The risk to earnings or capital arising from movements in interest rates. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (re-pricing risk); from changing rate relationships among different yield curves affecting Bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in products (options risk).

Liquidity risk

The current and prospective risk to earnings or capital arising from incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from failure to recognise or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value. Liquidity risk can be divided into two sub-categories:

- *Market liquidity risk*: The ease with which assets can be liquidated; and
- *Funding liquidity risk*: The ease with which additional funding can be raised e.g. in the interbank or wholesale markets.

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

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

Market risk

The risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. This risk arises from market-making, dealing and position-taking in interest rate, foreign exchange, equity and commodities markets. 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.

Currency risk

The risk of financial loss due to fluctuations in exchange rates.

Solvency risk

The risk of financial loss due to inability both to meet long-term fixed expenses and to have adequate funds for long-term expansion and growth.

Concentration risk

The risk of an adverse overall spread of the Bank's outstanding accounts over the number or variety of debtors to whom the Bank has lent money.

Counterparty credit risk

The risk arising from the possibility that the counterparty may default on amounts owed on a derivative transaction. Derivatives are financial instruments that derive their value from the performance of assets, interest or currency exchange rates, or indexes.

5.2 Other and operational risks

Compliance risk

The current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. Compliance risk also arises in situations where the laws governing certain Bank products or activities of the Bank's clients may be ambiguous or untested. This risk exposes the Bank to fines, civil money penalties, payment of damages and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential and lack of contract enforceability.

Strategic risk

The current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This risk is a function of the compatibility of the Bank's strategic goals, the business strategies developed to achieve those goals, the resources deployed against those goals and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks and managerial capacities and capabilities. The organisation's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory and other environmental changes.

Reputation risk

The current and prospective impact on earnings and capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the institution to litigation, financial loss or a decline in its customer base. Reputation risk exposure is present throughout the organisation and includes the responsibility to exercise an abundance of caution in dealing with customers and the community.

Operational risk

The risk of loss resulting from inadequate or failed internal processes, people and systems from external events. This includes legal risk. These are the types of non-credit and non-interest rate exposures that can lead to financial loss – fraud, business outages, IT failures, vendor outages or failures, financial statement control issues and processing errors. 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.

Human resource risk

The risk of financial loss due to failure of human resource policies and procedures, including failure to appoint and retain knowledgeable, skilled, and talented staff.

Technology risk

The risk of financial loss due to technology related failure.

Business continuity and disaster recovery risk

The risk of financial loss due to insufficient business continuity or disaster recovery planning.

Systemic risk

The risk of financial loss due to the financial system as a whole not being able to withstand the effects of a market crisis.

Legal risk

The risk of financial loss due to legal action against the Bank, or through the inability of the Bank to exercise its rights.

Tax risk

The risk of non-compliance to tax laws.

Regulatory risk

The risk of a change in regulations and law that might affect the Bank.

Environmental risk

The actual or potential threat of adverse effects on living organisms and the environment by effluents, emissions, wastes, resource depletion, etc., arising out of the Bank's activities.

6. Risk appetite (OVA)

The Board and management use a balanced approach in determining acceptable levels of risk to undertake. The Bank will only tolerate those risks which permit it to:

- achieve its stated strategic business objectives;
- provide a return that meets or exceeds expectations;
- comply with all applicable laws and regulations; and
- conduct its business in a safe and sound manner.

The Board approves, and management sets general risk appetite levels annually through several means including:

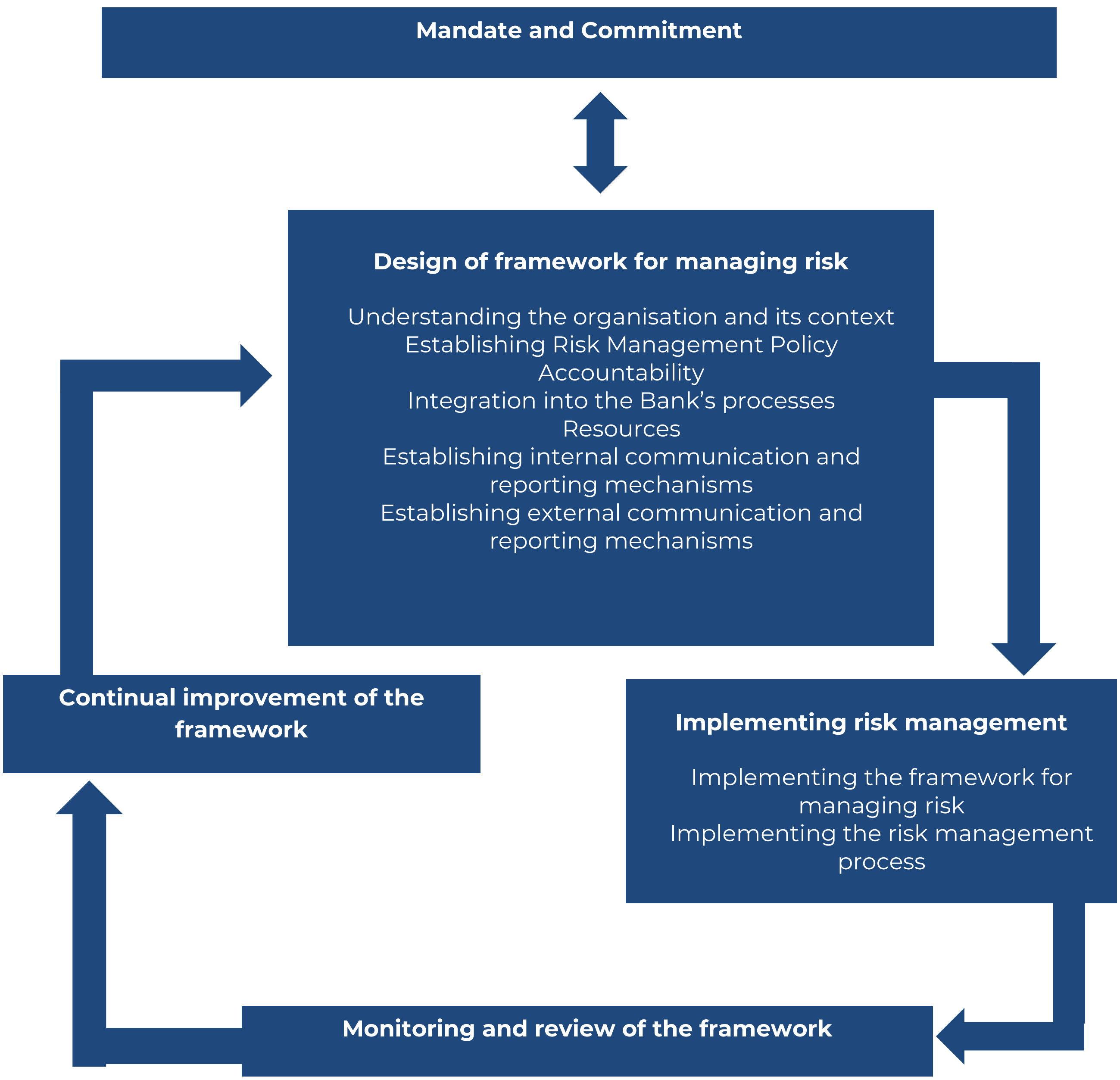
- The overall internal and external risk environments are considered in conjunction with the strategic planning process.
- Key strategic business objectives and their financial and non-financial risk appetite levels are set annually and expressed in the strategic plan and policies. Within the scope of their authority and guidelines established in business plans, policies, and procedures, business unit managers make decisions regarding acceptable levels of risk. Managers are also responsible for implementing risk mitigation strategies of retention, control, avoidance and transfer.

For monitoring and reporting purposes, management and the Board use a set of Key Risk Indicators of inherent risk across the predefined risk categories, assessing if they are within tolerances, and if the trend is increasing, stable, or decreasing. These are tracked in a common reporting format. High risk indicators and action plans are tracked by the various committees with update reporting to the Board at least quarterly or as requested.

Bank-wide risk appetite statement

The Bank considers both qualitative and quantitative measures as part of its risk appetite and focuses on capital, liquidity, profitability, and growth as primary measures. Financial operations are managed to obtain a reasonable risk / return relationship within the management of the various risks to which the Bank is exposed, including strategy risk, credit risk, liquidity risk and reputational risk. The Bank's risk appetite is linked to its short and longer-term strategy focussing on higher return on equity, growth in profitability, year on year growth and revenue diversification. The Bank's risk appetite also specifies, as part of risk appetite, risk tolerances around its risk appetite, such as acceptable limits of credit losses. The risk appetite is reviewed annually and is adjusted to take cognisance of target values and market prospects. The Bank's overall risk appetite is relatively low.

7. Components of the Bank's ERM framework (OVA)



8. Capital management

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 III and calculates requirements for market risk in its banking portfolios based upon the Bank's market risk models and uses both external and internal grading as the basis for risk weightings for credit risk.

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

- tier I capital, which includes ordinary share capital, share premium and appropriated retained earnings; and
- tier II capital, which includes collective impairment allowances.

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 statement of financial position exposures.

The Bank's ICAAP is formalised and approved by the Board. The Bank's policy is to maintain a strong capital base 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 year and previous year.

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

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

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

Statement of financial position forecasting based on business and strategy planning allows management to ensure that minimum required capital ratios are adhered to.

The table below provides a breakdown of the Bank's Risk Weighted Assets and required capital as at 31 March 2021.

8.1 Overview of Risk Weighted Assets (OV1)

		RWA (R'000)		Minimum capital requirements (R'000)
		Mar-21	Mar-20	Mar-21
1	Credit risk (excluding counterparty Credit Risk (CCR) and Credit Valuation Adjustment (CVA)	4,275,695	4,709,265	448,948
2	Of which Standardised Approach (SA)	4,275,695	4,709,265	448,948
3	Of which Foundation Internal Rating-Based (FIRB) approach	-	-	-
4	Of which Supervisory slotting approach	-	-	-
5	Of which Advanced Internal Ratings Based Approach (A-IRB)			
6	Counterparty Credit Risk (CCR) and Credit Valuation Adjustment (CVA)	11,366	74,020	1,193
7	Of which Standardised Approach for c counterparty credit risk (SA - CCR)	11,366	74,020	1,193
8	Of which Internal Model Method (IMM)	-	-	-
9	Of which other			
10	Credit Valuation Adjustment (CV)	-	-	-
11	Equity positions under the simple risk weight approach	77,437	65,202	8,131
12	Equity investment in funds – look through approach			
13	Equity investment in funds – mandate based approach			
14	Equity investment in funds – fall back approach			
15	Settlement risk			
16	Securitisation exposures in banking book			
17	Of which: securitisation internal ratings-based approach(SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)			
19	Of which: securitisation standardised approach (SEC-SA)			
20	Market Risk	16,736	5,663	1,757
21	Of which Standardised Approach (SA)	16,736	5,663	1,757
22	Of which Internal Model Method approaches (IMM)	-	-	-
23	Capital charge for switch between trading book and banking book			
24	Operational Risk	2,226,936	2,527,147	233,828
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
26	Floor adjustment	-	-	-

	Other risks	2,442,387	2,499,415	256,451
27	**Total (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 + 25 + 26)**	**9,050,557**	**9,880,712**	**950,308**

The percentage minimum capital requirement used for calculating the capital requirement is constructed as follows: 8% minimum capital requirement, plus 2.5% capital conservation buffer - Total: 10.5%.

Other risks reflected in the table above relate to property and equipment and other assets as contained in the Bank's statement of financial position.

8.2 Key metrics (R'000) (KM1)

As at 31 December 2020 the Bank was adequately capitalised and the below capital related items are highlighted.

		a T	b T-1	c T-2	d T-3	e T-4
Available capital						
1	Common Equity Tier 1	2,092,988	2,054,665	2,050,741	2,058,247	2,005,646
1a	Fully loaded ECL accounting model	2,092,988	2,054,665	2,050,741	2,058,247	2,005,646
2	Tier 1	2,092,988	2,054,665	2,050,741	2,058,247	2,005,646
2a	Fully loaded ECL accounting model Tier 1	2,092,988	2,054,665	2,050,741	2,058,247	2,005,646
3	Total qualifying capital	2,134,377	2,099,532	2,096,901	2,099,414	2,009,807
3a	Fully loaded ECL accounting model total capital	2,134,377	2,099,532	2,096,901	2,099,414	2,009,807
Risk weighted assets						
4	Total risk-weighted assets (RWA)	**9,050,557**	**9,240,168**	**9,379,391**	**9,547,834**	**9,880,712**
Risk based capital ratios as percentage of RWA						
5	Common Equity Tier 1 (%)	23.13%	22.24%	21.86%	21.56%	20.30%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	23.13%	22.24%	21.86%	21.56%	20.30%
6	Tier 1 ratio (%)	23.13%	22.24%	21.86%	21.56%	20.30%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	23.13%	22.24%	21.86%	21.56%	20.30%
7	Total qualifying capital ratio (%)	23.58%	22.72%	22.36%	21.99%	20.34%
7a	Fully loaded ECL accounting model total capital ratio (%)	23.58%	22.72%	22.36%	21.99%	20.34%
Additional CET1 buffer requirements as percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement (%)	-	-	-	-	-
10	Bank G-SIB and/or D-SIB additional requirement (%)	-	-	-	-	-
11	Total of bank CET1 specific buffer requirement (%) (row 8 + row 9 + row 10)	2.5%	2.5%	2.5%	2.5%	2.5%
12	CET1 available after meeting the bank's	12.63%	11.74%	11.36%	10.06%	8.80%

	minimum capital requirements (%)					
Basel III Leverage Ratio						
13	Total Basel III leverage ratio exposure measure	12,055,556	11,675,419	11,392,540	11,484,987	11,885,154
14	Basel III leverage ratio (%) (row 2/ row 13)	17.36%	17.60%	18.00%	17.92%	16.88%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%)	17.36%	17.60%	18.00%	17.92%	16.88%
Liquidity Coverage Ratio						
15	Total HQLA	2,392,047	2,373,047	1,507,924	1,214,248	1,421,506
16	Total net cash outflow	468,629	493,185	450,852	504,045	536,445
17	LCR ratio (%)	510%	481%	334%	241%	265%
Net Stable Funding Ratio						
18	Total Available Stable funding	8,992,997	8,985,820	8,800,815	8,731,262	9,221,934
19	Total Required Stable funding	5,564,902	5,612,586	5,750,496	5,855,627	6,206,521
20	NSFR ratio	162%	160%	153%	149%	149%

*** Values and percentages have not changed significantly between quarters other for the LCR. The movements in the LCR are caused by changes in the Bank's High Quality Liquid Assets (HQLA) resulting from the purchase and sale of HQLA to optimize yield.

Description	R'000
Total Capital and reserves	**2,726,595**
Qualifying capital and reserves	2,134,377
Of which: Tier I	2,092,988
Of which: Tier II	41,389
Total amount of qualifying capital required	**950,308**
Total risk weighted assets	**9,050,557**
Capital Adequacy Ratio (CAR) (qualifying capital and reserves)	23.58%
Capital Adequacy Ratio (CAR) (total capital and reserves)	30.13%
Regulatory minimum CAR	10.5%
Internal Board approved CAR	16%

8.3 Summary comparison of accounting assets vs leverage ratio exposure measure (LR1)

	Item	R'000
1	Total consolidated assets as per published financial statements	11,885,164
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(55,048)
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	(144,685)
4	Adjustments for derivative financial instruments	716
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off- balance sheet exposures)	396,559
7	Other adjustments	(27,150)
8	**Leverage ratio exposure**	**12,055,556**

8.4 Leverage Ratio Common Disclosure Template (LR2)

	Item	Leverage ratio framework (Mar 2021)	Leverage ratio framework (Mar 2020)
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	11,885,164	11,666,390
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(226,883)	(263,271)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**11,658,281**	**11,403,119**
	Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	8,677	85,310
5	Add-on amounts for PFE associated with *all* derivatives transactions	(7,961)	13,363
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	
8	(Exempted CCP leg of client-cleared trade exposures)	-	
9	Adjusted effective notional amount of written credit derivatives	-	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	
11	**Total derivative exposures (sum of lines 4 to 10)**	**716**	**98,673**
	Securities financing transaction exposures		
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sales accounting transactions	-	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	
14	CCR exposure for SFT assets	-	
15	Agent transaction exposures	-	
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**	
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	2,409,312	2,377,083
18	(Adjustments for conversion to credit equivalent amounts)	(2,012,753)	(1,993,721)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**396,559**	**383,362**
	Capital and total exposures		
20	**Tier 1 capital**	2,092,988	2,005,646
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**12,055,556**	**11,885,154**
	Leverage ratio		

22	**Basel III leverage ratio**	17.36%	16.88%

Liquidity coverage ratio (LCR)

This standard aims to ensure that the Bank has an adequate stock of unencumbered High Quality Liquid Assets (HQLA) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar day liquidity stress scenario. Given the uncertain timing of outflows and inflows, the Banks is also expected to be aware of any potential mismatches within the 30-day period and ensure that sufficient HQLA are available to meet any cash flow gaps throughout the period.

*(above information is based on the Basel Committee on Banking Supervision January 2013 paper: "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools")

Additional disclosure on liquidity risk can be found in Note 18 of the Bank's AFS as published on the Bank's website: www.bidvestbank.co.za.

9.1 Liquidity Coverage Ratio (R'000) (LIQ1)

(R'000)

		Total Unweighted Value (Average)	Total Weighted Value (Average)
HIGH-QUALITY LIQUID ASSETS			
1	Total High-quality liquid assets (HQLA)		2,129,387
			CASH OUTFLOWS
2	Retail deposits and deposits from small business customers, of which:	3,898,972	389,897
3	Stable deposits	-	-
4	Less stable deposits	3,898,972	389,897
5	Unsecured wholesale funding, of which:	3,373,737	1,434,455
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	3,373,737	1,434,455
8	Unsecured debt	-	-
9	Secured wholesale funding		-
10	Additional requirements, of which:		
11	Outflows related to derivative exposures and other collateral requirements	9,882	9,882
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	-	-
14	Other contractual funding obligations	42,298	42,298
15	Other contingent funding obligations	2,220,768	120,780
16	**TOTAL CASH OUTFLOWS**		**1,997,312**
			CASH INFLOWS
17	Secured lending (e.g. reverse repos)	-	-

18	Inflows from fully performing exposures	4,188,201	3,978,973
19	Other cash inflows	300,114	300,114
20	**TOTAL CASH INFLOWS**		4,279,087
			TOTAL ADJUSTED VALUE
21	**TOTAL HQLA**		**2,129,387**
22	**TOTAL NET CASH OUTFLOWS**		**499,328**
23	**LIQUIDITY COVERAGE RATIO (%)**		**426%**

Annexure A – Pillar III Disclosure schedule

The schedule below provides an index of all required disclosure as set out in the Basel Pillar III consolidated and enhanced framework.

Table	Description	Frequency	Comment
KM1	Key metrics	Quarterly	Included
KM2	Key metrics – TLAC requirements	Quarterly	The Bank is not a GSIB. Excluded
OVA	Bank risk management approach	Annual	Excluded
OV1	Overview of RWA	Quarterly	Included
LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	Annual	Excluded
LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Annual	Excluded
LIA	Explanations of differences between accounting and regulatory exposures amounts	Annual	Excluded
PV1	Prudent valuation adjustments (PVA)	Annual	Excluded
CC1	Composition of regulatory capital	Semi-annual	Excluded
CC2	Reconciliation of regulatory capital to balance sheet	Semi-annual	Excluded
CCA	Main features of regulatory capital instruments and of other TLAC eligible instruments	Semi-annual	The Bank does not have traded shares. Excluded. Composition of Regulatory capital included in table CC1
TLAC1	TLAC composition for G-SIBs	Semi-annual	The Bank is not a GSIB. Excluded
TLAC2	Material subgroup entity	Semi-annual	The Bank is not a GSIB. Excluded
TLAC3	Resolution entity	Semi-annual	The Bank is not a GSIB. Excluded

GSIB1	Disclosure of G-SIB indicators	Annual	Annual: The Bank is not a GSIB. Excluded
CCyB1	Geographical distribution of credit exposures used in the countercyclical buffer	Semi-annual	The Bank does not have a CCyB. Excluded
LR1	Summary comparison of accounting assets vs leverage ratio exposure measure	Quarterly	Included
LR2	Leverage ratio common disclosure template	Quarterly	Included
LIQA	Liquidity risk management	Annual	Excluded
LIQ1	Liquidity Coverage Ratio (LCR)	Quarterly	Included
LIQ2	Net Stable Funding Ratio (NSFR)	Semi-annual	Excluded
CRA	General qualitative information about credit risk	Annual	Excluded
CR1	Credit quality of assets	Semi-annual	Excluded
CR2	Changes in stock of defaulted loans and debt securities	Semi-annual	Excluded
CRB	Additional disclosure related to the credit quality of assets	Annual	Excluded
CRC	Qualitative disclosure requirements related to credit risk mitigation techniques	Annual	Excluded
CR3	Credit risk mitigation techniques	Semi-annual	Excluded
CRD	Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk	Annual	Excluded
CR4	Standardised approach – credit risk exposure and credit risk mitigation (CRM) effects	Semi-annual	Excluded
CR5	Standardised approach – exposures by asset classes and risk weights	Semi-annual	Excluded
CRE	Qualitative disclosures related to IRB models	Annual	The Bank follows the Standardised approach. Excluded
CR6	IRB – credit risk exposures by portfolio and probability of default (PD) range	Semi-annual	The Bank follows the Standardised approach. Excluded
CR7	IRB – effect on RWA of credit derivatives used as CRM techniques	Semi-annual	The Bank follows the Standardised approach. Excluded
CR8	RWA flow statements of credit risk exposures under IRB	Semi-annual	The Bank follows the Standardised approach. Excluded
CR9	IRB – backtesting of PD per portfolio	Annual	The Bank follows the Standardised approach. Excluded

CR10	IRB (specialised lending and equities under the simple risk weight method)	Semi-annual	The Bank follows the Standardised approach. Excluded
CCRA	Qualitative disclosure related to counterparty credit risk	Annual	Excluded
CCR1	Analysis of counterparty credit risk (CCR) exposure by approach	Semi-annual	Excluded
CCR2	Credit valuation adjustment (CVA) capital charge	Semi-annual	Excluded
CCR3	Standardised approach of CCR exposures by regulatory portfolio and risk weights	Semi-annual	Excluded
CCR4	IRB – CCR exposures by portfolio and PD scale	Semi-annual	The Bank follows the Standardised approach. Excluded
CCR5	Composition of collateral for CCR exposure	Semi-annual	Excluded
CCR6	Credit derivatives exposures	Semi-annual	The Bank does not have any Credit derivative exposure. Excluded
CCR7	RWA flow statements of CCR exposures under the Internal Model Method (IMM)	Quarterly	The Bank does not follow the Internal Model Method. Excluded
CCR8	Exposures to central counterparties	Semi-annual	The Bank does not clear through any central counterparties. Excluded
SECA	Qualitative disclosure requirements related to securitisation exposures	Annual	The Bank does not have any securitisation exposure. Excluded
SEC1	Securitisation exposures in the banking book	Semi-annual	The Bank does not have any securitisation exposure. Excluded
SEC2	Securitisation exposures in the trading book	Semi-annual	The Bank does not have any securitisation exposure. Excluded
SEC3	Securitisation exposures in the banking book and associated regulatory capital requirements	Semi-annual	The Bank does not have any securitisation exposure. Excluded
SEC4	Securitisation exposures in the banking book and associated capital requirements	Semi-annual	The Bank does not have any securitisation exposure. Excluded
MRA	General qualitative disclosure requirements related to market risk	Annual	Excluded

MR1	Market risk under SA	Semi-annual	Excluded
MRB	Qualitative disclosures for banks using the IMA	Annual	The Bank does not follow the Internal Model Method. Excluded
MRC	The structure of desks for banks using the IMA	Semi-annual	The Bank does not follow the Internal Model Method. Excluded
MR2	RWA flow statements of market risk exposures under IMA	Semi-annual	The Bank does not follow the Internal Model Method. Excluded
MR3	IMA values for trading portfolios	Semi-annual	The Bank does not follow the Internal Model Method. Excluded
MR4	Comparison of VaR estimates with gains/losses	Semi-annual	The Bank does not follow the Internal Model Method. Excluded
IRRBBA	IRRBB risk management objective and policies	Annual	Excluded
IRRBB1	Quantitative information on IRRBB	Annual	Excluded
REMA	Remuneration policy	Annual	Excluded
REM1	Remuneration awarded during the financial year	Annual	Excluded
REM2	Special payments	Annual	Excluded
REM3	Deferred remuneration	Annual	Excluded