Bidvest Bank Limited

(Registration No 2000/006478/06)

2013

Audited Integrated Annual Report

for the year ended June 30 2013

Bidvest Bank

Contents

Audited Integrated Annual Report for the year ended June 30 2013

www.bidvestbank.co.za

Six-year review

Consolidated statement of financial performance

for the year ended June 30

	2013 R'000	2012 R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
Net interest income	**200 424**	165 269	123 579	61 534	58 305	45 371
Interest income	**154 528**	100 514	93 523	97 751	105 109	71 887
Imputed interest from rental income	**117 613**	124 593	104 457	9 168	2 774	53
Interest expense	**(71 717)**	(59 838)	(74 401)	(45 385)	(49 578)	(26 569)
Net fee and commission income	**195 557**	153 542	144 941	153 815	147 621	112 145
Fee and commission income	**228 517**	216 435	199 582	200 492	190 606	144 465
Fee and commission expense	**(32 960)**	(62 893)	(54 641)	(46 677)	(42 985)	(32 320)
Net income from leasing activities	**251 864**	372 813	314 559	16 630	959	38
Leasing income	**369 477**	497 406	419 016	25 798	3 733	91
Imputed interest reflected under net interest income	**(117 613)**	(124 593)	(104 457)	(9 168)	(2 774)	(53)
Net trading income	**238 758**	237 819	262 172	245 822	251 084	174 768
Other income	**10 136**	902	2 819	7 023	3 477	3 073
Operating income	**896 739**	930 345	848 070	484 824	461 446	335 395
Net credit impairment charges	**(6 737)**	(1 456)	(2 239)	(1 402)	(2 276)	(5 004)
Operating income after credit impairment charges	**890 002**	928 889	845 831	483 422	459 170	330 391
Operating expenditure	**(511 570)**	(483 412)	(445 758)	(326 349)	(271 657)	(205 744)
Employment costs	**(244 935)**	(246 637)	(210 794)	(134 427)	(121 525)	(94 745)
Operating leases	**(70 916)**	(67 186)	(66 915)	(46 998)	(38 534)	(21 820)
Risk control	**(23 751)**	(24 552)	(27 041)	(31 976)	(26 988)	(20 463)
Information technology costs	**(20 582)**	(21 464)	(23 746)	(20 737)	(16 234)	(11 755)
Depreciation and amortisation	**(29 592)**	(29 925)	(31 309)	(22 422)	(14 257)	(10 557)
Other operating expenditure	**(121 794)**	(93 648)	(85 953)	(69 789)	(54 119)	(46 404)
Operating income before indirect taxation	**378 432**	445 477	400 073	157 073	187 513	124 647
Indirect taxation	**(15 570)**	(12 558)	(11 247)	(10 216)	(4 748)	(7 987)
Profit before direct taxation	**362 862**	432 919	388 826	146 857	182 765	116 660
Direct taxation	**(102 483)**	(115 881)	(105 309)	(38 536)	(50 134)	(34 904)
Profit for the year	**260 379**	317 038	283 517	108 321	132 631	81 756

Six-year review continued

Consolidated statement of financial position

at June 30

	2013 R'000	Restated 2012 R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
Assets						
Cash and cash equivalents	**1 825 049**	1 385 083	927 336	975 582	752 374	533 175
Derivative financial assets	**21 563**	27 550	17 831	28 123	49 356	9 587
Loans and advances	**1 212 147**	1 002 466	680 246	548 169	582 145	538 984
Leased assets	**1 223 601**	1 399 660	1 702 077	1 640 712	16 480	1 277
Investment securities	**98 522**	101 599	82 714	59 028	62 808	52 596
Other assets	**98 767**	122 215	95 373	96 288	41 620	37 289
Equipment	**65 151**	70 817	81 582	66 276	41 438	26 392
Intangible assets	**36 910**	34 969	31 535	30 046	26 436	4 856
Deferred taxation	**–**	–	–	8 030	1 882	118
Current taxation	**33 108**	9 321	–	2 980	–	–
Total assets	**4 614 818**	4 153 680	3 618 694	3 455 234	1 574 539	1 204 274
Equity and liabilities						
Equity	**1 888 862**	1 636 405	1 235 251	952 858	604 983	469 295
Share capital	**2 070**	2 070	1 980	1 980	1 800	1 800
Share premium	**525 709**	525 709	435 799	435 799	165 979	165 979
Reserves	**1 361 083**	1 108 626	797 472	515 079	437 204	301 516
Liabilities	**2 725 956**	2 517 275	2 383 443	2 502 376	969 556	734 979
Intergroup loans	**292 706**	419 612	619 548	863 036	–	–
Derivative financial liabilities	**32 062**	18 560	13 376	17 872	41 492	7 813
Deposits	**2 123 953**	1 780 330	1 360 381	1 178 110	832 386	466 935
Other liabilities	**149 032**	186 440	235 105	242 708	95 110	242 348
Deferred taxation	**127 762**	112 133	112 461	103 150	–	–
Current taxation	**–**	–	42 372	97 062	368	17 683
Defined benefit liability	**441**	200	200	438	200	200
Total equity and liabilities	**4 614 818**	4 153 680	3 618 694	3 455 234	1 574 539	1 204 274

Six-year review continued

Statistics, returns and capital adequacy

	2013	Restated 2012	2011	2010	2009	2008
Statistical review						
Statement of financial performance						
Net interest income to assets (%)	**4,3**	4,0	2,6	2,2	4,3	4,9
Non-interest income to assets (%)	**15,1**	18,4	23,1	14,5	28,9	31,0
Operating expenses to assets (%)	**11,1**	11,6	14,2	11,3	19,6	22,0
Interest income to interest earning assets (%)	**5,1**	4,4	6,8	4,2	9,8	10,0
Interest expense to funding liabilities (%)	**3,0**	2,7	4,1	3,2	7,6	8,0
Cost to income (%)	**59,2**	52,6	52,6	67,3	58,9	61,3
Non-interest income to total income (%)	**77,6**	85,4	85,4	86,3	87,2	85,6
Credit loss ratio (%)*	**0,6**	0,1*	0,3*	0,3*	0,4*	0,9*
Effective tax excluding indirect tax (%)	**27,1**	26,0	26,3	24,5	26,7	28,0
Effective tax including indirect tax (%)	**31,3**	28,8	29,1	31,0	29,3	34,4
Statement of financial position						
Return on assets (%)	**5,6**	7,6	5,9	3,6	8,4	6,8
Return on equity (%)	**13,8**	19,4	23,0	15,9	21,9	17,4
Loans and leased assets to deposits (%)	**114,7**	134,9	120,3	109,7	71,9	115,7
Regulatory capital to risk-weighted assets (%)	**15,9**	17,1	16,2	21,9	12,8	12,5
Financial leverage (times)	**2,4**	2,5	2,9	3,6	2,6	2,6
Net stable funding ratio (%)#	**79,0**	N/A	N/A	N/A	N/A	N/A
Liquidity coverage ratio (%)#	**123,0**	N/A	N/A	N/A	N/A	N/A
Statistical information						
Number of employees	**1 049**	1 113	1 058	997	699	550
Number of branches	**92**	94	90	88	79	65
Income per employee (R'000)	**855**	836	814	713	660	616
Expense per employee (R'000)	**488**	434	434	452	389	374
Profit before taxation per employee (R'000)	**361**	400	378	256	268	227
Market indicators						
Exchange rates at June 30						
USD	**10,00**	8,19	6,79	7,67	7,71	7,85
GBP	**15,23**	12,86	10,87	11,48	12,75	15,66
Euro	**13,06**	10,39	9,82	9,39	10,86	12,38
Average exchange rates						
USD	**8,86**	7,74	7,01	7,59	9,04	7,30
GBP	**13,88**	12,27	11,14	12,03	14,42	14,64
Euro	**11,47**	10,38	9,55	10,57	12,32	10,76
Average prime overdraft rate (%)	**8,52**	9,00	9,30	10,38	14,17	14,29

* *Restated to reflect as a percentage of loans and advances only.*

\# *Calculated based on the requirements of the regulations relating to banks as published and implemented with effect from January 1 2013.*

Sustainability report

Material issues

- Ensuring compliance with all regulations and responsible banking practices throughout the Bank
- Continued focus on the information technology strategies of the Bank in order to harness competitive advancements in technology
- Diversification of revenue streams and broadening of the customer base
- Continued focus to reduce crime losses
- Attracting and retaining senior historically disadvantaged individuals
- Improved efficiency, productivity and the elimination of expense waste
- Succession planning and staff continuity planning
- Challenging trading conditions, including low interest rates and depreciating local currency
- Impact of the worldwide recession on the South African economy

Statistical information

	2013	2012
Operating income (R'000)	**896 739**	930 345
Profit before direct taxation (R'000)	**362 862**	432 919
BEE procurement (R'000)	**893 003**	1 075 399
Training spend (R'000)	**18 348**	20 100
Training spend per employee (Rand)	**17 491**	18 059
Number of employees trained	**1 049**	1 113

Sustainability report continued

1. Corporate governance

1.1 Introduction

The Bank is indirectly a wholly owned subsidiary of The Bidvest Group Limited. The Bank is committed to:

- the diversification of revenue streams without losing focus on its core product offerings, being asset-based finance and foreign exchange;
- the retention and growth of its extensive customer base;
- the management of the risks associated with banking;
- the fulfilment of its environmental, health, safety and socio-economic obligations; and
- the development of employee skills to meet financial services industry standards.

1.2 Corporate governance, King III, values and ethics

Corporate governance

The Board of Directors (the Board) recognises the importance of the principles of good corporate governance, and conducts itself in accordance with the Bank's statutes, the Banks Act, the Companies Act, the King Report and Code on Corporate Governance for South Africa (King III) and its own code of conduct.

The Board endorses the Bank's Code of Ethics, and its commitment to integrity, confidentiality, compliance with all applicable legislation, and employment equity.

The Board's objectives are the development and sustainable growth of the Bank's business in accordance with applicable regulatory requirements, for the benefit of all stakeholders. The achievement of these objectives is dependent on the adherence to good corporate governance throughout the organisation.

King III

The guidelines set out in King III, embodying international best practice, are endorsed by the Board to the extent that they are appropriate, given the Bank's status as a wholly owned subsidiary of a JSE-listed company, The Bidvest Group Limited.

Values and ethics

The Bank is committed to the conduct of its business in accordance with the highest ethical standards, as expressed in its Code of Ethics, and to responsibility, accountability, fairness and transparency. Bank employees are required to acknowledge and accept the Code of Ethics, at induction, and also on an annual basis. The Bank participates in an independently operated hotline for the reporting of illegal, fraudulent and unethical conduct: all reports are investigated, and action is taken where necessary.

Directors and employees are required to declare their personal interests in accordance with the Companies Act and Code of Ethics.

The Bank's mission statement and values are available on the opening page of the Bank's intranet site, as a constant reminder to all employees of our commitment to integrity and to our customers.

2. The Board of Directors

The Board approves Bank strategy as proposed by management, and management is responsible for the alignment of the strategy with the approved risk appetite, its implementation and the assessment of its effectiveness.

2.1 Board composition

At June 30 2013, the Board was composed of two executive and five non-executive directors. The chairman is an independent non-executive, and the roles of the chairman and chief executive are separate. Board composition aims to ensure unfettered decision-making without domination by any group or individual. The varied experience and expertise of the directors contributes to the Board's effectiveness and its achievement of its responsibilities. The Board met four times during the year.

2.2 Board committees

The following Bidvest Bank Holdings Limited committees continue to review the activities of the Bank in accordance with such committees' terms of reference. The committees are:

- Audit;
- Corporate Governance and Social and Ethics Committee;
- Risk and Capital Management; and
- Strategic Development.

2. The board of directors continued

2.3 Meeting attendance

Details of the attendance by directors at Board and Board sub-committee meetings is set out in the schedule below:

Committee attendance

	Board	Audit	Risk and Capital Management	Corporate Governance (including Social and Ethics)	Strategic Development	Credit	ALCO	SARB Trilateral and directors' meeting	Remco (included in Corporate Governance from Jan 2013)
Number of meetings	4	4	4	3	3	17	18	1	3
EK Diack@*	4	4 (Chairman)	4 (Chairman)		1[i]		2	1	
LI Jacobs* (retired December 2012)	2	2		1				1	3
B Joffe*	3							1	
P Nyman*	4	4	4	3	3	8 (Chairman)	9 (Chairman)	1	3
JL Pamensky*@ (retired August 2012)	1								
NG Payne*@	4 (Chairman)	4[i]	4	3 (Chairman)	3 (Chairman)		2	1	3 (Chairman)
AC Salomon#	4	4[i]	4[i]	3[i]	3	17	17	1	3[i]
MJ Liebenberg# (appointed January 2013)	2	2[i]	2[i]	2[i]	2	9	9		
PC Baloyi*@ (Appointed August 2012)	4	2						1	

* *Non-executive director* @ *Independent* # *Executive director* [i] *Attendance by invitation*

2.4 Bidvest Bank committee composition and terms of reference

The following committees continue to review the activities of the Bank in accordance with such committees' terms of reference:

The **Audit Committee** is composed of three non-executive directors, Messrs Diack (chairman), Baloyi and Nyman. The function of the Committee is, *inter alia*, to monitor the financial, operational and management reporting processes, and to evaluate the adequacy and effectiveness of internal controls, accounting practices and processes, and information systems. The Committee reviews the work of internal audit, and the head: internal audit has unrestricted access to the Committee. Representatives of the external auditors, Deloitte, attend all Committee meetings. The Board is satisfied that the Committee has met its responsibilities under its terms of reference.

The Committee has one sub-committee:

- The **Credit Committee** is chaired by a non-executive director, Peter Nyman, and is composed of the executive directors and the heads: compliance, risk and governance, credit and risk. The Committee's role is the effective management of credit risk within the mandate set out in the credit risk management policy. A total of 17 meetings were held during the year.

The **Risk and Capital Management Committee** is composed of three non-executive directors, Messrs Diack (chairman), Payne and Nyman. The Committee's function is principally to review and monitor the risk management strategy and policy, and to co-ordinate risk and capital management assurance activities. The Committee reviews the work of compliance, and the Compliance Officer has unrestricted access to the Committee. A representative of Bidvest Group internal audit attends meetings by invitation.

The Committee has one subcommittee:

- The **Asset and Liability Committee** (**ALCO**) is chaired by a non-executive director, Peter Nyman, and is composed of the executive directors, and the heads: finance, compliance, risk and governance, risk, and the chief dealer. The Committee's function is the optimum management of the Bank's assets, liabilities and commitments in accordance with Board mandates and limits. This includes liquidity and cash flow management, and maintaining a strong and sound balance sheet. Some 17 meetings were held during the year.

The **Corporate Governance and Social and Ethics Committee** is composed of two non-executive directors, and chaired by the Board chairman. The Committee's purpose is to assist the Board to maintain and enhance the process of corporate governance in the Bank, including the delegation of authority to committees and senior management. The Committee oversees the implementation in the Bank of relevant Bidvest Group corporate governance policies and processes. The Committee also undertakes the functions of the Remuneration and Nominations Committees, including the appointment, induction and training of directors, and succession planning of the Board and senior management; and the development of remuneration guidelines for executives and senior management. The nominations policy guides the Corporate Governance and Social and Ethics Committee in its identification and nomination of candidates to the Board and to senior management positions. In addition, the Committee undertakes the responsibilities of a social and ethics committee, as prescribed by the Companies Act, 2008.

The **Strategic Development Committee** is composed of three senior executives and two non-executive directors, to examine business opportunities, and to advise the Board on the Bank's strategic direction.

The **Strategic Executive Committee** is chaired by the Managing Director and is composed of the financial director, and the heads of the Bank's major divisions, namely Lending, Transactional Banking and Products. The Committee meets monthly, and its focus is strategic.

Operational meetings are held monthly by the business units.

In addition to the aforementioned committees, internal audit, the risk and compliance functions and the Forensic Investigations and Security Department address corporate governance in the Bank.

2.5 Board appointments and succession planning

The identification and appointment of directors with appropriate banking knowledge and experience remains an important issue for the Board.

Mr JL Pamensky retired on August 31 2012 and Mr LI Jacobs retired on December 31 2012.

Mr PC Baloyi was appointed a non-executive director in August 2012, and Mr MJ Liebenberg was appointed financial director on January 1 2013.

2.6 Director induction, training and development programmes

New directors receive an induction pack, an introduction to the business through branch and department visits and interviews with senior management. Ongoing director training is provided, including materials on legislative and regulatory changes applicable to the Bank's operations, and seminars by experts on topical banking and financial matters.

2.7 Directors' independence and performance

The King III definition of director independence is adhered to.

The directors regularly assess the effectiveness of the Board, Board sub-committees, their chairmen and the Managing Director. The results of the assessments are presented to the Corporate Governance and Social and Ethics Committee. Individual director appraisal is the responsibility of the Board chairman.

The directors are aware of the standard of directors' conduct set out in the Companies Act, 2008.

Interests of directors and officers

No contracts were entered into in which directors or officers of the Bank had an interest and which significantly affected the business of the Bank. Transactions with directors are entered into in the normal course of business, under terms that are no more favourable than those with third parties.

3. Risk management

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 sub-committees 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 process for identifying, evaluating and managing significant risks is effective, and operated throughout the period of this report, providing reasonable assurance. The Board is further satisfied that the processes will identify and enable it to take adequate action against any material undue, unexpected or unusual risks. In the period under review, no such risks were identified.

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

4. Compliance

The Compliance Department functions independently of operations and enjoys the support and co-operation of the Board and executive management.

Generally Accepted Compliance Practice (GACP) has been implemented, and processes are mature. A risk management methodology has been used to assist in introducing measures to manage regulatory risk and to introduce a managerial control culture to maintain high levels of compliance in all departments.

Continuous monitoring is conducted, by compliance, to assess the levels of compliance with regulatory requirements specific to banking, and also to meet the requirements of Regulation 43 of the Companies Act, 71 of 2008 in relation to the Social and Ethics Committee.

The Compliance Officer reports directly to the Risk and Capital Management Committee and corresponds with the regulators for the financial services industry, including the South African Reserve Bank and the Financial Services Board.

Other compliance initiatives include:

- a new product approval process to encourage appropriate risk assessments at the earliest stage of a proposal, as well as meeting TCF (treating customers fairly) requirements to consider customer needs and expectations during all phases of a project; and
- a new regulatory risk assessment process to ensure that all new legislation and changes to existing legislation are appropriately incorporated into the regulatory risk framework of the Bank.

4.1 Regulatory compliance

The Bank is governed by the Banks Act 1990 (as amended) and the regulations relating to banks, which are based on the requirements of the Basel III framework. Within this regulatory environment the Bank is required to hold adequate capital against its assets to safeguard its solvency and overall economic stability. The Bank maintains a strong relationship with the Bank Supervision Department of the South African Reserve Bank, and communication and transparency are regarded as key factors in this relationship.
The objectives of the main regulators, being the Financial Services Board (FSB) and the South African Reserve Bank (SARB), are considered in

the preparation of policies, operating procedures and in system development. These objectives are:

- Financial stability;
- Appropriate market conduct and treating customers fairly;
- Combating of financial crime; and
- Financial inclusion.

Basel III requires banks to hold more capital and higher-quality capital than currently required under Basel II. It also introduces leverage and liquidity standards to strengthen regulation to improve the banking sector's ability to absorb shocks arising from financial and economic stress. Basel III will require a phased implementation of the Liquidity Coverage Ratio (LCR) with effect from January 2015 with full compliance by January 2019 and compliance with the Net Stable Funding Ratio (NSFR) by January 2018. The Bank views these new requirements as an improvement in the financial regulatory environment as they will promote a more resilient banking sector.

The Bank continuously strives to improve its regulatory processes and regulatory awareness by ensuring ongoing upgrading and improvement of the Bank's internal governance structures, risk management systems, business models, capital strategies and disclosure standards through compliance with the Basel frameworks and all other applicable laws, regulations and codes.

Bidvest Bank is well capitalised and liquid, and will comply with the new requirements.

4.2 Compliance governance

Line management is responsible for ensuring compliance, by all employees, with laws, regulations, internal policies and procedures. Adherence to applicable legislation and regulations is encouraged through documentation of requirements in the Compliance Manual and in internal policies and procedures which are published on the Banks' intranet. Online awareness training modules are prescribed for all staff, and classroom training is compulsory for legislation which has a significant impact on specific areas of the Bank.

4.3 Key compliance focus areas

The Bank-wide Regulatory Risk Profile indicates the following key areas of focus for compliance:

- Anti-money laundering and combating of terrorist financing;
- Exchange control rulings and regulations;
- Financial stability;
- Payment systems; and
- Market conduct and treating customers fairly.

4.4 Regulatory developments

Compliance and senior management have conducted a self-assessment exercise, using the tool provided by the regulator, to identify areas for improvement for each of the six TCF outcomes. Using the information derived from this exercise, a number of new projects have been introduced, with specific focus on improving customer experience, and in measuring this improvement.

Promotion of Access to Information

The Bank received no requests for information in terms of the Promotion of Access to Information Act during the year.

5. Forensic investigations and security department

5.1 Security

The department is responsible for the prevention and investigation of all unlawful activity against the Bank, either by third parties or Bank employees, and this includes any money laundering activity. The head of the department is also the Bank's money laundering control officer. The department conducted 220 surprise cash counts during the year and found only R690 in differences in a total of R146 million counted. A total of 87 branch inspections were conducted to assess branch physical security, and adherence to security operating procedures.

Security visits for new or renovated branches are conducted to ensure that security features are working correctly. Security programmes are continuously updated and enhanced to suit the Bank's requirements.

Sustainability report continued

5. Forensic Investigations and Security Department continued

5.1 Security continued

A 24/7 transactional monitoring division monitors card fraud and transactions via exception rules, and is composed of six employees. On average, the department handles 91 950 exception reports monthly, which resulted in 123 fraud cases being identified, and frauds totalling R185 000 were prevented. The division monitors incoming ACB transactions, and was able to prevent losses of R3,2 million to third parties.

The Bank implemented an authorisation process for certain over-threshold transactions, requiring additional due diligence processes and senior management authorisation. The Bank's cash holdings were effectively managed during the year. In addition, during the year there were no losses of cash in transit.

5.2 Anti-money laundering

The Bank has a number of control measures aimed at facilitating the detection and investigation of money laundering. These measures include a risk-based approach to customer identification, enhanced due diligence and the treatment of politically exposed persons (PEPs).

Branch visits are conducted to ensure that employees comply with the Financial Intelligence Centre Act and other regulatory provisions. Bank systems comply with threshold reporting and suspicious transaction reporting (STR) obligations for each business unit. During the year, the Bank submitted 53 919 STR reports to the Financial Intelligence Centre (FIC) with a value of R803 million, and responded to 1 030 section 27 requests from the FIC. The Bank has identified 62 PEPs.

Ongoing employee training and workshops on the requirements of applicable legislation are conducted, and the department Compliance and Internal Audit, conduct branch inspections to assess the level of compliance. Employees are trained in AML typologies, and enhanced due diligence exercises on the Bank's customer base.

The Bank has addressed the issues raised by the SARB's April 2012 on-site audit on behalf of the FIC. As part of the exercise the internal rules have been updated with all the guidance notes issued in the first half of 2013 and all divisions have implemented formal written FICA operating procedures.

6. Going concern

The directors confirm that the Bank has adequate resources available to continue in operational existence for the foreseeable future, and for this reason they adopt the going-concern basis in the preparation of the financial statements.

7. Information technology

The Bank continues to make substantial investment in information technology in the form of technical skills, infrastructure and systems. Disaster recovery was further enhanced and successfully tested during the year.

8. Employee relations

Management is responsible for the implementation of the Board's decisions and for the sustainable development and growth of the business. The Board monitors management's performance and is satisfied that succession plans for senior management are in place.

8.1 Remuneration

Remuneration of employees is based on regular performance reviews and is informed by industry guidelines and prevailing market conditions, rewarding and retaining superior quality employees, and motivating them to equip the Bank to achieve sustained growth. Executive directors' employment contracts do not contain unusual leave or other benefit provisions, and are terminable on reasonable notice. Director and senior management remuneration is approved by the Corporate Governance and Social and Ethics Committee. The Bank does not offer a share incentive scheme but executives participate in the share incentive scheme of The Bidvest Group Limited.

Sustainability report continued

8.2 Staff development and retention

Training and development is ongoing, and the Bank offers bursaries to employees. In addition, every year the Bank conducts learnership programmes to train candidates from previously disadvantaged communities for employment in the Bank or in the industry. Assessment and coaching is provided for all senior and management staff.

The Bank conducted an Executive Development Programme and 27 branch managers successfully completed the programme (2012: 21), which ran for six months and comprised lectures, business simulations and practical exercises. All participating employees have committed to ongoing employment with the Bank as a return on the training investment by the Bank.

8.3 Employee wellbeing

The Bank provides a 24-hour confidential support service through ICAS (Independent Counselling and Advisory Services Organisation) to employees and their immediate families to assist them to deal with personal problems impacting on their personal and work lives. In addition, the Bank subscribes to online health and wellness programmes for employees and their families.

The Bank provides a crèche for children of employees who work during the December holiday season.

8.4 Talent management

The Bank is committed to employee development and retention. At the end of June 2013, the Bank had 1 049 employees, and its employee turnover rate (resignations, retrenchments, dismissals and death) was 29,14%. The resignation rate was 17,89%.

8.5 Health and safety

The Bank complies with the health and safety requirements of the Occupational Health and Safety Act. Health and Safety Committees have been set up in all three major regions and are functional. Quarterly meetings are held and minutes thereof are kept for record purposes and compliance. One incident was reported during the year under review.

8.6 Illness and HIV/Aids

During the year, two Wellness Days were held nationally, at which various health assessments were conducted. Employee response was good in all regions. Altogether 161 employees completed VCT testing during the year, comprising 15% of the staff complement, and of those tested, eight employees tested positive for HIV, some of which were newly diagnosed. Affected employees are eligible for assistance from the Bank's employee support programme, ICAS.

8.7 Environment

The Bank is conscious of its environmental responsibilities. While the business has a fairly low direct impact, we are working towards paperless administrative systems as we develop new products in our niche markets. The Bank makes use of recycling initiatives to ensure that its waste paper is disposed of in an environmentally acceptable manner.

9. Transformation

The Bank achieved a Level-2 contributor B-BBEE rating from Empowerdex Verification Agency on September 16 2013. The rating expires on September 15 2014.

9.1 Enterprise development

The Bank spent R15 million (2012: R16 million) on enterprise development during the year.

9.2 Preferential procurement

The Bank's Broad-Based Black Economic Empowerment spend amounted to R893 million (2012: R1,1 billion).

9.3 Skills development

The Bank has been accredited as a service provider for Assessment and Delivery by the Bank Seta for the National Certificate: Banking (NQF Level 5). Some 10 employees from Gauteng have completed the course and currently 13 from the Western Cape and seven from KwaZulu-Natal are enrolled on the course. The Bank submitted its skills plan and workplace skills report to the Bank Seta during the prior year, and R1,2 million (2012: R1,2 million) was received from the Bank Seta for the year under review.

9.4 Learnerships

A total of 135 (2012: 64) learners from previously disadvantaged communities (comprising 59 learnerships and 76 train-and-work) participated in the Bank's learnership programme during the year, including 10 disabled black female learners. The Banking Sector Education and Training Authority (Bank Seta) subsidised the Bank with R350 000 for the implementation of the disability learnership programme. Total spend on learnerships was R3,5 million (2012: R3,7 million).

9.5 Bursaries

A total of 77 (2012: 82) bursaries totalling R703 000 (2012: R694 000) were granted to permanent employees.

9.6 Employment equity

The employment equity report is submitted to the Department of Labour annually by October. The Bank complies with Employment Equity Regulations.

The Bank has good black representation across middle and junior management levels, providing a pool of advancement candidates.

Demographic breakdown of staff complement:

Black males	223	21,3%
Black females	462	44,0%
White males	155	14,8%
White females	209	19,9%
Total	1 049	100,0%

9.7 Social economic development

The Bank acknowledges its place in the community and every year the Bank donates funds to worthy causes. The Bank spent R4,8 million (2012: R3,2 million) in the current year on social economic development. In addition employees perform charity work in their own time.

10. Direct exchanges with government

	2013 R'000	2012 R'000
Employees tax	**38 475**	39 009
Value added tax	**97 607**	117 494
Rates and taxes	**1 749**	1 250
Licences	**9 440**	12 518
Skills development levies	**2 352**	2 313
Unemployment insurance fund	**2 198**	2 436
Workmen's compensation	**127**	171
Income taxation	**110 641**	167 902
	262 589	343 093

11. Moody's Investors Service

Moody's has accorded Bidvest Bank Limited national scale issuer ratings of A3.za/P-2.za with a stable outlook.

12. Conclusion

The directors are committed to the promotion of sound risk management in the conduct of the Bank's activities. The ultimate responsibility for the management of risk lies with the Board, which is assisted by the Risk and Capital Management Committee in the identification of risks inherent in the business and the monitoring of controls to manage those risks.

The Board is satisfied that the structures and processes listed adequately and appropriately address the Bank's risk management, and its corporate governance obligations.

Directors’ responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the Bank financial statements, comprising the directors’ report, consolidated statement of financial position at June 30 2013, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors’ responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these Bank 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.

The directors’ responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the Bank’s ability to continue as a going concern and there is no reason to believe that the business will not be a going concern in the year ahead.

The independent auditors are responsible for reporting on whether the Bank financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements

The Bank financial statements were approved by the Board of Directors on September 30 2013 and signed on its behalf by:

NG Payne
Chairman

AC Salomon
Managing Director

Report of the Audit Committee to the members of Bidvest Bank Limited

The Committee is composed of three non-executive directors, all of whom are independent non-executive directors. The work of the Committee is specified by its charter, and the provisions of the Banks Act, 1990. The Committee is specifically tasked with the review of the activities of Bidvest Bank Limited (the Bank). The Committee reviewed the Bank's financial statements and assessed whether these accurately represented the financial position of the Bank. The Committee assessed the directors' opinion that the Bank has adequate resources available to continue in operational existence for the foreseeable future, and the directors' decision to adopt the going-concern basis in the preparation of the consolidated financial statements. The Committee further reviewed the Bank's accounting policies, and the reports of the internal and external audit functions, and of the compliance officer. The Committee reviewed the activities of the Bank's Credit Committee. The Audit Committee met quarterly, and the chairman of the Committee reported on the work of the Committee to the Board. The Committee is satisfied that it has discharged all its responsibilities.

The Committee is satisfied that the Financial Director has the appropriate expertise and experience to fulfil his obligations in terms of all applicable legislation.

The Committee reviewed the work of the external auditors, Deloitte & Touche, including the audit plan and budget, and recommended to the Board and shareholders the appointment of the auditors.

EK Diack
Chairman

Independent auditor's report
To the shareholder of Bidvest Bank Limited

We have audited the consolidated financial statements of Bidvest Bank Limited set out on pages 21 to 75, which comprise the consolidated statement of financial position as at June 30 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bidvest Bank Limited as at June 30 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated financial statements for the year ended June 30 2013, we have read the directors' report, report of the Audit Committee and the Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche.

Deloitte & Touche
Registered Auditor

Per: Jan van Staden
Partner
September 30 2013

Building 8, Deloitte Place
The Woodlands, Woodlands Drive
Woodmead
Sandton

National Executive: LL Bam Chief Executive
AE Swiegers Chief Operating Officer GM Pinnock Audit
DL Kennedy Risk Advisory NB Kader Tax
TP Pillay Consulting K Black Clients & Industries
JK Mazzocco Talent & Transformation
CR Beukman Finance M Jordan Strategy
S Gwala Special Projects TJ Brown Chairman of the Board
MJ Comber Deputy Chairman of the Board

A full list of partners and directors is available on request.

B-BBEE rating: Level-2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

Directors' report

General information

Bidvest Bank Limited (the Bank) is a wholly owned subsidiary of Bidvest Bank Holdings Limited. The Bank's ultimate holding company is The Bidvest Group Limited (Bidvest) which is listed on the JSE South Africa. The Bank and its subsidiaries, Viamax (Pty) Limited, Viamax Fleet Solutions (Pty) Limited, Bidvest Capital (Pty) Limited and McCarthy Retail Finance (Pty) Limited, (the Group) are incorporated and domiciled in South Africa.

Nature of business

The Bank is a registered commercial bank.

Financial results

The financial results are set out in the financial statements and accompanying notes for the year ended June 30 2013.

Share capital

Details of the authorised and issued share capital appear in note 19 to the financial statements.

Interest of directors and officers

No contracts were entered into in which directors or officers of the Bank had an interest and which significantly affected the business of the Bank. The emoluments and services of executives are determined by the Corporate Governance Committee. No long-term service contracts exist between executive directors and the Bank. Transactions with directors are entered into in the normal course of business, under terms that are no more favourable than those with third parties.

Directorate

During the financial year and up to the date of this report, the Board consisted of the following members:

Executive directors

Alan Salomon
CA(SA), BSc (London) (with honours)

Managing Director appointed June 6 2006

Alan has 35 years' experience in the fields of banking, manufacturing, distribution and treasury management. Alan is a member of the Strategic Development Committee, the Asset and Liability Committee, the Credit Committee and is chairman of the Executive Committee.

Marthinus Johannes Liebenberg
CA(SA)

Financial Director appointed January 1 2013

Thinus is a chartered accountant and has 23 years' experience in banking, of which 19 years have been in Finance. He has held various financial manager and general manager finance positions in the retail, business banking and corporate segments. Thinus is a member of the Strategic Development Committee, the Asset and Liability Committee, the Credit Committee and the Executive Committee. He was formerly a divisional CFO at ABSA Bank.

Directors' report continued

Non-executive directors

Brian Joffe
CA(SA)

Appointed May 16 2000

Brian is the chief executive of The Bidvest Group Limited, and has 36 years of South African and international commercial experience. He was one of the *Sunday Times'* top-five businessmen in 1992 and is a past recipient of the Jewish Business Achiever of the Year award. Brian was voted South Africa's Top Manager of the Year in 2002 in the Corporate Research Foundation's publication "*South Africa's Leading Managers*", and he represented South Africa at the coveted "Ernst & Young World Entrepreneur of the Year" award in 2003. He was awarded an honorary doctorate in May 2008 by Unisa.

Peter Nyman
CA(SA)

Appointed February 16 2001

Peter is the chairman of the Asset and Liability Committee and the Credit Committee and is a member of the Audit Committee, Risk and Capital Management Committee, Corporate Governance Committee and Strategic Development Committee. Peter is the chairman of Bidvest Insurance Limited and Bidvest Life Limited.

Nigel Payne
CA(SA), MBL

Appointed August 1 2009 – Appointed chairman of the Board May 23 2011

Nigel is a director of a number of listed companies, including The Bidvest Group Limited, JSE Limited, Mr Price Group Limited, and BSi Steel Limited. He is a leading authority on corporate governance and risk management and was a member of the King Committee. He is a member of the Risk and Capital Management Committee, and chairs the Corporate Governance Committee and the Strategic Development Committee.

Eric Diack
CA(SA), AMP (Harvard), AMP (UCT)

Appointed May 23 2011

Eric is a chartered accountant and is a director of a number of listed companies, including The Bidvest Group Limited. He was formerly the CEO of Anglo American Ferrous and Industries Division. He has previously been a director of numerous major listed and unlisted companies. He is the chairman of the Audit Committee and of the Risk and Capital Management Committee.

Paul Baloyi
MBA, MDP, SEP (Harvard)

Appointed August 2012

Paul has more than 20 years' banking experience, having been, *inter alia*, CEO of the Development Bank of South Africa. He is a non-executive director of a number of listed and other companies.

Distribution of dividends

A R100 million declaration of dividend and appropriation was approved at the board meeting held on August 19 2013, with a payment date of, and paid on September 18 2013 (2012: R10 800 000).

Performance

Profit after tax decreased 18% to R260,4 million (2012: R317,0 million) while net interest income rose to R82,8 million (2012: R40,7 million). Net fee, commission, trading and income was also higher at R444,5 million (2012: R392,3 million) and net income from leasing activities decreased to R369,5 million (2012: R497,4 million), primarily as a result of the expiry of a major leasing contract on March 31 2012.

Deposits grew by 19% to R2,12 billion (2012: R1,78 billion). Loans and advances grew by 21% to R1,21 billion (2012: R1 billion*) while leased assets decreased 13% to R1,22 billion (2012: R1,4 billion*).

Total loans and advances and leased assets ended on R2,44 billion (2012: R2,4 billion). The Bank's total assets increased to R4,61 billion (2012: R4,15 billion). Cash generated from operations before dividends and taxation decreased to R693,8 million (2012: R764,0 million). A low-risk appetite was maintained. Credit quality remained good and impairments were well managed. The credit loss ratio was 0,6% (2012: 0,1%).

The return on assets and return on equity were 5,6% and 13,8% respectively. A low financial leverage ratio of 2,4 times was maintained. The Bank's capital adequacy ratio was 15,9%. The bank's Liquidity Coverage Ratio was 123% and the Net Stable Funding Ratio was 79%. The Bank's Moody's rating was unchanged during the year at A3.za/P-2.za with a stable outlook. The ratings agency issued a favourable credit report in July 2013.

Company Secretary and registered office

DJ Crawley

Bidvest House
18 Crescent Drive, Melrose Arch
Johannesburg
2196 South Africa
Registration number 2000/006478/06

* *Refer to note 29 for prior period restatements.*

Directors' report continued

Corporate office

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19 Ameshof Street
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2001 Johannesburg

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Call Centre
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Website

www.bidvestbank.co.za

Auditors

Deloitte & Touche

Events after the reporting date

There are no material events that have occurred between the statement of financial position date and the date of this report.

Certificate from the Company Secretary

In terms of section 88(2)(e) of the Companies Act, 71 of 2008, as amended, I certify that, to the best of my knowledge and belief, the Bank has lodged with the Registrar of Companies, for the financial year ended June 30 2013, all such returns and notices 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.

DJ Crawley
Company Secretary
September 30 2013

Consolidated statement of comprehensive income

for the year ended June 30

	Notes	2013 R'000	2012 R'000
Net interest income	6.1	**82 811**	40 676
Interest income		**154 528**	100 514
Interest expense		**(71 717)**	(59 838)
Net fee and commission income		**195 557**	153 542
Fee and commission income		**228 517**	216 435
Fee and commission expense		**(32 960)**	(62 893)
Net income from leasing and lending activities		**369 477**	497 406
Leasing income	6.2	**707 182**	1 218 885
Depreciation		**(164 206)**	(266 847)
Other costs		**(173 499)**	(454 632)
Net trading income		**238 758**	237 819
Other income	6.3	**10 136**	902
Operating income		**896 739**	930 345
Net credit impairment charges	13.2	**(6 737)**	(1 456)
Operating income after credit impairment charges		**890 002**	928 889
Operating expenditure		**(511 570)**	(483 412)
Employment costs	7	**(244 935)**	(246 637)
Operating leases	8.1	**(70 916)**	(67 186)
Risk control		**(23 751)**	(24 552)
Information technology costs		**(20 582)**	(21 464)
Depreciation and amortisation		**(29 592)**	(29 925)
Other operating expenditure	8.2	**(121 794)**	(93 648)
Operating income before indirect taxation		**378 432**	445 477
Indirect taxation	9.1	**(15 570)**	(12 558)
Profit before direct taxation		**362 862**	432 919
Direct taxation	9.2	**(102 483)**	(115 881)
Profit for the year		**260 379**	317 038
Other comprehensive income, net of income tax			
Fair value reserve through equity on available-for-sale assets		**(9 306)**	4 046
Total comprehensive income for the year attributable to the equity holder of the company		**251 073**	321 084

Consolidated statement of cash flows

for the year ended June 30

	Notes	2013 R'000	Restated 2012 R'000
Cash flows from operating activities			
Cash generated by operations before interest	10.1	**610 974**	723 310
Net interest income		**82 811**	40 676
Interest received		**154 528**	100 514
Interest paid		**(71 717)**	(59 838)
Cash generated by operations after interest		**693 785**	763 986
Dividends paid		**–**	(10 800)
Taxation paid	10.2	**(110 641)**	(167 902)
Net cash flows from operating activities		**583 144**	585 284
Cash flows from investing activities		**(16 272)**	(17 601)
Proceeds on disposal of equipment and leased assets		**110 602**	296 834
Dividends received		**1 403**	1 377
Acquisition of leased assets		**(93 823)**	(267 154)
Acquisition of equipment		**(16 922)**	(23 634)
Acquisition of intangible assets		**(11 303)**	(10 185)
Disposal of investment securities	10.3	**–**	7 361
Acquisition of investment securities	10.3	**(6 229)**	(22 200)
Cash flows from financing activities		**(126 906)**	(109 936)
Proceeds from share issues		**–**	90 000
Decrease in intergroup loans		**(126 906)**	(199 936)
Net increase in cash and cash equivalents		**439 966**	457 747
Cash and cash equivalents at beginning of year		**1 385 083**	927 336
Cash and cash equivalents at end of year	11	**1 825 049**	1 385 083

Consolidated statement of financial position

at June 30

	Notes	2013 R'000	Restated 2012 R'000
Assets			
Cash and cash equivalents	11	**1 825 049**	1 385 083
Derivative financial assets	12	**21 563**	27 550
Loans and advances	13	**1 212 147**	1 002 466
Leased assets	14	**1 223 601**	1 399 660
Investment securities	15	**98 522**	101 599
Other assets	16	**98 767**	122 215
Equipment	17	**65 151**	70 817
Intangible assets	18	**36 910**	34 969
Current taxation	10.2	**33 108**	9 321
Total assets		**4 614 818**	4 153 680
Equity and liabilities			
Equity		**1 888 862**	1 636 405
Share capital	19	**2 070**	2 070
Share premium	20	**525 709**	525 709
Fair value reserve		**(5 802)**	3 504
Retained earnings		**1 366 885**	1 105 122
Liabilities		**2 725 956**	2 517 275
Intergroup loans	21	**292 706**	419 612
Derivative financial liabilities	12	**32 062**	18 560
Deposits	22	**2 123 953**	1 780 330
Other liabilities	23	**149 032**	186 440
Deferred taxation	24	**127 762**	112 133
Defined benefit liability		**441**	200
Total equity and liabilities		**4 614 818**	4 153 680

Consolidated statement of changes in equity

for the year ended June 30

	2013 R'000	2012 R'000
Share capital	**2 070**	2 070
Opening balance at July 1	**2 070**	1 980
Transactions with owners – issue of shares	**–**	90
Share premium	**525 709**	525 709
Opening balance at July 1	**525 709**	435 799
Transactions with owners – issue of shares	**–**	89 910
Fair value reserve	**(5 802)**	3 504
Opening balance at July 1	**3 504**	(542)
Items recognised directly in equity – fair value adjustment on investment securities	**(9 306)**	4 046
Retained earnings	**1 366 885**	1 105 122
Opening balance at July 1	**1 105 122**	798 014
Profit for the year	**260 379**	317 038
Transactions with owners, recorded directly in equity		
Contributions by and distributions to owners		
Dividends paid	**–**	(10 800)
Share-based payment transactions	**1 384**	870
Closing balance at June 30	**1 888 862**	1 636 405
Total equity		
Opening balance at July 1	**1 636 405**	1 235 251
Transactions with owners	**1 384**	80 070
– issue of shares	**–**	90 000
– dividends paid	**–**	(10 800)
– share-based payments	**1 384**	870
Total comprehensive income	**251 073**	321 084
Items recognised directly in equity	**(9 306)**	4 046
Profit for the year	**260 379**	317 038
Closing balance at June 30	**1 888 862**	1 636 405

Notes to the consolidated financial statements

for the year ended June 30

1. Reporting entity

Bidvest Bank Limited and its subsidiaries (the Bank) are domiciled in South Africa.

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared using accounting policies that comply with IFRS and which are consistent with those applied in the preparation of the financial statements for the year ended June 30 2012.

2.2 Basis of measurement

The financial statements are prepared on the historical cost basis except that the following assets are stated at their fair value:

> Financial instruments at fair value through profit or loss.

> Financial assets classified as available-for-sale.

2.3 Functional currency

The financial statements are presented in South African Rand (rand), which is the Bank's functional currency. All financial information presented has been rounded to the nearest thousand.

2.4 Basis of consolidation

Subsidiaries

Subsidiary undertakings are those entities that are controlled by the Bank. The Bank financial statements include the assets, liabilities and results of the Bank, plus subsidiaries controlled by the Bank, from the date of acquisition until the date the Bank ceases to control the subsidiary.

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 Bank 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 taken into account when assessing whether the Bank has control.

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

2.5 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Refer to note 28 for key assumptions made. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies

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

3.1 Acquisitions from entities under common control

Business combinations arising from the acquisition of entities that are under the control of the shareholder that controls the Bank are accounted for at the date transfers of interests were established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Bank controlling shareholder's consolidated financial statements. Goodwill and intangible assets that form part of the carrying amount that was recognised previously in the Bank's controlling shareholder's consolidated financial statements are also recognised. Any excess of the purchase consideration over the net asset value obtained is recognised in equity as a notional distribution to owners and presented in the common control reserve. If the net asset value exceeds the consideration, the credit is recognised in equity as a capital contribution and presented in the common control reserve.

3.2 Foreign currency

Foreign currency transactions

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rand at foreign exchange rates ruling at the dates the fair value was determined.

Foreign currency transactions are translated at the exchange rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the statement of financial position date. Gains or losses arising on translation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised directly in other comprehensive income.

3.3 Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash and balances with central banks, short-term highly liquid investments with maturities of three months or less when purchased and call, notice and fixed deposits placed at other banking institutions. Bank overdrafts that are repayable on demand and form an integral part of the Bank's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Where legal right of set-off can be applied and the intention exists to settle on a net basis, bank balances have been shown net of overdraft.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.4 Financial instruments

Initial recognition and measurement

Financial instruments include all financial assets and liabilities. All financial instruments are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. All financial instruments are initially measured at fair value, plus, in the case of financial assets or liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classification.

Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. Held-to-maturity investments are carried at amortised cost using the effective interest method less any impairment losses.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are measured at amortised cost using the effective interest rate method, less any impairment losses.

Origination transaction costs and fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate.

Fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Derivative financial instruments

The Bank holds derivative financial instruments to hedge its foreign currency exposures. Derivatives are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss.

Notes to the consolidated financial statements
for the year ended June 30 continued

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative investments that do not fall into another category of financial assets and are recognised in this category. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest rate method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Other fair value changes are recognised directly in other comprehensive income until the investment is derecognised or impaired and the balance in equity is reclassified to profit or loss.

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.

Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Deposits
Deposits are initially measured at fair value plus transaction costs and subsequently at their amortised cost using the effective interest rate method.

Impairment of financial assets
Identification and measurement of impairment
At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative impact on the expected future cash flows of the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower will enter bankruptcy, the disappearance of an active market for security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or economic conditions.

In assessing collective impairment, the Bank uses management's judgement whether current economic and credit conditions are such that losses are likely to occur. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Notes to the consolidated financial statements

for the year ended June 30 continued

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

Impairment of financial assets (continued)

Identification and measurement of impairment (continued)

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in the impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have an impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. In that instance, the cumulative loss that has been recognised in other comprehensive income, measured as the difference between the acquisition cost (net of any principal repayment or amortisation) and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from equity and is recognised in profit or loss.

If, in subsequent periods, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through profit or loss for available-for-sale debt instruments. An impairment loss in respect of an available-for-sale equity instrument is not reversed through the profit or loss but recognised in other comprehensive income.

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 offset 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.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position 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.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

Collateral

Financial and non-financial assets are held as collateral in respect of recognised financial assets. Such collateral is not recognised by the Bank, as the Bank does not retain the risks and rewards of ownership, and is obliged to return such collateral to counterparties on settlement of the related obligations, except where collateral has been ceded to the Bank. Should a counterparty be unable to settle its obligations, the Bank 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 Bank's accounting policies are applied from the date of recognition. Cash collateral is recognised when the Bank receives the cash and is reported as amounts received from depositors.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a

Notes to the consolidated financial statements

transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

3.5 Financial guarantee contracts

A financial guarantee contract is a contract that requires the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

These financial guarantee contracts are classified as insurance contracts as defined in IFRS 4 – *Insurance Contracts*. A liability is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the contract and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the expenditure required to settle the contract at the statement of financial position date. Where the effect of discounting is material, the liability is discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The Bank performs liability adequacy tests on financial guarantee contract liabilities to ensure that the carrying amount of the liabilities is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the Bank discounts all expected contractual cash flows and compares this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision is made through profit or loss.

3.6 Leased assets

The leased assets are moveable assets rented to customers under operating leases. The leased assets are depreciated over the shortest period of the lease or the useful life of the asset. The maintenance costs are borne by the Bank and are expensed as they are incurred.

Leased assets' residual values are reviewed and adjusted if appropriate, at each reporting date.

3.7 Equipment

Equipment, furniture, motor vehicles and other tangible assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of equipment.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Bank and the cost of the item can be measured reliably. Maintenance and repairs, which do not meet these criteria, are recognised in profit or loss as incurred. Depreciation, impairment losses and gains or losses on disposal of assets are recognised in profit or loss.

Items of equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to the current values of their expected residual values. The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date and the depreciation method is reviewed annually and adjusted if appropriate.

3. Significant accounting policies (continued)

3.7 Equipment (continued)

The estimated useful lives of equipment for the current and comparative financial year are as follows:

> Computer equipment	3 – 5 years
> Motor vehicles	5 years
> Office equipment	1 – 10 years
> Furniture and fittings	2 – 10 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

There has been no change to useful lives from those applied in the previous financial year.

3.8 Intangible assets

Goodwill

The goodwill relates to the acquisition by the Bank of certain businesses from The Bidvest Group Limited in prior periods. The goodwill recognised is the proportionate carrying amount that was recognised previously in the Bank controlling shareholder's consolidated financial statements that related to these businesses.

Goodwill is tested for impairment annually.

Computer software

Computer software that is acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Development costs

Expenditure on research activities undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible, cost can be measured reliably, future economic benefits are probable and the Bank has sufficient resources to complete development. The expenditure capitalised includes all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Other development expenditure is recognised in profit or loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each reporting date or whenever there is an indication that they are impaired. Other intangible assets are amortised from the date they are available for use. The estimated useful lives of the current and prior years are as follows:

> Computer software	2 months – 10 years
> Development costs	3 years

3.9 Maintenance contracts

The Group provides for its future maintenance obligations attributable to revenue that has already been earned in terms of maintenance contracts for leased assets.

Notes to the consolidated financial statements

for the year ended June 30 continued

3.10 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.11 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event, that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.12 Leases

Bank as lessee

Leases of assets are classified as operating leases if the lessor retains a significant portion of the risks and rewards of ownership. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Bank as lessor

Lease and instalment sale contracts are primarily financing transactions, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances on the statement of financial position.

Finance charges earned are computed using the effective interest rate method which reflects a constant periodic return on the investment in the finance lease. Initial direct costs paid are capitalised to the value of the lease amount receivable and accounted for over the lease term as an adjustment to the effective rate of return.

Leases of assets under which the Bank effectively retains all the risks and benefits of ownership are classified as operating leases. Rentals received under operating leases, are accounted for as income on the straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of penalty is recognised as income in the period in which termination takes place.

3.13 Deposits, intergroup loans and trade payables

Deposits, intergroup loans and trade payables are initially measured at fair value plus transaction cost and subsequently at their amortised cost using the effective interest rate method.

3. Significant accounting policies (continued)

3.14 Employee benefits

The Bank contributes to a defined contribution pension fund and provident fund for all its employees based on a percentage of pensionable earnings funded by both employer and employees. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due for payment and are included in the operating expenditure note.

Leave benefits due to employees are recognised as a liability in the financial statements. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank has an obligation for post-employment medical aid, to a capped eight past and current employees. For past service, the Bank recognises and provides for the actuarially determined present value of post-employment medical aid employer contributions on an accrual basis using the projected unit credit method. Independent qualified actuaries carry out valuations of these obligations every three years. Unrecognised actuarial gains or losses are accounted for over a period not exceeding the remaining working life of active employees.

3.15 Share-based payment transactions

The Bidvest Group Limited share incentive scheme allows Bank employees to acquire shares in the ultimate holding company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured using a binomial method taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

3.16 Share capital

Share capital is carried at issued cost.

3.17 Share premium

Share premium is carried net of share issue costs.

3.18 Interest

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and liabilities at amortised cost on an effective interest basis; and
- interest on available-for-sale investment securities on an effective interest basis.

3.19 Fee and commission

Fees and commission income are recognised as the related services are performed. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Notes to the consolidated financial statements
for the year ended June 30 continued

3.20 Net leasing income

Net leasing income comprises revenue and expenses directly attributable to full-maintenance leasing activities. Rental income arising on leased assets is accounted for on a straight-line basis over the lease term on ongoing leases.

Profit on sale of assets held for resale is recognised when goods are delivered and title has passed.

3.21 Net trading income

Net trading income comprises gains and losses related to trading assets and liabilities and includes all realised and unrealised foreign exchange differences.

3.22 Other income

Other income comprises investment income, administration fees and profits from the sale of assets.

Dividend income is recognised in profit or loss on the date the Bank's right to receive payment is established.

3.23 Taxation

Normal tax

Income tax expense comprises current and deferred tax. Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax 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 or loss; and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred taxes are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

Indirect tax

Indirect taxes, including non-recoverable Value Added Tax (VAT) and skills development levies are separately disclosed in the statement of comprehensive income.

3.24 Distributions to the shareholder

Distributions to the shareholder are accounted for once they have been approved by the Board.

4. Financial risk management

4.1 Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risks
- Operational risks
- Reputational risk

Notes to the consolidated financial statements

for the year ended June 30 continued

4. Financial risk management (continued)

4.1 Introduction and overview (continued)

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. Further disclosure of the Bank's capital composition and other Pillar III disclosure in terms of the Regulations relating to banks can be found on the Bank's website: www.bidvestbank.co.za.

Risk management framework

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

In addition, an Operational Risk Committee comprises executive members from key business areas in the Bank, and reports quarterly to the Risk and Capital Management Committee.

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

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

4.2 Credit risk

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

Credit risk is managed within the risk appetite of the Bank. Acceptable credit risk identified in a credit application is mitigated through sufficient underlying security. To enhance the return on funds, and therefore shareholder value, a certain amount of risk has to be taken in the lending activities of the Bank. The risk tolerance of the Bank is, however, low and therefore all credit is mitigated through sound credit principles, and all lending 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 themselves 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.

Management of credit risk

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

Notes to the consolidated financial statements

for the year ended June 30 continued

The Board, as a minimum:

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

The Board has delegated responsibility for the management of credit risk to its Credit Committee, which is chaired by a non-executive director. The role and responsibilities of the Credit Committee, as reported in the Credit Committee Charter, is to support the Board in fulfilling its duties and responsibilities regarding the management of credit risk. Senior management who are members of the Credit Committee have the responsibility of implementing the credit risk strategy approved by the Board and of developing policies and processes for identifying, measuring, monitoring and controlling credit risk. Such policies and processes address credit risk in all of the Bank's credit activities and at both the individual credit and portfolio levels. 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 of Directors according to authorisation limits;
- *reviewing and assessing credit risk.* The Credit Department assesses all credit exposures prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- *limiting concentration of exposure* to counterparties, geographies, products and industries;
- *reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Credit Committee on the credit quality of portfolios and appropriate corrective action is taken; and
- *providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk.

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

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

Notes to the consolidated financial statements

for the year ended June 30 continued

4. Financial risk management (continued)

4.2 Credit risk (continued)

Exposure to credit risk

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

	Gross maximum exposure	
Exposure to credit risk	**2013 R'000**	Restated* 2012 R'000
Loans and advances (excluding banks)		
Non-performing book		
Exceptional credit quality	**–**	–
Good and average credit quality	**12**	873
Deteriorated credit quality	**14 103**	1 168
Total	**14 115**	2 041
Specific allowance for impairment	**(5 896)**	(1 384)
Carrying amount	**8 219**	657
Performing book		
Exceptional credit quality	**–**	23 472
Good and average credit quality	**658 118**	312 981
Deteriorated credit quality	**11 843**	19 914
Total	**669 961**	356 367
Portfolio allowance for impairment	**(1 676)**	(2 389)
Carrying amount	**668 285**	353 978
Neither past due nor impaired		
Net exceptional credit quality	**331 949**	438 557
Exceptional credit quality	**348 120**	464 983
Specific allowance for impairment – warranted debt (see commentary below)	**(16 171)**	(26 426)
Exceptional credit quality (banks)	**21 192**	31 194
Good and average credit quality	**181 544**	166 078
Deteriorated credit quality	**1 357**	12 002
Total	**535 643**	647 831
Total carrying amount of loans and advances	**1 212 147**	1 002 466
Other financial assets		
Exceptional credit quality	**188 251**	178 453
Exceptional credit quality (banks)	**1 731 400**	1 305 780
Good and average credit quality	**124 250**	152 214
Deteriorated credit quality	**–**	–
Total of other financial assets	**2 043 901**	1 636 447
Non-financial assets as per statement of financial position		
Leased assets	**1 223 601**	1 399 660
Equipment	**65 151**	70 817
Intangible assets	**36 910**	34 969
Current taxation	**33 108**	9 321
Total of non-financial assets	**1 354 430**	1 514 767
Total assets	**4 614 818**	4 153 680

* *Refer to note 29 for prior period restatements.*

Notes to the consolidated financial statements

for the year ended June 30 continued

4. Financial risk management (continued)

4.2 Credit risk (continued)

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

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

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

Leased assets

The leased assets are moveable assets rented to customers under operating leases. The majority of the leases are in the range of three to five years tenor. The leased assets are depreciated over the period of the lease or the useful life of the asset, whichever is the lesser period. The maintenance costs are borne by the Bank and are expensed as they are incurred. The leased assets' residual values are reviewed and adjusted if appropriate, at each reporting date.

Impaired loans

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

Impairment policy

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

Allowances for impairment

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

Security held

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

Notes to the consolidated financial statements

for the year ended June 30 continued

4. Financial risk management (continued)

4.2 Credit risk (continued)

Loans and advances: balances with security	Note	2013 R'000	Restated* 2012 R'000
Non-performing book: individually impaired			
Secured			
Moveable assets		**8 232**	578
Cash, debtors, stock		**–**	–
Property		**–**	–
Guarantees		**–**	–
Total secured		**8 232**	578
Unsecured		**(13)**	79
Total		**8 219**	657
Performing book: collectively impaired			
Secured			
Moveable assets		**337 048**	205 776
Cash, debtors, stock		**189 815**	38 304
Property		**134 649**	81 551
Guarantees		**–**	17 493
Total secured		**661 512**	343 124
Unsecured		**6 773**	10 854
Total		**668 285**	353 978
Performing book: neither past due nor impaired			
Secured			
Moveable assets		**331 970**	302 009
Cash, debtors, stock		**1 038**	80 513
Property		**27 387**	221
Guarantees		**164 114**	258 141
Total secured		**524 509**	640 884
Unsecured		**11 134**	6 947
Total		**535 643**	647 831
Carrying value	13	**1 212 147**	1 002 466

* *Refer to note 29 for prior period restatements.*

Notes to the consolidated financial statements

for the year ended June 30 continued

4. Financial risk management (continued)

4.2 Credit risk (continued)

Security valuation

Type	Tangible value
Rand cash (cession over deposit account)	100% (2012: 100%)
Foreign cash (cession over CFC account)	85% (2012: 90%)
Pledge of Shares (JSE top 100) Quarterly statements are obtained from the customer's broker	50% (2012: 50%)
Cession of unit trusts Monthly statements are obtained from the customer's broker	50% (2012: 50%)
Gold coins	50% (2012: 50%)
Cession of insurance/endowment policy Valuation at the time the cession is signed by obtaining surrender values directly from the assurance company	Extra security, no commercial value
Cession of debtors Valuation monthly upon submission of debtor lists to the Bank	25% excluding arrears, depending on the quality of the book (2012: 25%)
General notarial bond over stock Valuation monthly upon submission of stock lists to the Bank	25% (2012: 25%)
Mortgage Bonds over property Valuation conducted by an independent valuator approved by the Bank when the deal is initiated	66% (2012: 60%)
A1 rated guarantees	100% (2012: 100%)
Suretyships	0% (2012: 0%)
Moveable assets	80% (2012: 100%)

Notes to the consolidated financial statements
for the year ended June 30 continued

4. Financial risk management (continued)

4.2 Credit risk (continued)

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

		Loans and advances		Investment securities	
Credit risk by sector	Note	**2013 R'000**	Restated* 2012 R'000	**2013 R'000**	2012 R'000
Concentration by sector					
Agriculture, hunting, forestry and fishing		**6 542**	3 830		–
Manufacturing		**89 617**	56 517		–
Mining and quarrying		**43 199**	35 198		–
Construction		**30 108**	21 681		–
Wholesale and retail trade		**256 567**	157 150		–
Transport, storage and communication		**144 336**	84 687		–
Financial intermediation, insurance, real estate and business services		**461 931**	422 035	**18 290**	20 664
Community, social and personal services		**168 813**	206 798		–
Private households		**10 398**	8 003		–
Utilities		**636**	6 567		–
Other			–	**80 232**	80 935
Total	13	**1 212 147**	1 002 466	**98 522**	101 599
Of which:					
Sovereign		**156 504**	177 372	**76 312**	80 292

* *Refer to note 29 for prior period restatements.*

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

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

External credit assessment
In calculating the required amount of capital to be held against credit risk, the Bank applies the long-term international credit ratings as published by the Moody's Investors Services.

Notes to the consolidated financial statements

for the year ended June 30 continued

4. Financial risk management (continued)

4.2 Credit risk (continued)

Counterparty credit risk

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

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

	Gross R'000	Impair-ment R'000	Net R'000	Guarantees and suretyships R'000	Pledge of assets R'000	Total R'000	Carrying value for which no collateral is held R'000	Net R'000
2013								
Not past due	**1 234 542**	**(22 395)**	**1 212 147**	**164 114**	**1 030 138**	**1 194 253**	**16 547**	**1 210 800**
Past due 0 – 30 days	**806**	**(806)**	**–**	**–**	**–**	**–**	**806**	**806**
Past due 31 – 180 days	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Past due 181 – 365 days	**541**	**(541)**	**–**	**–**	**–**	**–**	**541**	**541**
Total	**1 235 889**	**(23 742)**	**1 212 147**	**164 114**	**1 030 138**	**1 194 253**	**17 894**	**1 212 147**
2012 (restated)*								
Not past due	1 031 158	(29 495)	1 001 663	275 634	708 149	983 783	17 880	1 001 663
Past due 0 – 30 days	–	–	–	–	–	–	–	–
Past due 31 – 180 days	1 507	(704)	803	–	803	803	–	803
Past due 181 – 365 days	–	–	–	–	–	–	–	–
Total	1 032 665	(30 199)	1 002 466	275 634	708 952	984 586	17 880	1 002 466

* *Refer to note 29 for prior period restatements.*

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.

Notes to the consolidated financial statements

for the year ended June 30 continued

4. Financial risk management (continued)

4.3 Liquidity risk

Liquidity risk is the risk that the Bank may be unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn without incurring unacceptable losses. Liquidity risk can be divided into 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 to monitor and project cash flows to ensure adequate liquidity is maintained. The mismatch of cash flows could lead to situations where cash outflows exceed cash inflows in a given period. This may result in the Bank's failure to meet its obligations to pay creditors, repay depositors and fulfil commitments to lend.

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

Management of liquidity risk

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

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

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

At June 30 2013, the Bank holds a committed borrowing facility of R248 million (2012: R371 million) from The Bidvest Group Limited. This facility is contractually repayable in equal annual instalments of R124 million on June 30 of each year. Any unutilised portion of this committed facility remains available on demand and can be accessed to meet liquidity needs.

The Bank also has a standing internal limit (referred to as the Liquidity Cushion) that the greater of R200 million, or 25% of its call deposits plus next day notice deposits pay-outs, will be covered at all times by immediately available funds. At June 30 2013, immediately available funds (comprising central bank, interbank and intergroup call and current accounts) totalled R977 million.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Management of liquidity risk (continued)

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

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

Residual contractual maturities of financial liabilities

	Gross value R'000	Contractual undiscounted cash flows R'000	6 months or less R'000	6 – 12 months R'000	1 – 5 years R'000
June 30 2013					
Non-derivative liabilities					
Intergroup loans[#]	**(292 706)**	**(360 389)**	**(62 561)**	**(139 360)**	**(158 468)**
Other liabilities	**(149 032)**	**(149 032)**	**(149 032)**	**–**	**–**
Deposits	**(2 123 953)**	**(2 137 177)**	**(2 081 435)**	**(55 742)**	**–**
Derivative liabilities					
Trading: outflow (liabilities)	**(32 062)**	**(32 062)**	**(32 062)**	**–**	**–**
	(2 597 753)	**(2 678 660)**	**(2 325 090)**	**(195 102)**	**(158 468)**
June 30 2012					
Non-derivative liabilities					
Intergroup loans	(419 612)	(538 993)	(76 992)	(141 358)	(320 643)
Other liabilities	(156 030)	(156 030)	(156 030)	–	–
Deposits	(1 780 330)	(1 793 185)	(1 766 348)	(26 837)	–
Derivative liabilities					–
Trading: outflow (liabilities)	(18 560)	(18 560)	(18 419)	(141)	–
	(2 374 532)	(2 506 768)	(2 017 789)	(168 336)	(320 643)

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

[#] *We note that these are contractual maturities which may differ from actual settlement. Refer note 21.*

Notes to the consolidated financial statements

for the year ended June 30 continued

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity analysis of financial assets held for managing liquidity risk

	Carrying amount R'000	Less than 3 months R'000	3 – 12 months R'000	1 – 5 years R'000	More than 5 years R'000
June 30 2013					
Cash and balances with banks	**1 825 049**	**1 825 049**	**–**	**–**	**–**
Loans and advances	**1 212 147**	**412 110**	**61 499**	**606 810**	**131 728**
Investment securities	**98 522**	**22 209**	**–**	**76 313**	**–**
Other assets#	**77 406**	**77 406**	**–**	**–**	**–**
	3 213 124	**2 336 774**	**61 499**	**683 123**	**131 728**
June 30 2012 (restated)*					
Cash and balances with banks	1 385 083	1 385 083	–	–	–
Loans and advances	1 002 466	361 582	25 578	561 728	53 578
Investment securities	101 599	21 307	–	80 292	–
Other assets	102 006	102 006	–	–	–
	2 591 154	1 869 978	25 578	642 020	53 578

Other assets excludes inventory.

* *Refer to note 29 for prior period restatements.*

4.4 Market risk

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

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

Notes to the consolidated financial statements

for the year ended June 30 continued

4. Financial risk management (continued)

4.4 Market risk (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 months R'000	1 – 5 years R'000	More than 5 years R'000
June 30 2013					
Financial assets/(liabilities)					
Cash and balances with banks	**1 825 049**	**1 825 049**	**–**	**–**	**–**
Loans and advances	**1 212 147**	**1 052 196**	**25 600**	**134 351**	**–**
Investment securities	**98 522**	**22 209**	**–**	**76 313**	**–**
Other assets#	**77 406**	**77 406**	**–**	**–**	**–**
Intergroup loans	**(292 706)**	**(293 641)**	**–**	**935**	**–**
Deposits	**(2 123 953)**	**(2 064 836)**	**(59 117)**	**–**	**–**
	796 465	**618 383**	**(33 517)**	**211 599**	**–**
June 30 2012 (restated)*					
Financial assets/(liabilities)					
Cash and balances with banks	1 385 083	1 385 083	–	–	–
Loans and advances	1 002 466	874 942	747	126 018	759
Investment securities	101 599	21 307	–	80 292	–
Other assets	102 006	102 006	–	–	–
Intergroup loans	(419 612)	(420 996)	–	1 384	–
Deposits	(1 780 330)	(1 746 875)	(33 455)	–	–
	391 212	215 467	(32 708)	207 694	759

Other assets exclude inventory.

* *Refer to note 29 for prior period restatements.*

Notes to the consolidated financial statements

for the year ended June 30 continued

4. Financial risk management (continued)

4.4 Market risk (continued)

Analysis based on interest terms	Effective rate of interest 2013 %	2012 %	2013 R'000	Restated* 2012 R'000
Loans and advances				
Loans and advances with floating interest rates#	**6,81**	7,44	**1 075 873**	826 946
Loans and advances with fixed interest rates	**11,37**	11,31	**160 016**	205 719
			1 235 889	1 032 665
Less impairment			**(23 742)**	(30 199)
			1 212 147	1 002 466
Deposits				
Deposits with floating interest rates#	**3,60**	3,66	**(2 029 685)**	(1 717 036)
Deposits with fixed interest rates	**5,38**	5,62	**(94 268)**	(63 294)
			(2 123 953)	(1 780 330)

* *Refer to note 29 for prior period restatements.*

The current floating interest rate as at June 30.

Interest rate sensitivities

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

Average prime lending rate	**2013 %**	2012 %
For the current year ended June 30	**8,52**	9,00
For the prior year ended June 30	**9,00**	9,30
Interest rate sensitivity based on movements in prime lending rate	**R'000**	R'000
Decrease before tax in net interest income for the year#	**(9 181)**	(4 725)

Effect of year on year prime rate changes on a constant balance sheet.

Notes to the consolidated financial statements

for the year ended June 30 continued

4. Financial risk management (continued)

4.4 Market risk (continued)

Interest rate sensitivities (continued)

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

	200bp parallel movement	
Monthly impact before tax on net interest income	**Increase R'000**	**Decrease R'000**
As at June 30 2013	**2 840**	**(2 840)**
As at June 30 2012	2 503	(2 503)

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.

Foreign exchange rate sensitivities

Currency profile

R'000	ZAR	GBP	USD	EUR	Other	Total
2013						
Assets						
Cash and balances with banks	**1 712 323**	**11 416**	**64 587**	**16 918**	**19 805**	**1 825 049**
Derivative financial assets	**21 563**	**–**	**–**	**–**	**–**	**21 563**
Loans and advances	**1 033 284**	**87**	**178 776**	**–**	**–**	**1 212 147**
Leased assets	**1 223 601**	**–**	**–**	**–**	**–**	**1 223 601**
Investment securities	**98 522**	**–**	**–**	**–**	**–**	**98 522**
Other assets	**97 935**	**290**	**533**	**6**	**3**	**98 767**
Equipment	**65 151**	**–**	**–**	**–**	**–**	**65 151**
Current taxation	**33 108**	**–**	**–**	**–**	**–**	**33 108**
Intangible assets	**36 910**	**–**	**–**	**–**	**–**	**36 910**
	4 322 397	**11 793**	**243 896**	**16 924**	**19 808**	**4 614 818**
Commitments to purchase foreign currency	**–**	**70 542**	**1 007 589**	**383 188**	**182 920**	**1 644 239**
Total assets	**4 322 397**	**82 335**	**1 251 485**	**400 112**	**202 728**	**6 259 057**
2012 (restated)*	3 973 702	10 906	140 275	14 797	14 000	4 153 680
Commitments to purchase foreign currency	–	61 323	853 953	284 735	144 829	1 344 840
Total assets	3 973 702	72 229	994 228	299 532	158 829	5 498 520

* *Refer to note 29 for prior period restatements.*

Notes to the consolidated financial statements

for the year ended June 30 continued

4. Financial risk management (continued)

4.4 Market risk (continued)

Foreign exchange rate sensitivities (continued)

Currency profile (continued)

R'000	ZAR	GBP	USD	EUR	Other	Total
2013						
Equity and liabilities						
Share capital	**2 070**	**–**	**–**	**–**	**–**	**2 070**
Share premium	**525 709**	**–**	**–**	**–**	**–**	**525 709**
Reserves	**1 361 083**	**–**	**–**	**–**	**–**	**1 361 083**
Intergroup loans	**292 706**	**–**	**–**	**–**	**–**	**292 706**
Derivative financial liabilities	**32 062**	**–**	**–**	**–**	**–**	**32 062**
Deposits	**1 716 135**	**62 212**	**224 587**	**88 903**	**32 116**	**2 123 953**
Other liabilities	**117 065**	**2 319**	**13 434**	**8 206**	**8 008**	**149 032**
Deferred tax	**127 762**	**–**	**–**	**–**	**–**	**127 762**
Defined benefit liability	**441**	**–**	**–**	**–**	**–**	**441**
	4 175 033	**64 531**	**238 021**	**97 109**	**40 124**	**4 614 818**
Commitments to sell foreign currency	**–**	**19 008**	**995 730**	**296 597**	**183 250**	**1 494 585**
Total equity and liabilities	**4 175 033**	**83 539**	**1 233 751**	**393 706**	**223 374**	**6 109 403**
2012	3 844 188	54 079	163 477	64 151	27 784	4 153 680
Commitments to sell foreign currency	–	22 953	826 141	229 622	133 820	1 212 535
Total equity and liabilities	3 844 188	77 032	989 618	293 773	161 604	5 366 215

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.

	GBP R'000	USD R'000	EUR R'000	Other R'000	Total R'000
Net open position					
June 30 2013	**(1 204)**	**17 734**	**6 406**	**(20 646)**	**2 290**
June 30 2012	(4 803)	4 609	5 759	(2 774)	2 791
Closing spot exchange rate	**GBP**	**USD**	**EUR**		
June 30 2013	**R15,23**	**R10,00**	**R13,06**		
June 30 2012	R12,86	R8,19	R10,39		
Average exchange rate					
For the year ended June 30 2013	**R13,88**	**R8,86**	**R11,47**		
For the year ended June 30 2012	R12,27	R7,74	R10,38		
For the year ended June 30 2011	R11,14	R7,01	R9,55		

4. Financial risk management (continued)

4.4 Market risk (continued)

Foreign exchange rate sensitivities (continued)

Currency profile (continued)

	2013 R'000	2012 R'000
Foreign currency sensitivity based on movements in exchange rate:		
Increase before tax in operating income for the year[#]	**32 263**	23 066
Foreign currency net open position sensitivity based on a 10% exchange rate		
GBP	**(120)**	(480)
USD	**1 773**	461
EUR	**641**	576
Other	**(2 065)**	(277)
	229	280

[#] *Effect of foreign exchange rate fluctuations on a constant balance sheet.*

4.5 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, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

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

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

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

4. Financial risk management (continued)

4.6 Reputational risk

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

The following basic strategies are followed to manage reputational risk:

- Fostering a reputation-conscious culture.
- Linking corporate social responsibility to reputation.
- Measuring the impact of media coverage, perceptions and stakeholder impressions.
- Developing plans to develop and protect reputation.
- Monitoring potential reputation-damaging issues.
- Proactively exploiting good news and having a crisis communication plan to respond in times of bad news.
- Transforming potential disasters into opportunities.

4.7 Capital management

Regulatory capital

The South African Reserve Bank (SARB), sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements the SARB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets, market risk exposure and operational risk exposure. The Bank follows the standardised approach under Basel 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 gradings 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.
- Tier II capital, which consists of 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-statement of financial position exposures.

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

The Bank and its operations have complied with all externally imposed capital requirement throughout the year and previous periods.

4. Financial risk management (continued)

4.7 Capital management (continued)

The Bank's ICAAP reflects its internal assessment of risk. The ICAAP determines the most suitable level of economic capital, ie 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 ICAAP reflects the capital to be held for risk as assessed by management instead of implicated by a prescribed regulatory formula. The economic capital requirement is then compared to the regulatory capital requirement to determine the buffer to be held for uncertainties to ensure adequate capitalisation for the Bank.

None of the exposures at June 30 2013 were subject to rapid or material change.

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

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

5. Related party information

Parent company

The holding company of the Group is Bidvest Bank Holdings Limited. The ultimate holding company is The Bidvest Group Limited.

Related-party transactions

The Group, in the ordinary course of business, enters into various financial services transactions with other divisions and subsidiaries within The Bidvest Group Limited as well as with directors and key management of the Group. These transactions are governed by terms no less favourable than those arranged with third parties. No impairment of loans at year-end was considered necessary.

Key management personnel

Key management personnel has been defined as: Bidvest Bank Limited's Board of Directors.

Notes to the consolidated financial statements

for the year ended June 30 continued

	2013 R'000	2012 R'000
5. Related party information (continued)		
Related party balances – outstanding at year-end		
Intergroup loans		
The Bidvest Group Limited	**(45 454)**	(49 996)
Bid Industrial Holdings (Pty) Limited	**(248 187)**	(371 000)
Bidvest Share Incentive Trust	**935**	1 384
Advances		
Loans to fellow subsidiaries	**221 803**	285 373
Derivative assets with fellow subsidiaries	**4 277**	10 185
Loans to senior employees and key management	**572**	65
Deposits		
Deposits from fellow subsidiaries	**(107 750)**	(108 076)
Deposits from directors, senior employees and key management	**(5 153)**	(10 300)
Derivative liabilities with fellow subsidiaries	**(15 844)**	(4 128)
Accounts receivable from fellow subsidiaries	**24 392**	5 286
Accounts payable to fellow subsidiaries	**(1 586)**	(1 946)
Related party transactions – fellow subsidiaries		
Income		
Net interest income	**(10 236)**	(2 778)
Commission and fees	**(1 005)**	(1 349)
Administration fee received	**(8 017)**	(7 526)
Leasing income	**(5 434)**	(74 256)
Other	**–**	(5 324)
Expenses		
Advertising	**6 476**	2 405
Administration fee paid	**7 446**	10 162
IT charges	**297**	912
Leasing activities – other costs	**11 055**	6 861
Property rentals	**1 041**	1 743
Security fees	**14 530**	16 201
Stationery	**3 456**	2 556
Royalties paid	**90**	180
Offices services	**4 268**	5 746
Travel	**1 751**	1 132
Other	**222**	702
Assets (purchases)		
Equipment	**883**	896
Leased assets and financing equipment	**123 449**	310 908
Inventories	**–**	2 496

	2013 R'000	2012 R'000
5. Related party information (continued)		
Related party transactions – key management		
Savings deposits		
Credit balance July 1	**1 995**	1 068
Interest income	**12**	47
Net new investments	**(1 852)**	880
Balance June 30	**155**	1 995
Call and notice deposits		
Balance July 1	**8 305**	7 969
Interest income	**293**	358
Net new investments (withdrawals)	**(3 600)**	(22)
Balance June 30	**4 998**	8 305
Other fees		
Fees and commissions	**5**	42
Advertising	**2 380**	804
Other	**932**	1 031

Key management compensation

	Salaries and other short-term benefits R'000	Share-based payments R'000	Benefit arising on exercise of share options R'000	Services as directors R'000	Total R'000
2013					
PC Baloyi	**–**	**–**	**–**	**168**	**168**
EK Diack*	**–**	**–**	**–**	**523**	**523**
MJ Liebenberg	**2 245**	**–**	**–**	**–**	**2 245**
JL Pamensky	**–**	**–**	**–**	**20**	**20**
NG Payne*	**–**	**–**	**–**	**580**	**580**
AC Salomon	**6 831**	**2 499**	**–**	**–**	**9 330**
	9 076	**2 499**	**–**	**1 291**	**12 866**
2012					
LT de Waal	1 268	–	–	–	1 268
EK Diack	–	–	–	415	415
JL Pamensky*	–	–	–	200	200
NG Payne*	–	–	–	517	517
JH Postmus	–	–	–	20	20
AC Salomon*	6 600	2 451	5 310	–	14 361
RGH Smith	–	–	–	20	20
	7 868	2 451	5 310	1 172	16 801

* *Directors that sit on the board of The Bidvest Group Limited.*

The following directors did not receive remuneration and have been excluded from the detail above: P Nyman, JH Postmus, RGH Smith, B Joffe, L Jacobs (2012: P Nyman, B Joffe, L Jacobs).

5. Related party information (continued)

Executives participate in The Bidvest Group Limited's share incentive scheme (see note 27).

The above key management compensation only reflects compensation paid by Bidvest Bank Limited. For a full listing of key management compensation of directors that are board members of The Bidvest Group Limited refer to the director's report in The Bidvest Group Limited annual financial statements for the year ended June 30 2013 which can be inspected at the following registered address:

Bidvest House, 18 Crescent Drive, Melrose Arch, Melrose, 2196, South Africa.

Related party off-balance sheet transactions – Fellow subsidiaries

	2013 R'000	2012 R'000
Letters of credit issued on behalf of group companies	**442**	1 324
Guarantees issued on behalf of group companies	**5 785**	3 270
Notional value of derivative liabilities with fellow subsidiaries	**(254 165)**	(41 604)
Notional value of derivative assets with fellow subsidiaries	**149 025**	126 156

Director-related transactions

There are no material contracts with directors. Executive directors are permanently employed on the same terms and conditions as other employees. Directors have no long-term service contracts.

	2013 R'000	2012 R'000
6. Income		
6.1 Net interest income		
Interest income	**154 528**	100 514
> Cash and cash equivalents	**55 752**	28 660
> Loans and advances to customers	**88 362**	61 225
> Investment securities	**5 694**	5 320
> Other	**4 900**	5 309
Interest expense	**(71 717)**	(59 838)
> Deposits from banks	**(179)**	(344)
> Deposits from customers	**(71 016)**	(58 162)
> Intergroup loan	**(522)**	(1 322)
Net interest income	**82 811**	40 676
Included within various captions under interest income for the year is interest accrued on impaired financial assets	**4 385**	2 831
Included in interest income relating to available-for-sale financial assets	**5 694**	5 320
6.2 Leasing income		
Contingent rentals included in leasing income	**21 308**	30 033
6.3 Other income		
Dividends on investment securities	**1 403**	1 377
Profit/(loss) on disposal of bonds	**8 733**	(475)
	10 136	902

Notes to the consolidated financial statements

for the year ended June 30 continued

		2013 R'000	2012 R'000
7.	**Employment costs**		
	Salaries	**213 567**	214 095
	Contributions to the provident fund	**11 751**	12 105
	Contributions to the defined contribution pension fund	**1 313**	1 360
	Increase/(decrease) in liability for the defined benefit plan	**241**	(238)
	Share-based payment expense	**1 384**	3 265
	Charged against equity	**1 384**	870
	Cash settled	**–**	2 395
	Performance incentive	**16 679**	16 050
	Net retrenchment costs	**–**	–
	Retrenchment costs	**222**	1 398
	Warranty claim	**(222)**	(1 398)
		244 935	246 637
8.	**Operating expenditure**		
8.1	**Operating leases**		
	– Property rentals	**72 148**	66 032
	– Office equipment	**759**	1 468
	– Vehicles	**3**	3
	– Straight-lining of leases	**(1 994)**	(317)
		70 916	67 186
8.2	**Other operating expenditure**		
	Other operating expenditure includes:		
	Auditors' remuneration	**6 455**	5 171
	Audit fees	**6 340**	5 030
	Taxation advice	**–**	141
	Fees for other services	**115**	–
	Consulting fees	**488**	2 259
	Directors' emoluments	**12 866**	11 491
	For services as non-executive directors	**1 291**	1 172
	For services as executive directors	**11 575**	10 319
	Net (profit)/loss on disposal of equipment and leased assets	**(2 640)**	17 115

		2013 R'000	2012 R'000
9.	**Taxation**		
9.1	**Indirect taxation**		
	– Value added tax	**13 409**	10 245
	– Skills development levy	**2 161**	2 313
		15 570	12 558
9.2	**Direct taxation**		
	South African normal taxation	**86 854**	116 209
	– Current year	**86 194**	116 209
	– Prior year underprovision	**660**	–
	Deferred taxation	**15 629**	(328)
	– Current year	**11 313**	(192)
	– Prior year under/(over)provision	**4 316**	(136)
		102 483	115 881
	Tax rate reconciliation	**%**	%
	Effective rate	**28,24**	26,77
	Disallowed expenditure	**–**	(0,06)
	Non-taxable income	**4,05**	1,26
	Prior year (under)/overprovision	**(4,29)**	0,03
	Standard taxation rate	**28,00**	28,00

		2013 R'000	Restated* 2012 R'000
10.	**Notes to the statement of cash flows**		
10.1	**Reconciliation of cash generated by operations**		
	Profit before direct taxation	**362 862**	432 919
	Adjustments		
	Depreciation of equipment and leased assets	**184 507**	290 021
	Amortisation of intangible assets	**9 362**	6 751
	(Profit)/loss on disposal of equipment and leased assets	**(2 640)**	17 115
	Interest received	**(154 528)**	(100 514)
	Interest paid	**71 717**	59 838
	Share-based payments	**1 384**	870
	Dividends	**(1 403)**	(1 377)
	Operating profit before changes in working capital	**471 261**	705 623
	Decrease/(increase) in net derivative financial instruments	**19 489**	(4 535)
	Decrease/(increase) in other assets	**23 448**	(26 842)
	Decrease in other liabilities	**(37 167)**	(48 665)
	Increase in loans and advances	**(209 681)**	(322 220)
	Increase in deposits	**343 624**	419 949
		610 974	723 310

* *Refer to note 29 for prior period restatements.*

Notes to the consolidated financial statements

for the year ended June 30 continued

		2013 R'000	Restated* 2012 R'000
10.	**Notes to the statement of cash flows (continued)**		
10.2	**Taxation paid**		
	Opening balance	**9 321**	(42 372)
	Normal taxation charge	**(86 854)**	(116 209)
	Closing balance	**(33 108)**	(9 321)
	Taxation paid	**(110 641)**	(167 902)
10.3	**Movement in investment securities**		
	Opening balance at fair value	**101 599**	82 714
	(Decrease)/increase in fair value adjustments during the year	**(9 306)**	4 046
	Additions during the year	**6 229**	22 200
	Closing balance	**(98 522)**	(101 599)
	Disposals during the year	**–**	7 361
11.	**Cash and cash equivalents**		
	Cash on hand and in transit	**111 938**	98 162
	Interbank investments		
	– Current accounts	**56 555**	47 507
	– Money on call	**1 540 555**	1 140 625
	– South African Reserve Bank	**85 988**	62 672
	– Restricted cash held at South African Reserve Bank	**30 013**	36 117
		1 825 049	1 385 083
	Total debit balances@	**1 826 476**	1 389 041
	Total credit balances	**(1 427)**	(3 958)
12.	**Derivative financial instruments**		
	Foreign exchange contracts (FECs)		
	– derivative financial assets	**21 563**	27 550
	– derivative financial liabilities	**(32 062)**	(18 560)
	Net fair values	**(10 499)**	8 990
	Notional amount of derivative financial assets	**873 129**	968 790
	Notional amount of derivative financial liabilities	**895 279**	626 336

The notional amount is the value of all bought and sold contracts respectively. 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.#

 # Notional values were split between asset and liability positions to provide enhanced disclosure. Comparatives were restated accordingly.

** Refer to note 29 for prior period restatements.*

@ Debit and credit balances were split to provide enhanced disclosure. Comparatives were restated accordingly.

Notes to the consolidated financial statements
for the year ended June 30 continued

		2013 R'000	Restated* 2012 R'000
13.	**Loans and advances**		
13.1	**Analysis of loans and advances**		
	Loans and advances to customers		
	Call and term loans	**383 667**	354 012
	Mortgage loans	**152 185**	80 993
	Finance leases and instalment finance	**678 845**	597 546
		1 214 697	1 032 551
	Less: Impairment (note 13.2)	**(23 742)**	(30 199)
		1 190 955	1 002 352
	Loans and advances to banks		
	Finance leases	**21 192**	–
	Call and term loans	**–**	114
	Total loans and advances	**1 212 147**	1 002 466

* *Refer to note 29 for prior period restatements.*

		2013 R'000	Restated* 2012 R'000
13.2	**Movement in impairments**		
	Specific impairments		
	Call and term loans	**(1 631)**	(683)
	Opening balance	**(683)**	(1 225)
	(Charge against)/release to income	**(948)**	542
	Mortgage loans	**–**	–
	Opening balance	**–**	(5)
	Release to income	**–**	5
	Finance leases	**(20 435)**	(27 127)
	Opening balance	**(27 127)**	(25 590)
	Charge against income	**(10 550)**	(1 537)
	Net bad debts written off	**17 242**	–
	– Bad debts written off	**17 242**	–
	– Warranty claim	**–**	–
	Portfolio impairment	**(1 676)**	(2 389)
	Opening balance	**(2 389)**	(2 357)
	Release to/(charge against) income	**713**	(32)
	Carrying value at end of the year		
	Specific impairments – warranted debt	**(16 171)**	(26 426)
	Specific impairments	**(5 895)**	(1 384)
	Portfolio impairment	**(1 676)**	(2 389)
		(23 742)	(30 199)

Notes to the consolidated financial statements
for the year ended June 30 continued

		2013 R'000	2012 R'000
13.	**Loans and advances (continued)**		
	Net (charge against)/release to income		
	Call and term loans	**(948)**	542
	Mortgage loans	**–**	5
	Finance leases	**(6 175)**	(1 295)
	– Increase in impairment	**(10 550)**	(1 537)
	– Warranty claim	**4 375**	242
	Portfolio impairment	**713**	(32)
	Accounts receivable – provision charge/release net of warranty claim	**(385)**	(1 550)
	Net bad debts recovered	**58**	874
	Bad debts recovered	**58**	1 392
	Less: Warranty reversal	**–**	(518)
	Total	**(6 737)**	(1 456)

13.3 Maturity of finance leases

	Gross R'000	Unearned finance charges R'000	Net R'000
2013			
Due within one year	**123 627**	**4 506**	**119 121**
Between one and five years	**648 506**	**80 728**	**567 778**
More than five years	**14 599**	**1 461**	**13 138**
	786 732	**86 695**	**700 037**
2012			
Due within one year	65 488	809	64 679
Between one and five years	592 797	66 596	526 201
More than five years	7 422	756	6 666
	665 707	68 161	597 546

Under the terms of the lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the reporting date is R20,4 million (2012: R26 million).

Notes to the consolidated financial statements

for the year ended June 30 continued

		2013 R'000	Restated* 2012 R'000
14.	**Leased assets**		
	Carrying value at beginning of year	**1 399 660**	1 702 077
	Cost	**1 837 028**	2 343 998
	Accumulated depreciation	**(444 196)**	(683 324)
	Capital work in progress	**6 828**	41 403
		(176 059)	(302 417)
	Additions	**100 651**	301 729
	Disposals	**(105 676)**	(302 724)
	Depreciation	**(164 206)**	(266 847)
	Capital work in progress	**(6 828)**	(34 575)
	Carrying value at end of year	**1 223 601**	1 399 660
	Cost	**1 730 600**	1 837 028
	Accumulated depreciation	**(506 999)**	(444 196)
	Capital work in progress	**–**	6 828

Leased assets are made up of motor vehicles and material handling equipment.

* *Refer to note 29 for prior period restatements.*

		2013 R'000	2012 R'000
15.	**Investment securities**		
	Available-for-sale securities		
	– Investment in RSA government bonds	**76 313**	80 292
	– Listed preference shares	**21 544**	18 860
	– Listed equities	**649**	2 431
	– Unlisted shares at directors' valuation	**16**	16
		98 522	101 599

Government bonds, listed preference shares and listed equities are held as available-for-sale and are valued by using the market quoted prices. The movement in the fair value is recognised directly in other comprehensive income (refer consolidated statement of changes in equity).

Notes to the consolidated financial statements
for the year ended June 30 continued

		2013 R'000	2012 R'000
16.	**Other assets**		
	Net accounts receivable	**65 262**	88 050
	Accounts receivable	**76 993**	100 067
	Less: Impairment	**(11 731)**	(12 017)
	– Warranted	**(10 703)**	(11 496)
	– Other	**(1 028)**	(521)
	Uncleared effects	**107**	73
	Payments in advance	**5 638**	3 996
	Encashed travellers' cheques	**873**	928
	Terminated leased assets available for resale	**21 361**	20 209
	Other	**5 525**	8 959
		98 767	122 215
17.	**Equipment**		
	Office equipment	**5 675**	6 386
	Cost	**17 323**	16 521
	Accumulated depreciation and accumulated impairment	**(11 648)**	(10 135)
	Furniture and fittings	**43 556**	47 050
	Cost	**88 087**	84 192
	Accumulated depreciation and accumulated impairment	**(44 531)**	(37 142)
	Computer equipment	**12 776**	11 431
	Cost	**36 733**	32 102
	Accumulated depreciation and accumulated impairment	**(23 957)**	(20 671)
	Motor vehicles	**3 144**	5 950
	Cost	**11 405**	18 659
	Accumulated depreciation and accumulated impairment	**(8 261)**	(12 709)
		65 151	70 817

Notes to the consolidated financial statements
for the year ended June 30 continued

	2013 R'000	2012 R'000
17. Equipment (continued)		
Movement in equipment		
Carrying value at beginning of year	**70 817**	81 582
Cost	**151 474**	154 011
Accumulated depreciation	**(80 657)**	(72 429)
Additions	**16 922**	23 634
Office equipment	**1 850**	1 669
Furniture and fittings	**9 268**	16 361
Computer equipment	**5 541**	2 339
Motor vehicles	**263**	3 265
Disposals	**(2 287)**	(11 225)
Office equipment	**(170)**	(350)
Furniture and fittings	**107**	(162)
Computer equipment	**(1 002)**	–
Motor vehicles	**(1 222)**	(10 713)
Depreciation	**(20 301)**	(23 174)
Office equipment	**(2 388)**	(2 100)
Furniture and fittings	**(11 762)**	(9 250)
Computer equipment	**(4 303)**	(5 812)
Motor vehicles	**(1 848)**	(6 012)
Carrying value at end of year	**65 151**	70 817
Cost	**153 548**	151 474
Accumulated depreciation	**(88 397)**	(80 657)

No impairment of equipment was considered necessary during the financial year.

Notes to the consolidated financial statements

for the year ended June 30 continued

		2013 R'000	2012 R'000
18.	**Intangible assets**		
	Goodwill at cost	**14 831**	14 831
	Computer software	**16 626**	16 889
	Cost	**55 518**	48 048
	Accumulated amortisation and accumulated impairment	**(38 892)**	(31 159)
	Development costs	**5 543**	3 249
	Cost	**7 112**	3 353
	Accumulated amortisation and accumulated impairment	**(1 659)**	(104)
		36 910	34 969
	Movement in intangible assets		
	Carrying value at beginning of year	**34 969**	31 535
	Cost	**66 232**	56 047
	Accumulated amortisation	**(31 263)**	(24 512)
	Disposals	**–**	–
	Computer software	**–**	–
	Development costs	**–**	–
	Additions	**11 303**	10 185
	Computer software	**7 545**	6 595
	Development costs	**3 758**	3 590
	Amortisation	**(9 362)**	(6 751)
	Computer software	**(7 807)**	(6 700)
	Development costs	**(1 555)**	(51)
	Carrying value at end of year	**36 910**	34 969
	Cost	**77 460**	66 232
	Accumulated amortisation	**(40 550)**	(31 263)

No impairment of intangible assets was considered necessary during the financial year.

Basis of assessment of carrying value of goodwill

Value in use of the businesses purchased was determined by using the projected annual profit before tax of each underlying operation and multiplying the result with the appropriate price earnings ratio. The method and assumptions described above may change as economic and market conditions may change.

Notes to the consolidated financial statements

for the year ended June 30 continued

		2013 R'000	2012 R'000
19.	**Share capital**		
19.1	**Authorised**		
	360 000 000 ordinary shares of 1 cent each	**3 600**	3 600
19.2	**Issued**		
	207 000 000 (2012: 207 000 000) ordinary shares of 1 cent each		
	Opening balance	**2 070**	1 980
	Arising on shares issued	**–**	90
		2 070	2 070
	The unissued shares are under the control of the directors until the forthcoming annual general meeting of shareholders.		
20.	**Share premium**		
	Opening balance	**525 709**	435 799
	Arising on shares issued	**–**	89 910
		525 709	525 709
21.	**Intergroup loans**		
	The Bidvest Group Limited	**45 454**	49 996
	Bid Industrial Holdings (Pty) Limited	**248 187**	371 000
	Bidvest Share Incentive Trust	**(935)**	(1 384)
		292 706	419 612
	The Bidvest Group Limited loan is interest free and was repaid in August 2013.		
	The Bid Industrial Holdings (Pty) Limited loan bears interest at prime less 3% and is repayable in instalments of R123 million per annum. The full amount was repaid after year-end but the facility remains available should it be required.		
	The share incentive loan bears interest at 0,25% and has no fixed terms of repayment.		
22.	**Deposits**		
	Deposits from customers		
	– Fixed and notice	**769 863**	711 424
	– Call	**1 354 090**	1 068 906
		2 123 953	1 780 330

The maturity analysis of deposits is based on the contractual period to maturity from the statement of financial position as reflected in note 4.3.

Notes to the consolidated financial statements

for the year ended June 30 continued

		2013 R'000	2012 R'000
23.	**Other liabilities**		
	VAT	**6 052**	6 962
	Accrual for maintenance obligations (refer below)	**18 605**	27 732
	Trade accruals	**119 977**	144 213
	Outstanding bank credits	**3 515**	4 643
	Straight-lining of leases	**883**	2 878
	Other	**–**	12
		149 032	186 440
24.	**Deferred taxation liability**		
	Balance at beginning of year	**112 133**	112 461
	Current year movement		
	– Charged to the statement of comprehensive income	**11 313**	(192)
	– Prior year underprovision	**4 316**	(136)
	Balance at end of year	**127 762**	112 133
	The net deferred tax liability consists of temporary differences arising from:		
	Equipment and leased assets	**145 109**	133 477
	Trademark	**–**	(30)
	Accruals	**(18 071)**	(21 057)
	Straight-lining of leases liability	**(247)**	(806)
	Prepayments	**971**	549
	Balance at end of year	**127 762**	112 133
25.	**Contingent liabilities and commitments**		
25.1	**Capital commitments**		
	Authorised and contracted for	**48 444**	82 550
	Authorised but not yet contracted for undrawn facilities	**654 904**	486 992
	Funds to meet capital expenditure commitments will be provided from the Bank's internal resources.		
25.2	**Off-balance sheet transactions**		
	Guarantees issued on behalf of group companies	**(5 785)**	(3 270)
	Guarantees issued on behalf of third parties	**(21 153)**	(9 777)
	Letters of credit issued on behalf of third parties	**(11 242)**	(65 146)
	Letters of credit issued on behalf of group companies	**(442)**	(1 324)
		(38 622)	(79 517)

Guarantees are both payment and performance-related guarantees on behalf of customers. Management has assessed the probability that a liability should be raised and is satisfied that the liability adequacy test indicated that there is no present obligation to raise a liability.

Letters of credit include documentary letters of credit with customers regarding imports and exports.

Notes to the consolidated financial statements

for the year ended June 30 continued

	2013 R'000	2012 R'000
25. Contingent liabilities and commitments (continued)		
25.3 Future operating lease commitments		
Property leases		
– Payable within one year	**57 653**	97 349
– Payable between one and five years	**83 129**	106 372
Equipment		
– Payable within one year	**–**	475
– Payable between one and five years	**–**	–
	140 782	204 196

Some property rentals include a turnover clause as additional rental.

Escalations are between 8% and 10%.

26. Classification of assets and liabilities

Accounting classification and fair values

	Held for trading R'000	Loans and receivables R'000	Available for sale R'000	Other amortised cost R'000	Non-financial assets/ liabilities R'000	Total R'000
2013						
Assets						
Cash and cash equivalents	–	1 825 049	–	–	–	1 825 049
Derivative financial assets	21 563	–	–	–	–	21 563
Loans and advances	–	1 212 147	–	–	–	1 212 147
Leased assets	–	–	–	–	1 223 601	1 223 601
Investment securities	–	–	98 522	–	–	98 522
Other assets	–	77 406	–	–	21 361	98 767
Equipment	–	–	–	–	65 151	65 151
Intangible assets	–	–	–	–	36 910	36 910
Current taxation	–	–	–	–	33 108	33 108
	21 563	3 114 602	98 522	–	1 380 131	4 614 818
2013						
Liabilities						
Intergroup loans	–	–	–	292 706	–	292 706
Derivative financial liabilities	32 062	–	–	–	–	32 062
Deposits	–	–	–	2 123 953	–	2 123 953
Other liabilities	–	–	–	149 032	–	149 032
Deferred taxation	–	–	–	–	127 762	127 762
Defined benefit liability	–	–	–	–	441	441
	32 062	–	–	2 565 691	128 203	2 725 956

Notes to the consolidated financial statements

for the year ended June 30 continued

26. Classification of assets and liabilities (continued)

Accounting classification and fair values (continued)

	Held for trading R'000	Loans and receivables R'000	Available for sale R'000	Other amortised cost R'000	Non-financial assets/ liabilities R'000	Total R'000
2012 (restated)*						
Assets						
Cash and cash equivalents	–	1 385 083	–	–	–	1 385 083
Derivative financial assets	27 550	–	–	–	–	27 550
Loans and advances	–	1 002 466	–	–	–	1 002 466
Leased assets	–	–	–		1 399 660	1 399 660
Investment securities	–	–	101 599	–	–	101 599
Other assets		102 006	–	–	20 209	122 215
Equipment					70 817	70 817
Intangible assets	–	–	–	–	34 969	34 969
Current taxation	–	–	–	–	9 321	9 321
	27 550	2 489 555	101 599	–	1 534 976	4 153 680
2012						
Liabilities						
Intergroup loans	–	419 612	–	–	–	419 612
Derivative financial liabilities	18 560	–	–	–	–	18 560
Deposits	–	–	–	1 780 330	–	1 780 330
Other liabilities	–	–	–	155 830	30 610	186 440
Deferred taxation	–	–	–	–	112 133	112 133
Defined benefit liability	–	–	–	–	200	200
	18 560	419 612	–	1 936 160	142 943	2 517 275

* *Refer to note 29 for prior period restatements.*

26.1 Fair value estimation

Effective July 1 2009, the Bank adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value. This requires disclosure of fair value measurements by using the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the consolidated financial statements

for the year ended June 30 continued

26. Classification of assets and liabilities (continued)

26.1 Fair value estimation (continued)

The following table presents the Bank's assets and liabilities that are measured at fair value at June 30:

	Notes	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total balance R'000
2013					
Assets					
Investment securities	15	**98 506**	**–**	**16**	**98 522**
Derivative financial assets	12	**–**	**21 563**	**–**	**21 563**
Total assets		**98 506**	**21 563**	**16**	**120 085**
Liabilities					
Derivative financial liabilities	12	**–**	**32 062**	**–**	**32 062**
Total liabilities		**–**	**32 062**	**–**	**32 062**
2012					
Assets					
Investment securities	15	101 583	–	16	101 599
Derivative financial assets	12	–	27 550	–	27 550
Total assets		101 583	27 550	16	129 149
Liabilities					
Derivative financial liabilities	12	–	18 560	–	18 560
Total liabilities		–	18 560	–	18 560

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, or industry group, pricing market transactions on an arm's-length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily listed equity investments classified as available-for-sale securities.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

26. Classification of assets and liabilities (continued)

26.2 Fair value of financial instruments

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position. For all other instruments the carrying value is equal to or a reasonable approximation of fair value.

	Carrying value R'000	Fair value R'000
2013		
Assets		
Total advances at amortised cost	**1 212 147**	1 215 737
2012 (restated)*		
Assets		
Total advances at amortised cost	**1 002 466**	1 007 136

* *Refer to note 29 for prior period restatements.*

27. Share-based payments

The Bidvest Group Limited (Bidvest) has an incentive scheme which grants options and advances loans to employees of the Group to acquire shares in Bidvest. Both the share option scheme and share purchase scheme have been classified as equity-settled schemes, and therefore an equity-settled share-based payment reserve has been recognised.

A Conditional Share Plan, which awards employees with a conditional right to receive shares in Bidvest, free of any cost, is also operated by the Group. As it is anticipated that the participants will receive shares in settlement of their awards, a share-based payment reserve has been recognised.

Share option scheme

The Group elected to account only for the cost of options granted subsequent to November 7 2002 which had not vested by January 1 2005 in terms of the transitional provisions on conversion to IFRS.

The terms and conditions of the options are:

Option holders are only entitled to exercise their options if they are in the employment of the Group in accordance with the terms referred to hereafter, unless otherwise recommended by the Board of Bidvest to the Trustees of the Bidvest Share Incentive Trust.

Notes to the consolidated financial statements
for the year ended June 30 continued

27. Share-based payments (continued)

Share option scheme (continued)

Option holders in the Scheme may exercise the options at such times as the option holder deems fit, but not so as to result in the following proportions of the holder's total number of instruments being purchased prior to: 50% of total number of instruments at the expiry of three years; 75% of total number of instruments at the expiry of four years; and 100% of total number of instruments at the expiry of five years from the date of the holder's acceptance of an option. All options must be exercised no later than the 10th anniversary on which they were granted unless approval is obtained from the trustees.

The number and weighted average exercise prices of share options are:

	2013		2012	
	Number	**Average price R**	Number	Average price R
Beginning of the year	**228 445**	**119,74**	117 390	96,51
Granted	**105 000**	**134,67**	166 000	134,56
Lapsed	**(20 000)**	**39,10**	(38 445)	54,17
Exercised	**(12 500)**	**208,91**	(16 500)	52,30
End of the year	**300 945**	**153,21**	228 445	119,74

The options outstanding at June 30 2013 have an exercise price in the range of R39,10 to R208,91 (2012: R39,10 to R135,15) and a weighted average contractual life of 0,5 to 9,8 years (2012: 1,0 to 9,5 years). The average share price of The Bidvest Group Limited during the year was R221,27 (2012: R164,81).

Share options outstanding at June 30 by year of grant are:

	2013		2012	
	Number	**Average price R**	Number	Average price R
2003 and prior	**–**	**–**	12 500	39,10
2004	**17 500**	**51,51**	17 500	51,51
2005	**11 445**	**68,3**	11 445	68,30
2011	**40 000**	**135,00**	45 000	135,00
2012	**127 000**	**134,56**	142 000	134,56
2013	**105 000**	**208,91**	–	–
	300 945	**153,21**	228 445	119,74

The fair value of services received in return for shares allotted is measured based on a binomial model. The contractual life of the option is used as an input into this model.

27. Share-based payments (continued)

Share option scheme (continued)

The fair value of the shares allotted during the current year and the assumptions used are:

	2013	2012
Fair value at measurement date (Rand)	**68,05**	40,14
Exercise price (Rand)	**208,26**	134,56
Expected volatility (%)	**28,39**	21,24
Option life (years)	**4,00 – 6,00**	4,00 – 6,00
Distribution yield (%)	**2,88**	3,21
Risk-free interest rate (based on National Government Bonds) (%)	**6,15**	6,96

The volatility is based on the historic volatility.

Share purchase scheme

In terms of the share purchase scheme, the Scheme advances loans to employees to acquire shares in The Bidvest Group Limited. Interest is charged on the loans at interest rates determined by the Board of Directors of the Company, the loans must be settled no later than the 10th anniversary on which the shares were allotted and the shares are held by the Scheme as security for the loans.

The employees are entitled to settle the loans at such times as they deem fit, but not so as to result in the following proportions of the employees' total number of allotted shares being paid for prior to: 50% of total number of allotted shares at the expiry of three years; 75% of total number of allotted shares at the expiry of four years; and 100% of the total number of allotted shares at the expiry of five years from the date of the holder's acceptance of the allotted share, unless otherwise determined by the Board.

Distributions arising on the allotted shares are utilised to settle any interest or income tax obligations with any excess being applied to settle the outstanding liability.

The number and weighted average exercise prices of shares allotted in terms of the share purchase scheme are:

	2013		2012	
	Number	**Average price R**	Number	Average price R
Beginning of the year	**12 890**	**107,33**	98 529	109,26
Repurchased	**–**	**–**	(3 280)	106,00
Shares taken up by staff	**(3 927)**	**105,71**	(82 359)	107,32
End of the year	**8 963**	**104,34**	12 890	107,33

The fair value of services received in return for shares allotted is measured based on a binomial model. The expected contractual life of the loan obligation is used as an input into this model.

No shares were allotted during the year (2012: Nil).

	2013 R'000	2012 R'000
Share-based payment expense recognised relating to the share options and share purchase scheme	**1 384**	870

28. Key assumptions

In preparing the financial statements, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances.

28.1 Investment securities

An impairment of an investment security will be considered if there is an indication of permanent diminution of value in the security.

28.2 Credit impairment losses on loans and advances

Performing loans

The Bank assesses its loan portfolio for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgements whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for economic conditions. Annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Non-performing loans

Loans are individually impaired if the amounts are due and unpaid at year-end. Corporate loans are analysed on a case-by-case basis taking into account breaches of key loan conditions. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for the lending book. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Estimated security values are taken into account when determining the impairment requirement.

28.3 Income taxes

The tax charged to the accounts is subject to determination of the South African Revenue Services. When the final tax outcome upon agreement of assessment differs from the amounts initially recorded such differences are adjusted in subsequent periods.

28.4 Impairment of non-financial assets

The carrying amount of the Bank's assets other than financial assets is reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication of impairment exists, the asset's recoverable amount is established. This estimation requires significant judgement. An impairment loss is recognised in profit or loss whenever the carrying amount exceeds the recoverable amount.

28.5 Residual value of leased assets

Residual values of leased assets are assessed on a yearly basis for purposes of determining the depreciable amounts of leased assets. Any changes to the depreciable amounts are accounted for as a change in estimate.

The residual value estimation is based on a combination of the most recent resale profits and losses on leased assets as well as industry valuation guides. This estimation requires significant judgement.

28.6 Leased assets – maintenance obligation

The maintenance obligation is assessed on a yearly basis. The obligation is based on historical maintenance cost to income ratios and estimated future income escalations for each lease asset category.

Notes to the consolidated financial statements

for the year ended June 30 continued

29. Prior period errors and related restatements

29.1 Reclassification of operating leases to loans and advances

In the prior year certain loans and advances were incorrectly classified as operating rental agreements.

The 2012 comparatives have been restated as follows:

Consolidated statement of financial position:	Effects on 2012 R'000
Decrease in leased assets	87 070
Increase in loans and advances	87 070

The impact of the above reclassification did not have a material impact on net profit and accordingly management did not consider it necessary to present the impact thereof at an individual statement of comprehensive income line item level as the cost outweighed the benefit of such additional disclosure. No 2011 statement of financial position was presented as the impact is limited to 2012.

29.2 Summary of the restated amounts of the 2012 restated comparatives are as follows:

Consolidated statement of financial position:	Notes	Effects on 2012 R'000
Leased assets		
Carrying value of leased assets as previously stated		1 486 730
Adjustment for the revision of residual values		(87 070)
Restated carrying value of leased assets	14	1 399 660
Loans and advances		
Carrying value of loans and advances as previously stated		915 396
Reclassification adjustment for operating leases		87 070
Restated carrying value of loans and advances	13	1 002 466

Notes to the consolidated financial statements

for the year ended June 30 continued

30. Adoption of new and revised standards

Standard	Annual periods beginning on or after
IAS 12 – *Income Taxes*	January 1 2012
Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)	January 1 2012
IAS 1 – *Presentation of Financial Statements*	July 1 2012
Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	July 1 2012

Standards and interpretations in issue not yet adopted

The directors do not anticipate the standards below to have a material impact on future financial statements.

Standard	Annual periods beginning on or after
IFRS 1 – *First-time Adoption of International Financial Reporting Standards*	January 1 2013
IFRS 7 – *Financial Instruments: Disclosures*	January 1 2013
IFRS 10 – *Consolidated Financial Statements*	January 1 2013
IFRS 11 – *Joint Arrangements*	January 1 2013
IFRS 12 – *Disclosure of Interests in Other Entities*	January 1 2013
IFRS 13 – *Fair Value Measurement*	January 1 2013
IAS 19 – *Employee Benefits*	January 1 2013
IAS 27 – *Separate Financial Statements*	January 1 2013
IAS 28 – *Investments in Associates and Joint Ventures*	January 1 2013
IAS 32 – *Financial Instruments: Presentation*	January 1 2014
IFRS 9 – *Financial Instruments*	January 1 2015
Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	January 1 2013
Government Loans (Amendments to IFRS 1)	January 1 2013
IFRIC 20 – *Stripping Costs in the Production Phase of a Surface Mine*	January 1 2013

Notes to the consolidated financial statements
for the year ended June 30 continued

Annexure A

Interest in subsidiaries

Investment in:	Number of shares in issue	Number of shares held	Effective % held	**2013 R'000**	2012 R'000
Direct subsidiaries					
Viamax (Pty) Limited	10 000 000	10 000 000	100	**15 000**	15 000
McCarthy Retail Finance (Pty) Limited	99	99	100	**198**	198
Indirect subsidiaries					
Bidvest Capital (Pty) Limited	8 001	8 001	100		
Viamax Fleet Solutions (Pty) Limited	40 000 000	40 000 000	100		