Bidvest Bank Limited

(Registration No. 2000/006478/06)

PILLAR III Public Disclosure

June 30 2012

Financial risk management

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

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

Risk management framework

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Risk and Capital Management Committee, Asset and Liability Committee, and Credit Committee, which are responsible for developing and monitoring the Bank's risk management policies in specified areas. The Risk and Capital Management Committee 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.

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. 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;
- 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;
- *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.

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Exposure to credit risk

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

Exposure to credit risk	Gross maximum exposure	
	2012	2011
	R'000	R'000
Loans and advances (excluding banks)		
Individually impaired		
Exceptional credit quality	**-**	-
Good credit quality	**-**	-
Average credit quality	**873**	411
Deteriorated credit quality	**1 168**	1 631
Total	**2 041**	2 042
Specific allowance for impairment	**(1 384)**	(1 329)
Carrying amount	**657**	713
Collectively impaired		
Exceptional credit quality	**23 472**	34 572
Good credit quality	**66 383**	174 735
Average credit quality	**246 598**	72 624
Deteriorated credit quality	**19 914**	12 977
Total	**356 367**	294 908
Portfolio allowance for impairment	**(2 389)**	(2 357)
Carrying amount	**353 978**	292 551
Neither past due nor impaired		
Net exceptional credit quality	**351 487**	227 561
Exceptional credit quality	**377 913**	227 561
Specific allowance for impairment – warranted debt (see commentary below)	**(26 426)**	-
Exceptional credit quality (banks)	**31 194**	30 750
Good credit quality	**22 261**	22 031
Average credit quality	**143 817**	6 344
Deteriorated credit quality	**12 002**	-
Total	**560 761**	286 686
Total carrying amount of loans and advances	**915 396**	579 950
Other financial assets		
Exceptional credit quality	**178 453**	179 168
Exceptional credit quality (banks)	**1 305 780**	790 976
Good credit quality	**152 214**	74 330
Average credit quality	**-**	-
Deteriorated credit quality	**-**	-
Total of other financial assets	**1 636 447**	1 044 474
Non-financial assets as per statement of financial position		
Leased assets	**1 486 730**	566 539
Equipment	**70 817**	59 333
Intangible assets	**34 969**	30 176
Intergroup loans	**1 560**	10 828
Current taxation	**-**	7 472
Investment in subsidiaries	**56 387**	764 667
Total of non-financial assets	**1 650 460**	1 439 015
Total assets	**4 202 306**	3 063 439

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 2011, 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 leasing business was warranted by The Bidvest Group Limited. All warranted loans are reflected as exceptional credit quality, net of impairments raised, which is recovered from The Bidvest Group Limited.

Leased assets

The leased assets are moveable assets rented to customers under operating leases. This is in the range of 3 to 5 years tenor. 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 are disclosed at fair value, and tested for impairment on a bi-annual basis. The fair value is determined by comparing the realisable value of a sold asset at end of term to the recorded value.

Impaired loans

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

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 the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance loans, 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 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.

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Security value		**Loans and advances**	
		2012	2011
	Note	**R'000**	R'000
Against individually impaired			
Movable assets		**578**	312
Cash, debtors, stock		**-**	-
Property		**-**	21
Guarantees		**-**	-
Total secured		**578**	333
Unsecured		**79**	380
Total		**657**	713
Collectively impaired			
Moveable assets		**205 776**	175 909
Cash, debtors, stock		**38 304**	13 358
Property		**81 551**	63 518
Guarantees		**17 493**	21 744
Total secured		**343 124**	274 529
Unsecured		**10 854**	18 022
Total		**353 978**	292 551
Neither past due nor impaired			
Moveable assets		**302 009**	100 429
Cash, debtors, stock		**80 513**	-
Property		**221**	-
Guarantees		**171 071**	186 257
Total secured		**553 814**	286 686
Unsecured		**6 947**	-
Total		**560 761**	286 686
Carrying value	*13*	**915 396**	579 950

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Security valuation

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

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

Credit risk by sector		**Loans and advances**		**Investment securities**	
		2012	2011	**2012**	2011
Concentration by sector	*Note*	**R'000**	R'000	**R'000**	R'000
Agriculture, Hunting, Forestry & Fishing		**3 830**	1 774		-
Manufacturing		**56 517**	33 292		-
Mining & Quarrying		**35 198**	23 512		-
Construction		**21 681**	19 079		-
Wholesale and retail trade		**157 150**	97 391		-
Transport, storage and communication		**84 687**	45 257		-
Financial intermediation and insurance		**334 965**	212 229	**20 664**	20 150
Real estate		**-**	42 638		-
Business services		**-**	22 520		-
Community, social and personal services		**206 798**	78 145		-
Private households		**8 003**	2 811		-
Utilities		**6 567**	908		-
Other		**-**	394	**80 935**	62 564
Total	*13*	**915 396**	579 950	**101 599**	82 714
Of which:					
Sovereign		**177 312**	76 664		62 564

Average gross exposure for each major type of credit exposure

	June 2012	June 2012
Corporate	**287 513**	282 414
SME corporate	**397 744**	183 698
Public sector entities	**17 019**	11 282
Sovereign (including central government and central bank)	**301 948**	109 884
Banks	**850 508**	571 256
Residential mortgage advances	**1 127**	3 437
SME retail	**260 581**	108 729
Retail - other	**18 977**	5 920
Total average gross credit exposure	**2 135 417**	1 276 620

The Bank also monitors concentration of credit risk by geographical area and apart from accounts at foreign banks, 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. Where no rating has been published, the following rating agencies are used:

- Fitch
- Standard & Poor's

Counterparty credit risk

Counterparty credit risk include any exposure to credit risk arising from a bilateral contract, transaction or agreement which credit risk relates to the risk that the counterparty to the contract, transaction or agreement may default before the final settlement of the underlying cash flows arising from the said contract, transaction or agreement.

The amount of the credit exposure often relates to the positive economic value at the time of default or the cost of replacing the contract, transaction or agreement when the counterparty to the transaction defaults, assuming no recovery of value.

The Bank is exposed to counterparty credit risk in the form of foreign exchange derivative contracts. Capital held against counterparty credit risk is calculated based on the positive fair value of such contracts plus and additional add-on percentage to cater for volatility in exchange rates. The Bank requires counterparties to place cash collateral against all forward contracts. The majority of the contracts are therefore fully cash collateralised. Economic capital against counterparty credit risk is calculated based on the unsecured portions of forward foreign exchange contracts.

The Bank requires collateral in the form of cash and is not exposed to wrong-way risk.

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

2012	**Gross R'000**	**(Impairment) R'000**	**Net R'000**	**Guarantees & suretyships R'000**	**Pledge of assets R'000**	**Total R'000**	**Carrying value for which no collateral is held R'000**	**Net R'000**
Not past due	**944 088**	**(29 495)**	**914 593**	**188 564**	**708 149**	**896 713**	**17 880**	**914 593**
Past due 0-30 days	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Past due 31-180 days	**1 507**	**(704)**	**803**	**-**	**803**	**803**	**-**	**803**
Past due 181-365 days	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**945 595**	**(30 199)**	**915 396**	**188 564**	**708 952**	**897 516**	**17 880**	**915 396**

2011	Gross R'000	(Impairment) R'000	Net R'000	Guarantees & surety ships R'000	Pledge of assets R'000	Total R'000	Carrying value for which no collateral is held R'000	Net R'000
Not past due	581 698	(3 303)	578 395	208 001	352 119	560 120	18 275	578 395
Past due 0-30 days	134	-	134	-	134	134	-	134
Past due 31-180 days	1 274	-	1 274	-	1 274	1 274	-	1 274
Past due 181-365 days	530	(383)	147	-	20	20	127	147
Total	583 636	(3 686)	579 950	208 001	353 547	561 548	18 402	579 950

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.

Liquidity risk

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

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

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

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

Management of liquidity risk

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

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

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

At June 30 2012, the Bank holds a committed borrowing facility of R494 million (2011: R617 million) from The Bidvest Group Limited. This facility is contractually repayable in equal annual instalments of R123 million on June 30 of each year. Any unutilised portion of this committed facility remains available on demand and can be accessed to meet liquidity needs.

The Bank also has a standing internal limit (referred to as the Liquidity Cushion) that the greater of R200 million, or 25% of its call deposits plus next day notice deposits pay-outs, will be covered at all times by immediately available funds. At June 30 2012, immediately available funds (comprising central bank, interbank and intergroup call and current accounts) totalled R953 million.

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

June 30 2012	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
Non-derivative liabilities					
Intergroup loans	**(468 289)**	**(587 670)**	**(78 376)**	**(141 358)**	**(367 936)**
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)**	**-**
	(2 423 209)	**(2 555 445)**	**(2 019 173)**	**(168 336)**	**(367 936)**
June 30 2011					
Non-derivative liabilities					
Intergroup loans	(530 376)	(580 619)	(159 121)	(134 788)	(286 710)
Other liabilities	(84 504)	(84 504)	(84 504)	-	-
Deposits	(1 360 381)	(1 368 183)	(1 346 154)	(22 029)	-
Derivative liabilities					
Trading: outflow (liabilities)	(13 376)	(13 387)	(13 387)	-	-
	(1 988 637)	(2 046 693)	(1 603 166)	(156 817)	(286 710)

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

Maturity analysis of financial assets held for managing liquidity risk

June 30 2012	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
Cash and balances with banks	**1 385 083**	**1 385 083**	**-**	**-**	**-**
Loans and advances	**915 396**	**361 582**	**25 578**	**474 658**	**53 578**
Investment securities	**101 599**	**21 307**	**-**	**80 292**	**-**
Other assets	**102 006**	**102 006**	**-**	**-**	**-**
	2 504 084	**1 869 978**	**25 578**	**554 950**	**53 578**
June 30 2011					
Cash and balances with banks	885 017	885 017	-	-	-
Loans and advances	579 950	234 633	21 636	283 486	40 195
Investment securities	82 714	25 074	-	57 640	-
Other assets	58 912	58 912	-	-	-
	1 606 593	1 203 636	21 636	341 126	40 195

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.

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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 2012					
Financial assets/(liabilities)					
Cash and balances with banks	**1 385 083**	**1 385 083**	**-**	**-**	**-**
Loans and advances	**915 396**	**874 942**	**747**	**38 948**	**759**
Investment securities	**101 599**	**21 307**	**-**	**80 292**	**-**
Other assets	**102 006**	**102 006**	**-**	**-**	**-**
Net Intergroup loans	**(466 729)**	**(468 113)**	**-**	**1 384**	**-**
Deposits	**(1 780 330)**	**(1 746 875)**	**(33 455)**	**-**	**-**
	257 025	**168 350**	**(32 708)**	**120 624**	**759**

	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 2011					
Financial assets/(liabilities)					
Cash and balances with banks	885 017	885 017	-	-	-
Loans and advances	579 950	540 255	747	38 948	-
Investment securities	82 714	25 074	-	57 640	-
Other assets	58 912	58 912	-	-	-
Inter group loans	(519 548)	(530 376)	-	10 828	-
Deposits	(1 360 381)	(1 147 682)	(40 628)	-	-
	(273 336)	(340 871)	(39 881)	107 416	-

Analysis based on interest terms	**2012**	2011	**2012**	2011
	Effective rate of interest		**R'000**	R'000
Loans and advances				
Loans and advances with floating interest rates*	**7,44%**	8,00%	**739 876**	543 914
Loans and advances with fixed interest rates	**11,31%**	10,78%	**205 719**	39 722
			945 595	583 636
Less impairment			**(30 199)**	(3 686)
			915 396	579 950
Deposits				
Deposits with floating interest rates*	**3,66%**	3,85%	**(1 717 036)**	(1 228 028)
Deposits with fixed interest rates	**5,62%**	6,02%	**(63 294)**	(132 353)
			(1 780 330)	(1 360 381)

* The current floating interest rate as at June 30

Interest rate sensitivities

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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	**2012**	2011
For the current year ended June 30	**9,00%**	9,30%
For the prior year ended June 30	**9,30%**	10,43%
Interest rate sensitivity based on movements in prime lending rate:	**R'000**	R'000
Decrease before tax in net interest income for the year	**(4 725)**	(8 971)

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

Monthly impact before tax on net interest income of 200bp parallel increase (decrease)	**R'000**	**R'000**
As at June 30 2012	**2 503**	**(2 503)**
As at June 30 2011	2 513	(2 513)

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**
2012						
Assets						
Cash and balances with banks	**1 301 000**	**10 786**	**44 779**	**14 666**	**13 852**	**1 385 083**
Derivative financial assets	**27 550**	**-**	**-**	**-**	**-**	**27 550**
Loans and advances	**820 475**	**85**	**94 836**	**-**	**-**	**915 396**
Leased assets	**1 486 730**	**-**	**-**	**-**	**-**	**1 486 730**
Investment securities	**101 599**	**-**	**-**	**-**	**-**	**101 599**
Investment in subsidiaries	**56 387**	**-**	**-**	**-**	**-**	**56 387**
Intergroup loans	**1 560**	**-**	**-**	**-**	**-**	**1 560**
Other assets	**121 241**	**35**	**660**	**131**	**148**	**122 215**
Equipment	**70 817**	**-**	**-**	**-**	**-**	**70 817**
Intangible assets	**34 969**	**-**	**-**	**-**	**-**	**34 969**
	4 022 328	**10 906**	**140 275**	**14 797**	**14 000**	**4 202 306**
Commitments to purchase foreign currency	**-**	**61 323**	**853 953**	**284 735**	**144 829**	**1 344 840**
Total assets	**4 022 328**	**72 229**	**994 228**	**299 532**	**158 829**	**5 547 146**
2011	2 962 394	8 897	54 209	20 173	18 066	3 063 439
Commitments to purchase foreign currency	-	45 018	916 833	231 023	87 958	1 280 832
Total assets	2 962 394	53 615	971 042	251 196	106 024	4 344 271

Bidvest Bank Limited

Currency profile

R'000	ZAR	GBP	USD	EUR	OTHER	TOTAL
2012						
Equity and liabilities						
Share capital	**2 070**	**-**	**-**	**-**	**-**	**2 070**
Share premium	**525 709**	**-**	**-**	**-**	**-**	**525 709**
Reserves	**1 102**	**-**	**-**	**-**	**-**	**1 102 575**
Intergroup loans	**468 289**	**-**	**-**	**-**	**-**	**468 289**
Derivative financial liabilities	**18 560**	**-**	**-**	**-**	**-**	**18 560**
Deposits	**1 472 202**	**53 465**	**162 580**	**64 322**	**27 761**	**1 780 330**
Other liabilities	**185 076**	**614**	**897**	**(170)**	**24**	**186 440**
Defined benefit liability	**200**	**-**	**-**	**-**	**-**	**200**
Current taxation	**1 714**	**-**	**-**	**-**	**-**	**1 714**
Deferred taxation	**116 419**	**-**	**-**	**-**	**-**	**116 419**
	3 892 814	**54 079**	**163 477**	**64 152**	**27 784**	**4 202 306**
Commitments to sell foreign currency	**-**	**22 953**	**826 141**	**229 622**	**133 820**	**1 212 535**
Total equity and liabilities	**3 892 814**	**77 032**	**989 618**	**293 773**	**161 604**	**5 413 457**
2011	2 731 893	41 381	199 614	61 119	29 432	3 063 439
Commitments to sell foreign currency	-	11 489	779 173	183 133	84 413	1 058 208
Total equity and liabilities	2 731 893	52 870	978 787	244 252	113 845	4 121 647

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.

Net open position	GBP R'000	USD R'000	EUR R'000	OTHER R'000	TOTAL R'000
June 30 2012	**(4 803)**	**4 609**	**5 759**	**(2 774)**	**2 791**
June 30 2011	744	(7 745)	6 944	(7 821)	(7 878)

Closing spot exchange rate	GBP	USD	EUR
June 30 2012	**R12,86**	**R8,19**	**R10,39**
June 30 2011	R10,87	R6,79	R9,82

Average exchange rate	GBP	USD	EUR
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
For the year ended June 30 2010	R12,01	R7,59	R10,56

Foreign currency net open position sensitivity based on a 10% movement in exchange rates:	2012 R'000	2011 R'000
GBP	**(480)**	74
USD	**461**	(775)
EUR	**576**	694
Other	**(277)**	(782)

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 applies the Standardised approach for the measurement of Operational Risk.

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.

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.

Capital management

Regulatory capital

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

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

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

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

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

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

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

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

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

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

As at 30 June 2012 the Bank's regulatory capital position was as follows:

Net qualifying capital and reserves	**30 June 2012 R'000**	30 June 2011 R'000
Primary capital	845 112	755 112
Share capital	**2 070**	1 980
Share premium	**525 709**	435 799
Appropriated retained earnings	**317 333**	317 333
Prescribed deductions against capital and reserve funds	**-57 994**	-53 200
Total qualifying capital and reserves	**787 118**	701 912
Non qualifying capital and reserves	**843 236**	368 316
Retained earnings not formally appropriated	**785 242**	315 116
Prescribed deductions against capital and reserve funds	**57 994**	53 200
Total capital and reserves	**1 630 354**	1 070 228

Risk–weighted exposure	**Capital requirement 30 June 2012 R'000**	**Risk weighted exposure 30 June 2012 R0'000**	Capital requirement 30 June 2011 R'000	Risk weighted exposure 30 June 2011 R'000
Credit risk Retail bank, corporate bank and central treasury	**84 372**	**888 122**	58 504	615 827
Operational risk Retail bank, corporate bank and central treasury	**103 426**	**1 088690**	73 355	772 153
Market risk Retail bank, corporate bank and central treasury	**1 094**	**11 513**	542	5 700
Equity risk Retail bank, corporate bank and central treasury	**232**	**2 447**	72 776	766 066
Other assets	**159 577**	**1 679 762**	64 866	682 798
Total	**348 701**	**3 670 534**	270 043	2 842 544

Capital ratios

Total capital adequacy ratio	**21.44%**	24.69%
Total primary capital adequacy ratio	**21.44%**	24.69%

One of the exposure at 30 June 2012 were subject to rapid or material change.

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PILLAR III – DISCLOSURE REQUIREMENTS FOR REMUNERATION – 30 JUNE 2012

The Basel Committee on Banking Supervision's guidance to improve compensation practices and strengthen supervision in this area incorporates the Financial Stability Board's Principles for Sound Compensation Practices. In terms of this requirement firms are required to disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders, including in particular shareholders.

The requirements have been designed to be sufficiently granular and detailed to allow meaningful assessment by market participants of a bank's compensation practices, while not requiring disclosure of sensitive or confidential information. As a result, banks will be required to disclose qualitative and quantitative information about their remuneration practices and policies covering the following areas:

- The governance / committee structures
- The design / operation of remuneration structure, frequency of review
- The independence of remuneration for risk / compliance staff
- The risk adjustment methodologies
- The link between remuneration and performance
- The long-term performance measures (deferral, malus, clawback)
- The types of remuneration (cash / equity, fixed / variable).

The Bank is expected to publish the disclosure on an annual basis at a minimum. The disclosure should be incorporated in the Bank's Pillar III public disclosure, or may refer to a different site or document if an equivalent disclosure has already been made under an accounting or listing requirement relating to the same time period.

The quantitative remuneration disclosure only covers senior management and other material risk takers as required.

To this end, Bidvest Bank Limited's remuneration disclosure is set out in the table below.

Requirement		Bidvest Bank Limited disclosure
Qualitative disclosures		
(a)	Information relating to the bodies that oversee remuneration. Disclosures should include: • Name, composition and mandate of the main body overseeing remuneration. • External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process. • A description of the scope of the bank's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches. • A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.	Stated in section 2.4 of the Bank's Annual Financial Statements. No external consultants were approached for advice regarding remuneration during the 2012 financial year ending 30 June 2012. The Bank's remuneration policy sets out the rules, regulations, procedures, forms and standard documents relating to remuneration. Remuneration is determined and agreed on the concept of Cost to Employer (CTE). The Bank considers the senior staff and other risk takers to be limited to the board of directors.
(b)	Information relating to the design and structure of remuneration processes. Disclosures should include: • An overview of the key features and objectives of remuneration policy.	Remuneration is discussed in section 8.1 of the Bank's AFS. Key features of the Bank's remuneration policy include: - Compliance with labour legislation, the

Bidvest Bank Limited

	Requirement	Bidvest Bank Limited disclosure
Qualitative disclosures		
		Income tax Act, Occupational Health and Safety Act and any other applicable legislation. - Consultation with a Workplace Forum set up to represent employees and communicate remuneration-related matters to the applicable authorities. - Remuneration levels, grading and determination of CTE and structuring of the CTE. - Statutory payments in terms of the Unemployment Insurance Fund (UIF), Skills Development levy, Compensation for Occupational Injuries and Diseases Act (COIDA), Employee's tax, Leave and notice payments and overtime payments - Part time and permanent employees - Remuneration increases - Termination of employment - Fixed term employment - Employment equity - Labour brokers and Independent contractors.
	• Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.	The Bank's remuneration functions fall under the ambit of the Corporate Governance Committee. The Bank's remuneration policy was reviewed in October 2012 and submitted to the Board of Directors for approval in November 2012. Changes made to the remuneration policy included the specification of specific remuneration methods that will not be considered by the Bank, remuneration of compliance and risk staff and the definition of senior management and material risk takers.
	• A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.	Remuneration of Risk and Compliance staff is based on CTE as agreed upon at the time of employment. Any additional remuneration in the form of performance bonus is based on an individual's performance and the overall performance of the Bank. There is no link between the remuneration of compliance and risk staff and the performance of the business units they oversee.
(c)	Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include: • An overview of the key risks that the bank takes into account when implementing remuneration measures. • An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed). • A discussion of the ways in which these measures affect remuneration. • A discussion of how the nature and type of these measures has changed over the past year and reasons for the	Remuneration of employees is based on regular performance reviews and is informed by industry guidelines and prevailing market conditions. Executive directors' employment contracts do not contain unusual leave or other benefit provisions, and are terminable on reasonable notice. Directors' and senior management's remuneration is approved by the Corporate Governance Committee. The Bank does not offer a share incentive scheme but executives participate in the share incentive scheme of The Bidvest Group Limited. There has been no change in the measurement of performance for remuneration

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Requirement		Bidvest Bank Limited disclosure
Qualitative disclosures		
	change, as well as the impact of changes on remuneration.	purposes over the past year.
(d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include: • An overview of main performance metrics for bank, top-level business lines and individuals. • A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance. • A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak.	Disclosed in section 8.1 of the Bank's AFS. Disclosed in section 8.1 of the Bank's AFS. Disclosed in section 8.1 of the Bank's AFS.
(e)	Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include: • A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance. • A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements.	The Bank's remuneration is based on CTE. The Bank has no deferrals or vesting of variable remuneration across employees. N/A
(f)	Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms. Disclosures should include: • An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms). • A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees, a description the factors that determine the mix and their relative importance.	Remuneration in the Bank is based on cash. N/A
Quantitative Disclosure – Senior management and material risk takers		
(g)	• Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its members.	Refer section 2.3 of the Bank's AFS.
(h)	• Number of employees having received a variable remuneration award during the financial year.	N/A

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Requirement		Bidvest Bank Limited disclosure
Qualitative disclosures		
	• Number and total amount of guaranteed bonuses awarded during the financial year. • Number and total amount of sign-on awards made during the financial year. • Number and total amount of severance payments made during the financial year.	The Bank does not offer guaranteed bonuses. N/A None
(i)	• Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. • Total amount of deferred remuneration paid out in the financial year.	None None
(j)	• Breakdown of amount of remuneration awards for the financial year to show: - fixed and variable. - deferred and non-deferred. - different forms used (cash, shares and share-linked instruments, other forms). Example for reporting in Table A (Annex)	Refer to section 7 of the AFS. The Bank does not have deferred and non-deferred remuneration. All bonuses are paid in cash.
(k)	Quantitative information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration: • Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments. • Total amount of reductions during the financial year due to ex post explicit adjustments. • Total amount of reductions during the financial year due to ex post implicit adjustments.	N/A N/A N/A N/A