Bidvest Bank Limited

(Registration No. 2000/006478/06)

PILLAR III Public Disclosure

December 31 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 R'000	2011 R'000
Loans and advances (excluding banks)		
Individually impaired		
Exceptional credit quality	**-**	-
Good credit quality	**-**	-
Average credit quality	**387**	75
Deteriorated credit quality	**3 521**	1 916
Total	**3 908**	1 991
Specific allowance for impairment	**(2 991)**	(1 724)
Carrying amount	**917**	216
Collectively impaired		
Exceptional credit quality	**-**	14 667
Good credit quality	**36 927**	98 751
Average credit quality	**214 673**	130 801
Deteriorated credit quality	**14 201**	17 468
Total	**265 801**	180 795
Portfolio allowance for impairment	**(2 165)**	(4 624)
Carrying amount	**263 636**	176 171
Neither past due nor impaired		
Net exceptional credit quality	**252 368**	221 862
Exceptional credit quality	**278 273**	221 862
Specific allowance for impairment – warranted debt (see commentary below)	**(25 905)**	-
Exceptional credit quality (banks)	**19 260**	35 627
Good credit quality	**75 830**	3 247
Average credit quality	**277 652**	101 127
Deteriorated credit quality	**32**	32 416
Total	**625 142**	394 279
Total carrying amount of loans and advances	**889 695**	645 743
Other financial assets		
Exceptional credit quality	**229 586**	239 875
Exceptional credit quality (banks)	**1 452 293**	1 029 749
Good credit quality	**239 733**	266 422
Average credit quality	**-**	-
Deteriorated credit quality	**-**	-
Total of other financial assets	**1 921 612**	1 569 046
Non-financial assets as per statement of financial position		
Leased assets	**1 467 932**	1 647 345
Equipment	**67 879**	86 839
Intangible assets	**36 233**	29 625
Intergroup loans	**-**	1 560
Current taxation	**28 761**	-
Investment in subsidiaries	**-**	-
Total of non-financial assets	**1 600 805**	1 736 809
Total assets	**4 412 111**	3 978 598

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	*Note*	**Loans and advances 2012 R'000**	2011 R'000
Against individually impaired			
Movable assets		**909**	157
Cash, debtors, stock		**-**	-
Property		**-**	15
Guarantees		**-**	-
Total secured		**909**	172
Unsecured		**7**	95
Total		**917**	267
Collectively impaired			
Moveable assets		**197 124**	142 001
Cash, debtors, stock		**7 251**	35 941
Property		**51 155**	70 608
Guarantees		**-**	-
Total secured		**255 530**	248 550
Unsecured		**8 106**	2 647
Total		**263 636**	251 197
Neither past due nor impaired			
Moveable assets		**303 662**	292 753
Cash, debtors, stock		**124 326**	7 008
Property		**74 612**	-
Guarantees		**112 534**	84 173
Total secured		**615 134**	383 934
Unsecured		**10 008**	10 345
Total		**625 142**	394 279
Carrying value	*13*	**889 695**	645 743

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		**3 460**	4 490		-
Manufacturing		**62 709**	51 842		-
Mining & Quarrying		**11 515**	35 944		-
Construction		**10 857**	25 033		-
Wholesale and retail trade		**141 202**	52 626		-
Transport, storage and communication		**108 173**	80 291		-
Financial intermediation and insurance		**361 455**	120 441	**19 450**	19 920
Real estate		**-**	35 017		-
Business services		**-**	61 901		-
Community, social and personal services		**180 458**	164 180		-
Private households		**9 419**	9 950		-
Utilities		**446**	3 841		-
Other		**-**	187	**80 139**	82 072
Total	*13*	**889 695**	645 743	**101 599**	82 714
Of which:					
Sovereign		**163 239**	161 040	**79 491**	80 233

Average gross exposure for each major type of credit exposure

	December 2012	December 2011
Corporate	**324 305**	467 536
SME corporate	**459 334**	196 525
Public sector entities	**17 264**	15 490
Sovereign (including central government and central bank)	**290 457**	194 342
Banks	**1 122 568**	682 634
Residential mortgage advances	**1 387**	1 598
SME retail	**179 910**	241 961
Retail - other	**25 938**	9 941
Total average gross credit exposure	**2 421 163**	1 810 027

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.

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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	**882 294**	**(4 342)**	**877 952**	**112 534**	**747 297**	**859 831**	**18 121**	**877 952**
Past due 0-30 days	**782**	**(781)**	**1**	**-**	**-**	**-**	**1**	**1**
Past due 31-180 days	**11 730**	**-**	**11 730**	**-**	**11 730**	**11 730**	**-**	**11 730**
Past due 181-365 days	**45**	**(33)**	**12**	**-**	**12**	**12**	**-**	**12**
Total	**894 851**	**(5 156)**	**889 695**	**112 534**	**759 039**	**871 573**	**18 122**	**889 695**

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	647 917	(2 774)	645 143	84 173	546 157	630 330	13 088	643 418
Past due 0-30 days	-	-	-	-	-	-	-	-
Past due 31-180 days	438	(223)	215	-	438	438	-	438
Past due 181-365 days	1 887	(1 502)	385	-	1 887	1 887	-	1 887
Total	650 242	(4 499)	645 743	84 173	548 482	632 655	13 088	645 743

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 December 31 2012, the Bank holds a committed borrowing facility of R371 million (2011: R494 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 December 31 2012, immediately available funds (comprising central bank, interbank and intergroup call and current accounts) totalled R1,6 billion.

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

December 31 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	**(420 048)**	**(520 782)**	**(198 566)**	**(18 662)**	**(303 554)**
Other liabilities	**(179 169)**	**(179 169)**	**(179 169)**	**-**	**-**
Deposits	**(1 898 194)**	**(1 911 272)**	**(1 891 915)**	**(19 357)**	**-**
Derivative liabilities					
Trading: outflow (liabilities)	**(22 110)**	**(22 110)**	**(22 110)**	**-**	**-**
	(2 519 521)	**(2 633 333)**	**(2 291 760)**	**(38 019)**	**(303 554)**
December 31 2011					
Non-derivative liabilities					
Intergroup loans	(483 272)	(553 460)	(137 820)	(11 130)	(405 510)
Other liabilities	(412 943)	(412 943)	(404 752)	(8 182)	(9)
Deposits	(1 459 813)	(1 470 558)	(1 455 150)	(25 355)	(53)
Derivative liabilities					
Trading: outflow (liabilities)	(29 027)	(29 267)	(29 267)	-	-
	(2 385 055)	(2 466 228)	(2 016 989)	(44 667)	(404 572)

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

December 31 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	**1 580 641**	**1 580 641**	**-**	**-**	**-**
Loans and advances	**889 695**	**297 342**	**9 846**	**485 341**	**97 166**
Investment securities	**101 886**	**22 395**	**-**	**79 491**	**-**
Other assets	**216 821**	**216 821**	**-**	**-**	**-**
	2 789 042	**2 117 198**	**9 846**	**564 832**	**97 166**
December 31 2011					
Cash and balances with banks	1 269 624	1 269 624	-	-	-
Loans and advances	645 743	96 390	70 189	438 914	40 250
Investment securities	101 992	21 759	-	80 233	-
Other assets	173 291	173 291	-	-	-
	2 190 650	1 561 064	70 189	519 147	40 250

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**
December 31 2012					
Financial assets/(liabilities)					
Cash and balances with banks	**1 580 641**	**1 580 641**	**-**	**-**	**-**
Loans and advances	**889 695**	**297 342**	**9 846**	**485 341**	**97 166**
Investment securities	**101 886**	**22 395**	**-**	**79 491**	**-**
Other assets	**216 821**	**216 821**	**-**	**-**	**-**
Net Intergroup loans	**(420 048)**	**-**	**(171 872)**	**(248 176)**	**-**
Deposits	**(1 898 194)**	**(1 274 179)**	**(624 015)**	**-**	**-**
	470 800	**843 019**	**(786 041)**	**316 656**	**97 166**

	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**
December 31 2011					
Financial assets/(liabilities)					
Cash and balances with banks	1 269 624	1 269 624	-	-	-
Loans and advances	645 743	96 390	70 189	438 914	40 250
Investment securities	101 992	21 759	-	80 233	-
Other assets	173 291	173 291	-	-	-
Inter group loans	(483 272)	(483 272)	-	-	-
Deposits	(1 459 813)	(1 396 363)	(63 400)	(50)	-
	(247 565)	(318 571)	6 789	519 097	40 250

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*	**6,92%**	8,46%	**738 237**	507 483
Loans and advances with fixed interest rates	**11,36%**	11,09%	**182 520**	172 972
			920 756	680 455
Less impairment			**(31 062)**	(34 712)
			889 695	645 743
Deposits				
Deposits with floating interest rates*	**3,39%**	3,29%	**(1 839 739)**	(1 350 315)
Deposits with fixed interest rates	**5,93%**	5,90%	**(58 455)**	(109 498)
			(1 898 194)	(1 459 813)

* The current floating interest rate as at December 31

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	**2012**	2011
For the half year ended December 31	**8,50%**	9,00%

Interest rate sensitivity based on movements in prime lending rate:	**R'000**	R'000
Decrease before tax in net interest income for the year	**(4 555)**	(4 725)

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 December 31 2012	**2 620**	**(2 620)**
As at December 31 2011	3 680	(3 680)

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	**1 308 646**	**24 770**	**194 165**	**34 112**	**18 948**	**1 580 641**
Derivative financial assets	**22 263**	**-**	**-**	**-**	**-**	**22 263**
Loans and advances	**770 490**	**-**	**119 206**	**-**	**-**	**889 695**
Leased assets	**1 467 932**	**-**	**-**	**-**	**-**	**1 467 932**
Investment securities	**101 886**	**-**	**-**	**-**	**-**	**101 886**
Other assets	**214 156**	**425**	**1 642**	**26**	**572**	**216 821**
Equipment	**67 879**	**-**	**-**	**-**	**-**	**67 879**
Current Taxation	**28 761**	**-**	**-**	**-**	**-**	**28 761**
Intangible assets	**36 233**	**-**	**-**	**-**	**-**	**36 233**
	4 018 246	**25 195**	**315 012**	**34 139**	**19 520**	**4 412 111**
Commitments to purchase foreign currency	**-**	**105 542**	**840 146**	**227 901**	**144 338**	**1 317 928**
Total assets	**4 018 246**	**130 737**	**1 155 158**	**262 040**	**163 858**	**5 730 039**
2011	3 208 721	39 371	55 205	43 506	16 100	3 362 903
Commitments to purchase foreign currency	-	68 752	1 235 548	210 178	95 573	1 610 051
Total assets	3 208 721	108 123	1 290 753	253 684	111 673	4 972 954

Bidvest Bank Limited

Currency profile R'000 2012	ZAR	GBP	USD	EUR	OTHER	TOTAL
Equity and liabilities						
Share capital	**2 070**	**-**	**-**	**-**	**-**	**2 070**
Share premium	**525 709**	**-**	**-**	**-**	**-**	**525 709**
Reserves	**1 252 678**	**-**	**-**	**-**	**-**	**1 252 678**
Intergroup loans	**420 048**	**-**	**-**	**-**	**-**	**420 048**
Derivative financial liabilities	**22 110**	**-**	**-**	**-**	**-**	**22 110**
Deposits	**1 585 578**	**54 474**	**169 848**	**55 519**	**32 775**	**1 898 194**
Other liabilities	**29 861**	**14 864**	**116 981**	**9 657**	**7 606**	**178 969**
Defined benefit liability	**200**	**-**	**-**	**-**	**-**	**200**
Deferred taxation	**112 133**	**-**	**-**	**-**	**-**	**112 133**
	3 950 386	**69 338**	**286 829**	**65 176**	**40 381**	**4 412 111**
Commitments to sell foreign currency	**-**	**65 352**	**855 695**	**196 404**	**132 234**	**1 249 685**
Total equity and liabilities	**3 950 386**	**134 690**	**1 142 524**	**261 580**	**172 615**	**5 661 795**
2011	3 015 601	62 244	196 777	64 112	24 169	3 362 903
Commitments to sell foreign currency	-	42 994	1 090 280	193 161	94 098	1 420 533
Total equity and liabilities	3 015 601	105 238	1 287 057	257 273	118 267	4 783 436

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**
December 31 2012	**(3 953)**	**12 635**	**460**	**(8 757)**	**385**
December 31 2011	(5	(76 504)	1 683	(2 252)	70 233

Closing spot exchange rate	**GBP**	**USD**	**EUR**
December 31 2012	**R13,76**	**R8,51**	**R11,22**
December 31 2011	R12,49	R8,10	R10,47

Average exchange rate	**GBP**	**USD**	**EUR**
For the half year ended December 31 2012	**R13,53**	**R8,49**	**R10,83**
For the half year ended December 31 2011	R12,11	R7,61	R10,50
For the half year ended December 31 2010	R11,13	R7,11	R9,42

Foreign currency net open position sensitivity based on a 10% movement in exchange rates:	**2012 R'000**	2011 R'000
GBP	**(395)**	570
USD	**1 263**	7 650
EUR	**46**	168
Other	**(876)**	225

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.

The Bank adopted the Principles for the sound management of Operational Risk, as published by the Basel Committee on Banking Supervision.

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.

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

Bidvest Bank Limited

As at 31 December 2012 the Bank Consolidated regulatory capital position was as follows:

Net qualifying capital and reserves	31 December 2012 R'000	31 December 2011 R'000
Primary capital	**845 112**	845 112
Share capital	**2 070**	2 070
Share premium	**525 709**	525 709
Appropriated retained earnings	**317 333**	317 333
Prescribed deductions against capital and reserve funds	**-56 792**	-52 649
Total qualifying capital and reserves	**788 320**	792 463
Non qualifying capital and reserves	**992 137**	689 867
Retained earnings not formally appropriated	**935 344**	637 218
Prescribed deductions against capital and reserve funds	**56 792**	52 649
Total capital and reserves	**1 780 456**	1 482 330

Risk–weighted exposure	Capital requirement 31 December 2012 R'000	Risk weighted exposure 31 December 2012 R0'000	Capital requirement 31 December 2011 R'000	Risk weighted exposure 31 December 2011 R'000
Credit risk				
Retail bank, corporate bank and central treasury	**82 208**	**865 348**	61 000	626 804
Operational risk				
Retail bank, corporate bank and central treasury	**198 842**	**2 093 076**	194 835	1 998 310
Market risk				
Retail bank, corporate bank and central treasury	**2 405**	**25 317**	2 237	22 943
Equity risk				
Retail bank, corporate bank and central treasury	**249**	**2 624**	179	1 839
Other assets	**170 210**	**1 799 168**	186 057	1 907 477
Total	**453 914**	**4 785 533**	444 308	4 557 373

Capital ratios

	2012	2011
Total capital adequacy ratio	**16.47%**	17.39%
Total primary capital adequacy ratio	**16.47%**	17.39%

None of the exposure at 31 December 2012 was subject to rapid or material change.

Bidvest Bank Limited

As at 31 December 2012 the Bank Solo regulatory capital position was as follows:

Net qualifying capital and reserves	31 December 2012 R'000	31 December 2011 R'000
Primary capital	**845 112**	845 112
Share capital	**2 070**	2 070
Share premium	**525 709**	525 709
Appropriated retained earnings	**317 333**	317 333
Prescribed deductions against capital and reserve funds	**-59 258**	-52 649
Total qualifying capital and reserves	**785 854**	792 463
Non qualifying capital and reserves	**988 552**	689 867
Retained earnings not formally appropriated	**929 294**	637 218
Prescribed deductions against capital and reserve funds	**59 258**	52 649
Total capital and reserves	**1 774 406**	1 482 330

Risk–weighted exposure	Capital requirement 31 December 2012 R'000	Risk weighted exposure 31 December 2012 R0'000	Capital requirement 31 December 2011 R'000	Risk weighted exposure 31 December 2011 R'000
Credit risk				
Retail bank, corporate bank and central treasury	**68 422**	**720 235**	55 247	581 545
Operational risk				
Retail bank, corporate bank and central treasury	**118 009**	**1 242 203**	94 423	993 923
Market risk				
Retail bank, corporate bank and central treasury	**1 387**	**14 600**	2 180	22 943
Equity risk				
Retail bank, corporate bank and central treasury	**280**	**2 945**	175	1 839
Other assets	**166 607**	**1 753 755**	184 143	1 938 351
Total	**354 705**	**3 733 738**	336 167	3 538 601

Capital ratios

	2012	2011
Total capital adequacy ratio	**21.05%**	22.39%
Total primary capital adequacy ratio	**21.05%**	22.39%

None of the exposure at 31 December 2012 was subject to rapid or material change.