ABRIDGED ANNUAL REPORT
2017/2018

Bidvest Bank
Let's get it done

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It's not the beauty of a building you should look at; it's the construction of the foundation that will stand the test of time.

David Allan Coe

WHO WE ARE

A wholly-owned subsidiary of The Bidvest Group Limited, Bidvest Bank is an entrepreneurially-minded bank that strives to change the way people and organisations do business with their bank. We're a bank dedicated to change. A bank that constantly evolves to better suit today's everchanging world. A bank that embraces ideas and innovative thinking. Above all, we're a bank that always seeks new and better ways to improve our customers' lives. We are the bank that chooses to partner in our customers' successes, rather than inhibit them. Whether it is business banking, personal banking, fleet solutions or treasury, our boutique range of offers, helps our customers and their businesses to thrive.

Together, let's get it done.

VISION AND MISSION

Our vision and mission are at the foundation of everything we do.

We differentiate ourselves from our competitors in the way in which we service and look after our customers. For us, it is all about getting things done, in a unique manner that is constructed upon our culture and values.

We always abide by legislation without ever letting processes, resources or systems restrict us from satisfying our customers.

We exist to serve and retain our customers, by constantly looking for new and better ways to improve their lives.

Most importantly, we strive to partner in building our customers' successes, rather than inhibiting their achievement.

Heritage

1998

The Bidvest Group acquires 100% of The Rennies Group, which includes the Rennies Foreign Exchange business.

2000

The Bidvest Group is granted a banking licence as Rennies Bank, including the Rennies Foreign Exchange business.

Rennies Foreign Exchange launches international money transfers via MoneyGram.

2007

The Bidvest Group leverages the equity of the Bidvest brand and rebrands Rennies Bank as Bidvest Bank.

Focused drive to attract and retain talent with banking expertise.

2008

Flagship foreign exchange product, World Currency Card™, launched.

Global Payments Online™ international trading platform launched.

2009

Savings and investment accounts launched to market.

Bidvest Bank acquires McCarthy Fleet Solutions from the McCarthy Group and offers Fleet Finance and Management Services.

OUR BRAND MANTRA

Let's do it today, not tomorrow
Let's take the risks together
Let's never accept 'no' as a starting point
Let's see the barriers as speed humps
Let's think, question, then act
Let's be accountable for our decisions
Let's listen, talk and understand
Let's believe that every challenge can be solved
Let's look for the opportunities
Let's seize the bull by the horns
Let's give it our all
Let's take the high road
Let's never turn from the truth
Let's tackle each challenge with a smile in our hearts and bounce in our step
Let's help others get their things done
Let's get it done!

VALUES

THE MORAL COMPASS THAT DRIVES OUR BEHAVIOUR

LISTEN

We listen to learn, grow and turn our customers' obstacles into opportunities. This is the cornerstone of getting things done.

RESPECT

We respect and value diversity and the contribution that each and every person makes to our business.

ENERGY

Our energy is what helps us turn a mountain into a molehill, a 'no' into a 'yes' and 'maybe' into 'bring it on'.

HONESTY

We apply honesty to every situation. This is what inspires us and our clients, to get things done.

QUALITY

Whether the task is big or small, the quality of our work shows we care. It's one of the many things that sets us apart from the rest.

INNOVATE

We believe in constantly finding new ways to serve our customers and provide solutions that will get things done smarter and faster.

SERVICE STANDARDS

HOW WE SERVICE OUR CUSTOMERS TO 'GET IT DONE'

C²

QUALITY

Consistent

Delivering on our promises in a **credible and courteous manner.**

HONESTY

Communicative

Keeping customers **informed.**

A

LISTEN

Accessible

Approachable, in all we do.

R

ENERGY

Responsive

Always willing to help, **promptly.**

E

RESPECT

Empathetic

Understanding our customers' needs and **putting them first.**

S

INNOVATE

Simple

Flexible enough to deliver **seamless services and solutions.**

TRANSACTIONAL BANKING
SAVINGS AND INVESTMENTS
FOREIGN EXCHANGE
TRADE SERVICES
FULL MAINTENANCE LEASING
INTERNATIONAL PAYMENTS
LENDING SERVICES
MERCHANT SERVICES
BUSINESS BANKING SERVICES
THE BANK BORN OUT OF BUSINESS

TRANSACTIONAL BANKING
SAVINGS AND INVESTMENTS
INTERNATIONAL MONEY TRANSFERS
PERSONAL BANKING SERVICES
SIMPLE & CONVENIENT BANKING
FOREIGN EXCHANGE
EMIGRATION SERVICES
INTERNATIONAL PAYMENTS
OFFSHORE INVESTMENTS

FULL MAINTENANCE LEASING
OPERATING RENTALS
INSTALMENT SALES AND FINANCIAL LEASING
SALE AND LEASEBACK
SHORT-TERM FLEXIBLE RENTALS
MAINTENANCE CONTRACT
MANAGED MAINTENANCE
VALUE-ADDED SERVICES:
VEHICLE TRACKING
MOTOR INSURANCE
VEHICLE SOURCING
FLEET FINANCE AND MANAGEMENT
ALL-IN-ONE FLEET FINANCE AND MANAGEMENT SOLUTION

CHAIRMAN'S REPORT

NIGEL GEORGE PAYNE

On behalf of the Board, I am privileged to report to our shareholder, regulators, our people, customers, business partners and all our other stakeholders that Bidvest Bank is in good shape, having made significant progress on a number of strategic initiatives during the year, and with the prospect of more to follow. We are grateful to our shareholder for your ongoing support, for challenging our strategic thinking and implementation, and for allowing us to proudly share the Bidvest brand.

The integrated report contains a wealth of information about our human capital, our values, our vision, our strategies to get there and the related risks we are embracing and mitigating. Risk taking and mitigation, as well as compliance with an increasing range of regulations are an integral part of banking. We have appropriately robust and arm's-length relationships with our regulators and have benefitted from these interactions during the year. We take our regulatory and societal licences to operate very seriously at Bidvest Bank, and view all our actions from the perspective of a fair deal for our customers and our business partners. If there is anyone who believes we have not lived up to these high standards, I invite you to contact me personally and in confidence.

We have an excellent and committed executive team in place, a clearly defined strategy; are deploying the capital and other resources required in order to get there, and are approaching the future with confidence. I encourage you to read the reports prepared by our CEO Japie van Niekerk and CFO Thinus Liebenberg. We are not entirely satisfied with our financial performance, but have taken the actions required to improve thereon.

We are pleased with the progress we have made on transformation within Bidvest Bank. Whilst we recognise the increasing use of technology in banking, and have invested a significant amount of capital in our own technology roadmap, we believe steadfastly that our people remain our biggest competitive advantage.

Our governance report details various aspects of the performance of the board and board committees, all of which I believe were appropriately executed. The board comprises largely of independent non-executives, with an appropriate mix of skills and experience. Board meetings are characterised by their strategic focus, robust discussion and effective decision-making. I thank my fellow Board members for their wise counsel and ongoing commitment during the year. We are in the process of a Board refresh and look forward to the contribution to be made by some new colleagues we will soon be welcoming to our Board.

Nigel George Payne
Chairman

Executive Committee

(Back row)

Mkhuseli Setuse, Thinus Liebenberg, Neil Capazorio, Frikkie Hanekom

(Front row)

Jill Murtagh, Di Crawley, Russell Fogg, Alexia Shuenyane, Jodi Raviv, Japie van Niekerk

The blueprint for success is inside you. It will stay there unless you take it out and create it.

Larina Kase

MANAGING DIRECTOR'S REPORT

JAPIE VAN NIEKERK

Bidvest Bank has delivered good organic growth amidst a South African banking landscape that continues to change. Driven by technology and the increase of consumer demands for innovation competition is always on the rise.

Our philosophy of "Let's get it done" has seen us disrupt and innovate in the ways in which we do things, and this approach is paying off. Proof of this is the South African Reserve Bank indicating Bidvest Bank as one of the fastest-growing banks in South Africa based on Total Assets. Our growth has been more than double the Total Banking Sector Growth in 2018.

The growth is reflected in our strengthening balance sheet and the increase in our cash position, by 27%, to R3.6 billion.

▶ CONTINUED SOLID BALANCE SHEET GROWTH

The building blocks for the Bank's future growth are firmly in place – Business Banking and Treasury are growing, and we have a solid plan for Personal Banking that will see it reinvigorated in 2019.

Our Fleet division remains the third largest in the country, despite Leased Assets Balances being 1% down at year-end. Although the team did secure a number of smaller contracts, the delays in decision making by the State-Owned Enterprises (SOE) for their fleet contracts impacted the results. We should see a number of large fleet contracts materialising in the next financial year and we expect this to reflect an improvement in the Fleet numbers.

The strategic focus remains on building the Bank through diversification of products and revenue streams. The following revenue drivers are priority areas:

- Business Banking – growth via lending, acquiring, deposits and transactional banking;
- Personal Banking – new retail products launching;
- Treasury – shift beyond being just a service provider to the business, to become a revenue generator and to retain and improve our yield on cash; and
- Fleet – retain and grow contracts with SOEs (win one large contract this year) and grow our corporate contract volume.

Our diversification strategy has yielded pleasing results over the last year. Our cash reserves are strong, which provides adequate headroom to take advantage of an expanding new business pipeline.

In parallel to our acquisitive strategy, our appetite for risk remains prudent. Although we are excited about the prospect of the new opportunities, we also remain cautious that we don't take on unreasonable risks amidst the challenging market conditions.

This approach was once again recognised by Moody's which has reconfirmed our rating as Aa2.

Building Partnerships

Bidvest Bank continues to build partnerships, both within our banking stable and as a key division of Bidvest Financial Services.

For both the Bank, and Bidvest Financial Services, a few strategic acquisitions have delivered robust cross-sell opportunities with the addition of First Data (renamed Bidvest Merchant Services), Cannon Asset Managers and FinGlobal to the division.

The acquisition of FinGlobal by Bidvest Financial Services in November 2017 has been formalised and has enabled the Bank to build a much closer relationship with the team. FinGlobal provides a high-touch and high-quality service to South Africans wishing to externalise their funds.

We maintain a strong and growing partnership with Old Mutual.

In August 2017, we acquired 100% of First Data Resources South Africa (FDRSA), the South African acquiring business of First Data Corporation, a global leader in commerce-enabling technology.

First Data Corporation serves approximately six-million business locations and 4 000 financial institutions in more than 100 countries around the world. It also powers more than 2 800 payment transactions every second of every day, totalling $2.2 trillion in annual transactions.

The acquisition of FDRSA was in line with the bank's strategy of diversifying its revenue streams to service a broader market. Now rebranded Bidvest Merchant Services, we have seen the business grow exponentially over the last year and it is proving to be a key driver of Business Banking growth by being a good introduction tool for additional new business.

A Foundation of People

As a committed South African citizen, we continue to invest into the communities, people and businesses around us. Our growth has been made possible by our employees, customers and the communities in which we operate.

Our Corporate Social Investment (CSI) continues to invest in education, business development and job creation. We believe that these are the most important areas that can contribute to the growing of the economy. We support several programmes and initiatives including Columba Leadership, Bathebile, Simamisa Orphans Care, The Roedean Academy and eGAMA. Our spend of **R2.25 million** on CSI, and **R2.1 million** on social-economic development, respectively, contribute toward sustained growth of well-resourced communities on a regional and national level.

As a Bank originally founded by entrepreneurs, we continuously strive to create an environment and culture that encourage an entrepreneurial spirit among our people. In turn, this cultivates innovation in the way we do business. We believe that our people are fundamental to the Bank's growth and long-term value creation. Our Learnership and Graduate Programmes, which were established in 2015, have resulted in 100% of candidates being placed within the Bank.

We continue to reap the benefits of our competitive employee value proposition and maintain our strong focus on education and development at all levels – having invested over **R11 million** into learning initiatives during the last financial year. In fact, our efforts have been recognised internationally with an award for our e-learning programme.

This development of talent and leadership continues to show in our improved transformation. During the last financial year, the Bank improved its equity scores and now has a Broad-Based Black Economic Empowerment (B-BBEE) **Level 4 rating** verified by Empowerdex on the new codes.

As a result of current market conditions, our team has needed to work harder this year than any year in the recent past. Market challenges have made it more difficult to land new business; more difficult to find high-quality businesses with the correct risk profile, and yet we have continued to look after our customers, as we always have.

From this perspective, we are satisfied with our continued balance sheet growth, but had hoped that this would have shown up better in the income statement.

Looking Ahead

I am confident that we have a strong team of people and the knowledge to continue delivering growth. We are excited about the coming year, and I am positive that we will be securing a number of large contracts – specifically in our Fleet division.

With the addition of Bidvest Merchant Services we are attracting significantly better-quality business into our Business Banking book. In our Personal Banking portfolio, the next financial year sees us launch our Grow Account, which will be an important and significant retail innovation.

Our 2019 pipeline of new business and innovation positions the Bank well to capitalise on the solid foundation that we have built over the last few years.

Japie van Niekerk
Managing Director

The climb may be tough, but the view from the top is always better.

Unknown

FINANCIAL DIRECTOR'S REPORT

We continued to focus on our long-term strategy to diversify the Bank's Balance Sheet as well as income streams and to continue to invest in people, products and IT solutions. Throughout the past few years we have continued to be well capitalised, generating healthy returns compared to our peers. Our ROE has come down somewhat as we increase our advances book, but it should be taken into account that our total CAR of 29.9% is well above regulatory requirements.

Our diversification strategy resulted in our net interest income growing by 15.2% CAGR and we continue to maintain a strong focus on cost management, with cost increasing by less than inflation.

Our Business Banking strategy is starting to make a positive contribution bolstered by our acquisition of First Data South Africa renamed Bidvest Merchant Services. Our strategic focuses going forward also include to grow our Corporate Fleet Business, grow our Treasury FX solutions and to optimise our Physical Branch infrastructure.

THINUS LIEBENBERG

SALIENT FEATURES

PROFIT BEFORE TAX

R419 Million
↓10%

TIGHTENED COST MANAGEMENT WITH COSTS ONLY INCREASING BY

1.6%* *Operating expenses and indirect taxes

Strong balance sheet maintained and well capitalised.

TOTAL ASSETS INCREASED TO

R9.2 Billion
↑18%

DEPOSITS INCREASED TO

R5.7 Billion
↑27%

CASH BALANCES INCREASED TO

R3.6 Billion
↑27%

Diversification of Income streams continued across the Bank with new products launched to support our strategy.

MAINTAINED A LEVEL 4

B-BBEE RATING

(NEW CODES)

HEALTHY CAPITAL ADEQUACY RATIO INCREASED TO

↑29.9%

RETURN ON EQUITY MAINTAINED AT

11.3%

KEY FINANCIAL STATISTICS

for the year ended 30 June 2018

		2018	2017	% Change
Net interest income	R million	301.2	265.6	13.4%
Net fee and commission income	R million	177.0	167.0	6.0%
Net income from leasing activities	R million	430.0	475.3	-9.5%
Operating income	R million	1,186.8	1,234.1	-3.8%
Operating expenditure (incl. indirect taxes)	R million	(773.7)	(762.6)	1.6%
Profit before direct taxation	R million	419.3	466.6	-10.1%
Cost to income	Percentage	64.9%	62.0%	2.8%
Credit loss ratio	Percentage	0.15%	0.13%	0.02%
Total Assets	R billion	9.2	7.8	18.0%
Cash and Cash Equivalents	R billion	3.6	2.8	27.0%
Loans and Advances	R billion	2.4	2.1	13.3%
Leased Assets	R billion	1.7	1.7	-1.2%
Deposits	R billion	5.7	4.5	26.6%
Equity	R billion	2.7	2.5	5.7%
Return on assets	Percentage	3.3%	4.3%	-1.0%
Return on equity	Percentage	11.3%	13.3%	-2.0%
Capital Adequacy Ratio (qualifying)	Percentage	20.6%	20.1%	0.5%
Total CAR	Percentage	29.9%	28.5%	1.4%
Net stable funding ratio	Percentage	153.2%	101.0%	52.2%
Liquidity coverage ratio	Percentage	162.9%	151.0%	11.9%

CONTRIBUTION TO REVENUE

Financial Overview

The Bank continues to grow its balance sheet and to diversify its Income streams. Total Assets have grown by 18.0% to over R9.2 billion. Deposits have grown 26.6% to R5.7 billion and Loans and Advances 13.3% to R2.4 billion. Leased assets are slightly down (1.2%), mainly due to no large Full Maintenance Leasing contracts signed up during the year.

Bidvest Bank revenue decreased by 3.8% to R1.19 billion (2017: R1.23 billion), with the decrease mainly attributable to the reduction in Net Income from Leasing activities. Net Interest Income and Net Fee and Commission Income increased with R45.7 million (10.6%) year on year.

Operating expenses (including indirect taxes) increased by 1.6% resulting from continued, strong focus on cost containment.

The negative JAWS of -5.4% vs prior year -4.7 indicating costs growing slightly by 1.6% with revenue declining by 3.8%.

The Bank continues to maintain strong Returns on Equity, Return on Assets and Capital Adequacy Ratios of 11.3%, 3.3% and 29.9%, respectively.

Economic Environment

South Africa experienced a particularly challenging economic environment in the 2017/18 financial year, having slipped into a technical recession in the quarter ended June 2018. Initially, an uncertain political environment in the run-up to the ANC's elective conference in December 2017 exerted a drag on investment activity, with business confidence in particular taking a knock. Whilst there was a brief recovery in business confidence amidst President Ramaphosa's rise to power, this proved short-lived as the markets came to grips with the severity of the structural economic decline that has unfolded in recent years. Policy uncertainty remains entrenched given lingering concerns related to land reform plans as well as a new national health insurance structure.

Trade dynamics

Against this backdrop, South Africa has continued running a positive balance on its trade account on a 12-month rolling basis, albeit that the surplus has shrunk in recent months. Despite aggregate domestic demand being constrained by lacklustre investment and subdued household credit growth, imports have surged higher. This has been a function of a significant increase in the price of Brent crude, with topside pressure compounded by a weaker ZAR. In an environment where an import-orientated economy is running a trade surplus, FX activity related to import financing is likely to be relatively more constraint, especially if the higher value of imports has been mainly a function of price fluctuations of a major imported commodity such as oil.

Exports, meanwhile, have remained relatively strong in recent months as the global economy has continued to experience an upswing. However, evidence is mounting that global growth momentum is starting to slow and the medium-term outlook has deteriorated. China is under pressure, while the broader economic fallout from rising protectionism in the US remains unknown. The rally in the oil price also presents a risk to growth activity, as does the ongoing policy tightening in the US as this is bound to create headwinds in the US in due course. These dynamics suggest that South Africa's export demand could come under strain in months to come.

ZAR Outlook

Finally, taking stock of the rand performance in recent months and it has been a choppy ride for the local currency. In the April-August period, emerging markets in general were subject to heightened volatility and the ZAR was unable to weather the storm. Domestic political machinations also contributed to this volatility. However, underlying fundamentals suggest that the extent to which the ZAR in particular sold off over this period is not necessarily entirely justified. The view is that as global market conditions normalise, the ZAR might be able to stage a recovery against the USD. This as the currency remains relatively resilient when assessing underlying fundamentals, whilst the significant adjustment in markets in recent months has seen the currency shift to a rather extreme level of undervaluation. Finally, the ZAR is enticing from a carry attractiveness point of view and hence it seems there is room for the ZAR to strengthen in the short to medium term.

Thinus Liebenberg
Financial Director

The best way to predict the future is to create it.

Unknown

LIABILITIES

Deposits increased by 26.6% (CAGR: 27.7%)

Deposits continued to grow and ended 26.6% higher on prior year as a result of continued sales focus and lengthening our Deposit Tenure. Fixed deposits grew by 53.7% and Call Deposits by 32.0% year on year.

ASSETS

R'000 Cash and Cash Equivalents CAGR: 14.2%

Cash and cash equivalents grew by 27.0% (CAGR: 14.2%)
Continued solid growth in Cash.

Solid cash generation saw cash and cash equivalents rise 27.0% to R3.6 billion (2017: R2.8 billion). The Bank currently complies with the LCR requirement with a ratio of 162.9%. The liquidity policy remains conservative. This conservatism resulted in holding of excess cash reserves available for growth, acquisitions and pipeline opportunities.

R'000 Total Assets CAGR: 18.7%

Total Assets grew by 18.0% (CAGR: 18.7%)
Total Assets grew by 18.0% predominantly influenced by the following:
Cash Growing by 27.0% and Corporate Advances grew by 13.3%

R'000 Corporate Advances CAGR: 19.6%

R'000 Leased Assets CAGR: 14.1%

Total Advances (including Leased Assets) grew by 6.8% (CAGR: 17.2%)
Growing the Advances book and leveraging our Fleet stronghold. Total Advances have increased by 6.8% on prior year with Corporate Advances increasing by 13.3% yoy. Leased Assets are slightly down (1.2%), mainly due to no big Full Maintenance Leasing contract signed up during the year.

Loans and Leased Assets to Deposits (%)

Our loans and leased assets to deposits ratio have been reducing, due to deposit growth being higher than advances and leased asset growth over the past few years.

Operating Income Composition

Net Trading Income | Net Income from Leasing Activities | Net Interest Income | Net Fee Commission Income

Operating Income decreased by 3.8% (CAGR: 8.3%)

Despite the tough economic conditions Bank Operating Income has decreased slightly by 3.8% yoy. This follows 3 strong years of growth within the Bank. The main reason for the decrease is Net Income from Leasing Activities down 9.5% yoy. Net Interest Income and Net Fee and Commission Income increased yoy by 10.6%.

Our Net Interest Income has been growing at 15.2% CAGR in line with our diversification strategy. Net Income from Leasing Activities has been growing 14.5% CAGR, but decreased during 2018 due to no new big Full Maintenance Leasing contracts signed up during the year.

Cost to Income Ratio (%)

R'000 Operating Expenditure (incl. Indirect Tax)

CAGR: 10.9%

Operating Expenditure increased by 1.6% (CAGR: 10.9%)

Operating costs increased by 1.6%, compared to the 12.5% increase in the 2017 financial year. These Increases where in line with the Bank's growth strategy of investing in the future.

R'000 Employment Costs

CAGR: 13.0%

Employment costs increased by 9.1% (CAGR: 13.0%)

Overall staff costs were well controlled during the 2018 Financial Year with costs increasing by 9.1%. Overall staff numbers rose from 1,179 to 1,199.

Capital, Liquidity and Profitability

The Capital and Liquidity positions of Bidvest Bank remain strong, with both capital and liquidity ratios well above the regulatory and Basel III minimum requirements.

The Bank's Required Capital and Capital Adequacy maintained well above regulatory requirements.

R'000 Total Assets CAGR: 18.7 %

R'000 Risk Weighted Assets CAGR: 16.5%

Risk Rating (difference between Total Assets and Risk Weighted Assets)

The Bank follows the standardised approach under Basel III and calculates requirements for market risk in its banking portfolios based on the Bank's market risk models and uses both external and internal grading as the basis for risk weightings for credit risk.

R'000 Profit for the Year (PAT) CAGR: 4.8%

R'000 Qualifying Capital CAGR: 18.2%

Qualifying Capital (Regulatory Capital)

Tier I capital, which includes ordinary share capital, share premium and appropriated retained earnings. Total Qualifying Capital (Tier 1) increased by 3.5% yoy.

Qualifying Capital ÷ Risk Weighted Assets

R'000 Equity CAGR: 7.7%

Equity increased by 5.7% (CAGR: 7.7%)

The Bank's total equity has increased yoy by 5.7% mainly due to Profit After Tax of R302.3m. Total dividends of R142.5m were paid during the year.

Return on Assets (ROA) (%)

Return on Assets (ROA) and Return on Risk Weighted Assets (RORWA) have decreased over the past few years as we grow our loans and advances book as part of our diversification strategy. Both ratios are still high to industry benchmarks.

Return on Risk Weighted Assets (RORWA) (%)

Capital Adequacy Ratio (CAR) (%)

Capital Adequacy Ratio increased to 29.9%

The Bank is adequately capitalised and holds sufficient and stable capital against its risk-weighted assets. The Bank's Qualifying Capital Adequacy Ratio (qualifying capital and reserve funds as percentage of risk-weighted assets) is 20.6%, while the Bank's total Capital Adequacy Ratio (total capital and reserve funds as percentage of risk-weighted assets) is 29.9%.

The increase in CAR from 2016 to 2018 is attributed to the appropriation of retained earnings to qualifying capital and reserve funds during the year. There have been no material changes in the Bank's management of capital during the period.

Financial Leverage (TIMES)

Return on Equity (ROE) (%)

Return on Equity has come down somewhat as we increase our Advances book. But it should be taken into account that our total CAR of 29.9% is well above regulatory requirement.

You have everything you need to build something far bigger than yourself.

Seth Godin

INTEGRATED OPERATIONAL REVIEW FOR THE YEAR ENDED 30 JUNE 2018

THINUS LIEBENBERG
FINANCIAL DIRECTOR

JAPIE VAN NIEKERK
MANAGING DIRECTOR

Bidvest Bank Limited, holder of a full banking licence since 2000, is a South African financial institution serving retail and corporate customers via 76 branches nationwide. Foreign exchange and global payment expertise are complemented by deposit-taking, Transactional Banking, Business Banking, Merchant Acquiring, loans and fleet and asset finance. The Bank provides the country's widest range of foreign banknotes and the biggest selection of prepaid foreign currency cards. The Bank is South Africa's third-largest vehicle leasing business.

▶ HIGHLIGHTS

Bidvest Bank is an entrepreneurial bank born to change the way banks do business with their customers. Over the past 20 years it has evolved to provide customers with a diverse range of banking products and services. A banking licence was obtained in 2000 and in 2007 Rennies Bank was rebranded Bidvest Bank. Since then, the Bank has built itself up from a bureau de change business into a fully-fledged bank focusing on business and personal banking, fleet and asset finance, and treasury solutions.

In a highly competitive market, Bidvest Bank has delivered a solid performance over the last year, achieving profit before tax of

R419.3 Million

(2017: R466.6 Million)

Operating income decreased by

3.83% to R1.19 Billion

(2017: R1.23 Billion)

The bank remains strongly capitalised and highly cash generative.

Profit before tax reduced by

10.1% to R419.3 Million

(2017: R466.6 Million)

Moody's rating remained at Aa2.za

ROE of **11.3%** decreased

2 percentage points

(2017: 13.3%)

Solid cash generation with
cash and cash equivalents rising

27.0% to R3.6 Billion

(2017: R2.8 Billion)

At R5.7 Billion, deposits were 26.6% higher (2017: R4.5 Billion)

Continued to build the Bank's portfolio with a focus on Business Banking, Personal Banking, Fleet Management, Corporate Lending and Treasury Solutions

Strategic acquisition of First Data Resourced South Africa (FDRSA), which has been rebranded as Bidvest Merchant Services

Exciting new retail transactional banking product to launch in 2019

Corporate Advances increased by

13.3% to R2.4 Billion

(2017: R2.1 Billion)

Architecture is not about space but about time.

Evolve

MATERIAL ISSUES

Material issue	Why it is important and strategic objectives	KPIs and targets	Performance against targets and actions going forward
Maintain consistent financial performance	**Objective:** To maintain profitability. Financial markets are highly competitive and can be volatile. It is important to create a broad range of robust income streams to secure a strong base of business. **Method:** Strategic planning and robust Financial Management. Robust govenance structures and control.	**KPIs:** • Revenue diversification • Cost-to-income ratio • Growth in profits	**Performance:** • Operating income remained at R1.2 billion (2017: R1.2 billion). • Costs were 5% up on the prior year, largely due to increased employment costs, in line with the Bank's growth strategy and investment in the future. Recruitment of quality people was stepped up in 2018 and overall staff numbers rose from 1179 to 1199. • As a result, profit before tax decreased with 10% to R419.3 million (2017: R466.6 million). **Actions:** Diversification of revenue streams through enhanced and expanded product offerings and alliances with new and existing partners.
Exceed corporate citizenship expectations	**Objective:** To keep pace with new regulations. Compliance monitoring and implementation to ensure banking businesses do not contravene regulations. It is important to demonstrate our commitment, as good corporate citizenship credentials are essential in an industry where ethical standards must be unimpeachable. Good corporate citizens attract good customers and good employees. Reputation is a source of competitive advantage. **Method:** Adherence to Board-approved corporate governance policies and practices.	**KPIs:** • JSE SRI performance standards • CDP performance standards • Governance standards (King III)	**Actions:** • Compliance and forensics teams have been strengthened. • Anti-money laundering controls also received heightened attention this year. Among the measures, the Bank: – Implemented a new automated system for customer profile and transactional monitoring; – Enhanced its processes for new customer onboarding, including enhancements to the Bank's data warehouse, improving its single customer view; – Reviewed its processes for compliance with legislation, as well as effectiveness and efficiency; – Implemented enhanced controls over sanction screening; – Improved identification controls for politically exposed persons and companies; – Enhanced processes and controls over alliance partners; – Increased resources and accountability in this area, and regulatory compliance is a component of performance management and employee reward.

MATERIAL ISSUES (CONTINUED)

Material issue	Why it is important and strategic objectives	KPIs and targets	Performance against targets and actions going forward
Promote employee health and satisfaction	**Objective:** People have a right to be healthy and happy. A healthy workplace is a productive workplace. To improve talent attraction and retention and to have the required skills in the organisation. **Method:** To use innovative approaches to improve the health and wellbeing of all employees. Partnering with healthcare providers to support the physical and mental wellbeing of employees.	**KPIs:** • Resignation rates • Absentee rates	**Performance:** • The Attrition rate increased from 12.4% in 2017 to 15.7% in 2018. Bidvest Bank encourages career progression and gaining fresh ideas through 'new blood' we are committed to retaining key talent. In the 2017/2018 financial year there were 87 internal promotions at all levels. Bidvest Bank continues to support and promote internal career progression. • In 2017, the absenteeism rate was 2.5%, this decreased in 2018 to 2.04%. This is still below most South African companies who overall have a rate of between 3.5% and 6%. According to employee wellness reports, this increase is mainly due to lifestyle changes that lead to stress. Bidvest Bank has wellness programmes to support employees in managing their health and lifestyle. **Actions:** • Remuneration of employees is based on regular performance reviews and is informed by industry guidelines and prevailing market conditions, rewarding and retaining superior quality employees, and motivating them to support the Bank to achieve sustainable growth. Focus has also been placed on exit interviews to identify clearly stipulated reasons for resignations. • The Bank provides a 24-hour confidential support service through ICAS (Independent Counselling and Advisory Services Organisation) to employees and their immediate families to help them deal with personal problems that may impact their personal and work lives. • In addition, the Bank subscribes to online health and wellness programmes for employees and their families.
Enhance talent attraction and retention	**Objective:** To improve talent attraction and retention and to have the required skills in the organisation. **Method:** Formulation of an Employee Value Proposition (EVP) with five key focus areas, namely: remuneration and employee benefits, performance, career development, leadership and culture.		

MATERIAL ISSUES (CONTINUED)

Material issue	Why it is important and strategic objectives	KPIs and targets	Performance against targets and actions going forward
Employee Value Proposition	**Why:** To improve employee relationship and satisfaction. **Objective:** To create an employee value proposition to attract and retain employees at Bidvest Bank.		Focus has been placed on engaging our employees and defining an Employee Value Proposition (EVP). Engagement with our employees, resulted in five important pillars that drive our EVP: 1. Remuneration and Employee Benefits 2. Performance Management and Reward 3. Career and Development 4. Inspirational Leadership 5. Organisational Culture
Promote Skills Development	**Objective:** Development of staff: • Skills enable service excellence and innovation – key drivers of sustained growth. • Personal development opportunities assist in talent retention. **Method:** Internal and external training/development.	**KPIs:** • Training spend per employee • Training hours per employee	**Performance:** • Annual training spend for 2017/2018 R11.2m increased from 2016/2017 – R8.6m – 1 199 employees trained. • External Bursary funding was offered to 74 permanent employees in 2017/2018 at R1.5m compared to in 2016/2017 at R1.3m to 82 permanent employees. **Leadership and Graduate Programmes** • 30 learners – National Certificate in Banking level 4 – (1 November 2017 – 31 October 2018). • 12 Graduates – Advanced Certificate in Banking level 6 – (1 November 2017 – 31 October 2018). • 8 Disabled learners – Business Administration level 3 – (1 November 2017 – 31 October 2018). **Bidvest Bank receives International Learning and Development Award for Bidlearn – E-learning platform** • Bidvest Bank was invited to attend the annual a NewSpring 'Most Inspiring Learning Journey' awards ceremony held in Rotterdam, Netherlands. Bidvest Bank was awarded the Best International Learning Journey Award.

MATERIAL ISSUES (CONTINUED)

Material issue	Why it is important and strategic objectives	KPIs and targets	Performance against targets and actions going forward
Invest in socio-economic development	**Objective:** To contribute to the socio-economic development of South Africa at national and regional levels. Sustained growth can only be achieved in well-resourced communities. **Method:** Contribution and management of CSI spend focusing on: • Education • Conservation • Crime prevention • Development of the youth • Charity	**KPIs:** • CSI spend • CSI spend as % of net profit after tax **Targets:** • 1% of net profit after tax	**Performance:** • CSI spend R2.25m (2017: R2.7m). • CSI spend as a % of net profit after tax decreased slightly from 0.8% in 2017 to 0.74% in 2018. • Our contributions continue to exceed our annual targeted 1% of net profit after tax, and the business continues to focus on its sustainable involvement and interaction with disadvantaged communities. **Our focus areas are:** **Education** By assisting in the education of disadvantaged communities, we believe we can contribute to the development of our future clients and employees. **Conservation** By investing in the preservation of our environment and wildlife we can help to establish South Africa as a superior and global eco-tourism destination. Growth in the tourism industry will play a major role in reducing unemployment and stimulating economic recovery. **Crime Prevention** Our country suffers from alarming rates of crime, undermining efforts to attract foreign investment. This inability to attract foreign investment impedes the national effort to curb exceedingly high unemployment. **Children** Children are our future employees. We contribute towards their development to increase the potential of our future workforce. **Charity organisations** Charity collections include: • On Spring Day, casual wear is worn for a donation, which is then given to the Association for the Physically Disabled. • On World AIDS Awareness Day, there is a sale of Red Ribbons in support of Friends for Life.

MATERIAL ISSUES (CONTINUED)

Material issue	Why it is important and strategic objectives	KPIs and targets	Performance against targets and actions going forward
Reduce environmental impacts	**Objective:** To contribute by reducing our impact, educating employees, and working with suppliers and offering customer solutions to help them reduce theirs. • Reducing environmental impacts and waste is not only good for society but for business efficiency. • Society's response to climate change may have a significant impact on the vehicle rental industry. **Method:** Active management via management structures.	**KPIs:** • Paper purchased • Electricity used • Gasoline (petrol) used	**Performance:** • Volume of paper purchased decreased in 2018. • Electricity and gasoline usage was consistent with the prior year. • All paper shredded, gets recycled.

STAKEHOLDER ENGAGEMENT

Stakeholders	Objective and engagement method (and frequency)	Key issues identified	Key actions taken and planned
Employees (full-time and contract)	**Objective:** Improve employee relationship and satisfaction. **Method:** • Employee surveys (annual) • Anonymous feedback forms (ongoing) • Newsletters	**Key issues:** Remuneration and benefits, being informed about corporate strategy, employee skills development, employee wellness, local economic development, specific employer/employee relationship issues. Issues considered material: Employee wellness, skills development and retention.	Salary structures have been benchmarked against the market, and adjusted where necessary. • Focus has been placed on engaging our employees and defining an employee value proposition. • Employees have been informed on the corporate strategy. • Focus has been placed on robust talent acquisition strategies and employee exit interviews, with clearly stipulated reasons for resignations.

STAKEHOLDER ENGAGEMENT (CONTINUED)

Stakeholders	Objective and engagement method (and frequency)	Key issues identified	Key actions taken and planned
Financial regulators (SARB and the Financial Services Board)	**Objective:** • Enhance reputation for probity and fair dealing. • Compliance with all regulations and responsible banking practices. **Method:** Robust governance structures.	**Key issues:** Compliance with regulatory requirements.	**Corporate governance** The Board recognises the importance of the principles of good corporate governance, and conducts itself in accordance with its statutes, the Banks Act, the Companies Act, the King Report and Code on Corporate Governance for South Africa (King III) and its own code of conduct. The compliance and forensics teams have been strengthened. Internal audit acts as an independent appraisal function.
Industry representative organisations	**Objective:** Stay abreast of industry developments and any planned changes to the political environment. **Method:** Participation in industry forums and research.	**Key issues:** Regulatory change and heightened regulatory scrutiny may affect the manner in which our products and services will be produced or delivered.	Continued interaction with financial services representative organisations.
Suppliers	**Objective:** • Maintain good relationships and explore efficiencies. • Reduce risk and ensures the security of supply. • Compliance to B-BBEE. **Method:** • Know Your Supplier. • Good negotiation. • Evaluation and selection of suppliers. • Adherence to the Procurement Policy.	**Key issues:** • B-BBEE compliance • Related party transaction and potential conflict of interest • Pricing structure and cost saving	The procurement process and control environment is well designed and adequate to address risks. Related-party transactions and potential conflicts of interest are disclosed by management, members of the Audit, Risk and Executive Committees, and key stakeholders within the procurement function. A register is maintained, which includes Directors Declarations, and is circulated and monitored regularly by management. On a quarterly basis, disclosures are tabled and reviewed formally by the Bank's Audit Committee and the Procurement Committee. A robust 'Know Your Supplier' process ensures that procurement meets the Bank's objectives. This allows for regular engagements with our Suppliers. Regular stakeholder engagements ensure adherence to the Procurement Policy. Regular audit reviews are in place to ensure the procurement processes are compliant.

STAKEHOLDER ENGAGEMENT (CONTINUED)

Stakeholders	Objective and engagement method (and frequency)	Key issues identified	Key actions taken and planned
Customers	**Objective:** Bidvest Bank is currently South Africa's leading niche Bank and offers a diverse range of products and services to individuals and businesses looking to "get things done". **Method:** • Diversified product and service offering. • Maintain good relations. • Understand issues, resolve them together and examine opportunities for needs-driven product innovation.	**Key issues:** Developing a common understanding of customers/offerings and defining points of customer interaction in order to grow and expand revenue streams.	New external alliances have been established including for complex formal emigration applications, with a range of account options, payment methods and safe custody services. New travel solutions have been implemented by integrating with travel partners' processes and developing a common understanding of customers/ offerings and defining points of customer interaction. Competitive payment solutions have been developed, including foreign exchange online ordering with delivery to our customers' doors. Trade solutions have been further developed during the period, including structured trade finance. Continued focus on the information technology strategies of the Bank to harness competitive advances in technology.
Partners and potential partners	**Objective:** Diversify the business base and accelerate the penetration of new niche markets. **Method:** Continuous new product development and indentifying opportunities to work with alliance partners.	**Key issues:** Early identification of areas of future growth and development of new solutions that complement current products and services.	Several external alliances have been established and new travel solutions implemented.

I'm building a brand,
I'm always busy.

Unknown

Whatever good things we build end up building us.

Unknown

RISK REPORT

RISK MANAGEMENT

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

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

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

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

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

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

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework.

RISK GOVERNANCE

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

RISK AND CAPITAL MANAGEMENT COMMITTEE
Chaired by an independent non-executive director, and overseas compliance and operational risk programmes, assessments; develops and agrees on policies and procedures, sets limits, monitors key risk indicators, prioritises activities and investments, and provides input to the senior management and the Board regarding the direction of risks and the status of the programmes, including matters relating to the Bank's capital adequacy levels.

AUDIT COMMITTEE
A Board-level committee responsible for providing assistance to the Board of Directors in fulfilling their need for consistency – in some places the Board is referred to as 'it' and here as 'their'. Responsibility to the shareholders and investment community related to corporate accounting, reporting practices, the quality and integrity of financial reports, and the quality and effective administration of the controls and procedures of all the systems and work processes.

RISK AND CAPITAL MANAGEMENT COMMITTEE
Chaired by an independent non-executive director, and oversees compliance and operational risk programmes, assessments; develops and agrees on policies and procedures, sets limits, monitors key risk indicators, prioritises activities and investments, and provides input to senior management and the Board regarding the direction of risks and the status of the programmes, including matters relating to the Bank's capital adequacy levels.

ASSET & LIABILITY COMMITTEE
Chaired by an independent non-executive director, to oversee liquidity and interest rate risk programmes, shock tests, monitor key risk indicators, develop and agree policies and procedures, set limits, prioritise activities and investments, and provide input to senior management and the Board regarding the direction of risks and the status of the programmes.

CREDIT COMMITTEE
Chaired by an independent non-executive director and oversees credit risk activities, assessments and stress tests; develops and agrees on policies and procedures, sets limits, monitors key risk indicators, prioritises activities and investments, and provides input to senior management and the Board regarding the direction of credit risks and the status of the programmes.

RISK EXECUTIVE COMMITTEE
The Risk and Governance Executive Committee (Risk Exco) is constituted in accordance with the EXCO Terms of Reference, to assist EXCO in the monitoring and managing of risk in the business of the Bank, in accordance with the approved risk appetite and risk tolerances, and risk management policies.

OPERATIONAL RISK COMMITTEE
The committee's objective is to manage operational risk relating from direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, projects, 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.

INTERRELATIONSHIP OF RISK MANAGEMENT FUNCTIONS – FOUR LINES OF DEFENCE

The Bank adopts the four lines of defence model:

RISK UNIVERSE

As the Bank builds and constructs its future, it is exposed to various forms of risk in strategic, tactical and daily activities as illustrated in the below diagram.

REPUTATIONAL RISK

Reputation risk is the risk that any activity or action taken by the Bank could negatively affect the Bank's reputation. The management of reputational risk is a function of the management of all risks.

▶ BUSINESS RISK

The risk that planned and/or implemented strategic initiatives may not yield the desired or required return, which may affect medium- and long-term business growth and profitability.

The Bank's business strategy is formalised, and the success of strategic objectives remains vital to the long-term success of the Bank. All strategic initiatives receive the necessary ongoing oversight and monitoring at Board and sub-committee level. Income derived from new/planned strategic initiatives is measured against the cost of implementation thereof to determine profitability/feasibility.

▶ RISK APPETITE

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

- Achieve its stated strategic business objectives;
- Provide a return that meets or exceeds expectations;
- Comply with all applicable laws and regulations; and
- Conduct its business in a safe and sound manner.

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

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

▶ RISK APPETITE STATEMENT

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

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

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

- Tier I capital: which includes ordinary share capital, share premium and appropriated retained earnings; and

- Tier II capital: which includes collective impairment allowances.

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

Capital composition

As at 30 June 2018 the Bank was adequately capitalised, and the below capital related items are highlighted:

Description	R'000/%
Total Capital and Reserves	2,670,381
Qualifying capital and reserves	1,839,706
Of which: Tier I	1,835,961
Of which: Tier II	3,745
Total amount of qualifying capital required	1,017,415
Total risk-weighted assets	8,944,308
Capital Adequacy Ratio (CAR) (qualifying capital and reserves)	20.57%
Capital Adequacy Ratio (CAR) (total capital and reserves)	29.85%
Regulatory minimum CAR	11.12%
Internal board approved CAR	14.00%

CAPITAL GROWTH (R'000)

REQUIRED CAPITAL vs QUALIFYING CAPITAL (R'000)

CAPITAL ADEQUACY RATIOS

- Total Capital Adequacy Ratio (based on total capital and reserve funds)
- Capital Adequacy Ratio (based on qualifying capital and reserve funds)
- Required Capital Adequacy Ratio

BREAKDOWN OF CAPITAL REQUIREMENT

▶ **THE RISK WEIGHTED EXPOSURE FOR EACH OF THE BANK'S RISK CATEGORIES ARE INDICATED BELOW:**

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. It arises principally from the Bank's loans and advances to customers.

Board responsibility

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

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 specified in the Credit Committee Charter, is to support the Board in fulfilling its duties and responsibilities regarding the management of credit risk.

Credit risk approach

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.

External ratings

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.

Impairment policy

The Bank writes off loans (and any related allowance for impairment losses) when the Credit Committee determines that the loan is uncollectible. This determination is reached after considering information such as significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be enough to pay back the entire exposure.

Restructured exposure

Debt is considered to be restructured when a borrower's financial condition has deteriorated, and a revised repayment plan is necessary.

Restructured credit exposure as defined by Regulation 67 of the Regulations relating to Banks includes any loan, advance or facility in respect of which the Bank granted a concession to the obligor owing to a deterioration in the obligor's financial condition, that is, owing to a financial distressed situation of the relevant obligor.

Credit granting process

Credit forms an integral part in the granting of Credit by analysing, granting and managing of the Bank's lending book.

NON-PERFORMING LOANS AND ADVANCES VS TOTAL LOANS AND ADVANCES – JUNE 2018 (R'000)

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, and 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.

Non-performing loans and advances as % of total loans and advances

NON-PERFORMING LOANS AND ADVANCES AS % OF TOTAL LOANS AND ADVANCES

Credit risk portfolio

CREDIT RISK - ASSET TYPES - JUNE 2018 (R'000)

Credit risk asset classes

Based on gross average balances prior to CRM, CCF and impairment.

CREDIT RISK EXPOSURE - ASSET CLASSES - JUNE 2018 (R'000)

Credit concentration risk – sectoral distribution

JUNE 2018 (R'000)

OPERATIONAL RISK

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

The Bank uses the standardised approach for purposes of capital calculation.

The capital requirement for operational risk is based on a three-year average gross income, which is allocated to certain business lines depending on the type of income. The business lines carry a prescribed beta factor, as per the Standardised Approach for Operational risk, used for calculating the capital charge.

The key issue when determining the categorisation of a risk event is its primary cause. A loss event will be considered an operational risk event if it arose because of inadequate or failed internal processes, people and systems or from external events.

Identifying the root cause(s) of a risk event helps to isolate the operational loss element from other losses and to understand what action might be appropriate to mitigate against exposure to the risk, for example, by amending a process, system, control or management approach. Some examples of operational risk causes include:

- lack of policies and procedures;
- inadequate segregation of duties;
- inadequate activity management;
- lack of management review;
- inadequate analyses;
- information processing errors;
- inadequate physical controls; and
- external events.

When an internal issue is at the root of a risk, the focus should be on how to address the issue. This generally involves modifying a business process or enhancing controls to reduce the potential likelihood and impact of a risk event. For example, if 'miscommunication' of critical information caused exposure to a risk, consideration should be given to improving the frequency and quality of communications.

MARKET RISK

Market risk is risk as a result of changes in the market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads, which 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 exposure within acceptable parameters, while optimising the return on risk.

Interest rate risk

The interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship.

Management of interest rate risk

The Bank measures interest rate risk by establishing the repricing gap of assets and liabilities. The impact of changes in interest rates on the Bank's Net Interest Income (NII) and Economic Value of Equity (EVE) are addressed at the Bank's ALCO monthly.

REPRICING GAP - JUNE 2018 (R'000)

Currency risk

This is the risk that the Bank's profitability will be negatively affected by changes in exchange rates between the Rand and other foreign currencies in which assets and liabilities are denominated. The Net Open Position (NOP) in foreign currency is a limit imposed by the Regulator and is equal to 10 percent of the Bank's qualifying capital and reserve funds.

▶ LIQUIDITY RISK

Liquidity risk is the current and prospective risk to earnings or capital arising from incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from failure to recognise or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Contractual and behavioural liquidity

The Bank manages its liquidity mismatches on both a contractual and behavioural basis. Liquidity mismatches are stressed to ensure adequate available liquidity sources are available under stress scenarios.

LIQUIDITY MISMATCH - JUNE 2018 (R'000)

Liquidity Coverage Ratio (LCR)

The Liquidity Coverage Ratio (LCR) refers to High Quality Liquid Assets (HQLA) held by the Bank to meet its short-term obligations. It is designed to ensure that the Bank has the necessary assets on hand to ride out short-term liquidity disruptions. Basel III requires the Bank to have a minimum LCR of 100%.

LCR	2018	2017
LCR %	163%	151%
HQLA (R'000)	663,771	460,791
Net outflow (R'000)	407,428	605,638

Net Stable Funding Ratio (NSFR)

The NSFR is defined as the amount of Available Stable Funding (ASF) relative to the amount of required stable funding (RSF). The ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. A ratio of 100% or more by 2018 is prescribed by Basel III.

NSFR	2018	2017
NSFR %	153%	101%
RSF (R'000)	4,630,267	4,807,141
ASF (R'000)	7,092,883	4,856,276

If you build that foundation, both the moral and the ethical foundation, as well as the business foundation, and the experience foundation, then the building won't crumble.

Henry Kravis

OUR PEOPLE

In the process of building capacity, we have introduced and implemented several initiatives to support and build our people, their skills and the systems to support them. Our people are fundamental to the Bank's growth and long-term value creation, and we are proud to provide a workplace where our people are inspired to be the best that they can be.

Key highlights	Challenges
• Competitive employee value proposition; • International award for e-learning journey; • Invested R11 328 374.00 in learning initiatives; and • Improved on our employment equity score on our scorecard.	• Talent retention; and • Strengthening capabilities at leadership levels.

As a Bank founded by entrepreneurs, we continuously strive to create an environment and culture that encourages an entrepreneurial spirit among our people. In turn, this cultivates innovation in the way we do business.

The four key areas that contribute to this:

1. **Talent Attraction, Development and Retention**
   The Bank actively seeks to attract talent that embodies an entrepreneurial and innovative way of thinking. Our Talent Review sessions enable proactive measures to be taken in managing talent across the Bank and ensures our valuable people are rewarded, developed and retained.

2. **Diversity and Transformation**
   The Bank is committed to diversity. We have a strong focus on gender and racial diversity at the senior levels of our organisation.

3. **Strengthening Capabilities**
   We are continuously building our business capabilities by acquiring talent with the right skills and competencies. In addition, we are developing our talent to execute our strategy and strengthen our internal capabilities in the crucial areas of revenue growth management, key account management, strategic alliances and frontline execution.

4. **Inspirational Leadership**
   We continuously strive to develop our leaders to provide strategic directions for their teams in executing the Bank's vision and driving the right culture for our business through living the values.

Building our People

Bidvest Bank strives to be an employer of choice by fully optimising talent capacity and setting them up for success. Over the last 3 years, we have grown our team from 1 044 to 1 173. During 2018, we grew our staff complement by 11%.

Talent Attraction, Development and Retention

Driven by the human capital team, our Employee Value Proposition provides our team with a variety of perks, benefits and rewards. The various components contribute towards creating a strong employer brand, engaging and motivating employees, and positioning the Bank as an attractive option for key talent.

Diversity and Transformation

We believe in fostering a workforce reflecting that diversity is essential to remaining the strategic partner of choice for all our customers. Diversity and inclusion help stimulate different ways of thinking, which supports innovation and leads to new opportunities. We are committed to providing equal opportunities to all employees and aim to build a diverse, highly qualified team.

BIDVEST BANK EMPLOYMENT EQUITY: JUNE '18

RACE AND GENDER ANALYSIS

- African
- Coloured
- Indian
- White
- Foreign National

AGE CATEGORY ANALYSIS

- Mature (1922 -1945)
- Baby Boomers (1945 -1964)
- Generation X (1965 -1980)
- Generation Y (1981 -1995)
- Generation Z (1996 -)

BIDVEST BANK EMPLOYMENT EQUITY: JUNE '18

HEADCOUNT (JUNE-18)

RACE COMPOSITION

- African
- White
- Indian
- Coloured
- Foreign National

Average age of employees: **37**
Generation X and Y: **88%**
Average Service years: **6**

FEMALE vs. MALE

- Female
- Male

BIDVEST BANK EMPLOYMENT EQUITY: JUNE '18

SERVICE YEARS ANALYSIS

SERVICE YEARS CATEGORIES

- 1 Year
- 2 Years
- 3 Years
- 4 Years
- 5 Years
- 6 - 10 Years
- 11 - 15 Years
- 16 - 20 Years
- 21 - 25 Years
- 26 - 30 Years
- 31 - 35 Years

Remuneration

The Remuneration Committee is composed of three non-executive directors. The Committee oversees the governance of the remuneration philosophy, reviews incentive schemes and bonus allocations for Executives and senior management. The REMCO mandate is to ensure that remuneration policies and practices are established and observed which:

- Attract and retain individuals able to create sustainable value; and
- Address remuneration risks inherent in the banking environment.

Remuneration of employees is based on performance reviews that occur twice a year and is informed by industry guidelines and prevailing market conditions, to reward and retain superior quality employees, and motivate them to equip the Bank to achieve sustained growth. Director and senior management remuneration is approved by the Remuneration Committee. The Bank does not offer a share incentive scheme, but executives participate in the share incentive scheme of The Bidvest Group Limited.

Employee wellbeing

The Bank provides a 24-hour confidential support service through Independent Counselling and Advisory Services Organisation to employees and their immediate families to assist them to deal with personal problems impacting on their personal and work lives. In addition, the Bank subscribes to online health and wellness programmes for employees and their families. The Bank hosts a Wellness Day for its employees every year nationally, which assesses employees' health.

Employee Climate Survey

The Bank conducts an employee climate survey annually. This year we had a good response rate of nearly 50% of the workplace participating. The survey measured employee engagement in the workplace and the questions were asked on a five-point scale.

The above image shows that 75% of the Bank's employees are engaged, whereby employees feel a strong connection to the Bank and generally drive innovation to move the Bank forward.

One of the key focus areas in the employee climate survey focused on the employees' learning and development at The Bank. This looks at whether they felt that they have had the opportunity to learn and develop, as well as how they have progressed.

Building Skills & Capabilities

Bidvest Bank prides itself in providing practical application of learning in the workplace. This allows us to raise the skill levels of all employees, and improve work performance. During 2018, 1 395 employees participated in training initiatives. Of the participants, 55 graduated in AET, National Certificate in banking Levels 4 and 5.

During the last year, our efforts received international recognition when we were awarded "The Best International Learning Journey Award" in the Netherlands. Bidvest Bank is the first African-based company to be invited to the prestigious event and is the first to win the "Best International Learning Journey Award". The Bank showcased our journey from classroom-only training through to the implementation of e-learning as a blended approach.

The Bidvest Bank Academy has been accredited as a service provider for Assessment and Delivery by the Bankseta for the National Certificate: Banking (NQF Levels 4 and 5) and Advanced Certificate in Banking Level 6.

Our Academy offers a number of training programmes:

Disability Learnership – Business Administration Level 3
Bidvest Bank has embarked on funding a disability learnership in partnership with LFP Training Consultants. The programme provides disabled learners with a Business Administration Level 3 qualification, which creates opportunities for the learners to gain employment.

National Certificate in Banking Level 4 Learnership
The National Certificate in Banking Level 4 2017/2018 Learnership, commenced on 1 November 2017 and ended on 31 October 2018. It provided a launchpad for further learning and gave learners an opportunity to gain a qualification through a structured learning programme, which is registered on the National Qualifications Framework.

National Certificate in Banking Level 5
This is a one-year programme for Bidvest Bank employees from various business units and branches. This programme contributes to the upskilling of our bankers making them more competent in dealing with our customers. As part of individuals' career development, this programme positions our people well in the growth trajectory.

Graduate Development Programme

The Bank's graduate development programme provides the graduates with a great opportunity to experience first-hand on-the-job work experience and immersion into the Bidvest Bank culture. The Graduate programme requires the graduates to complete an Advanced Certificate in Banking, which is a Level 6 qualification that gives the Graduates an in-depth understanding of our banking environment.

Adult Education & Training

Eleven housekeeping, switchboard and reception employees have successfully completed the first and second levels of the Adult Education and Training (AET) Programme. AET aims to provide foundational learning tools, knowledge and skills and provides learners with nationally recognised skills and/or qualifications. AET addresses the fundamental skills of reading, writing, understanding, listening, numeracy and mathematics.

Leadership Development Programme

Building our leadership capabilities is a key focus area for the Bank. We do this through various interventions including our Leadership Development Programme and International Executive Development Programme. This programme provides participants with fundamental skills in business, leadership, promotion of new business creation and other related management skills that feed into business strategy.

These programmes contribute to the ongoing development of our HIPOs. In time, they will add further value to our business by taking the elements they are exposed to in the programme and transfer those learnings to others in the Bank.

Building Systems

At Bidvest Bank we "Get Things Done" for our customers irrespective of whether they are external or internal. Our talent is not only supported with skills development opportunities, but also the necessary systems in order to flourish.

One of the focus areas of the Learning & Development team (L&D) for this period was to train all customer-facing employees on our new system, EVO. Training was delivered as a blended approach – e-learning modules combined with classroom system training.

A total of 820 employees completed the e-learning modules and assessments:

- Inland & Corporate Office: 506
- Western and Eastern Cape: 211
- KZN: 103

A total of 227 employees attended the three-day classroom system course:

- Inland & Corporate Office: 100
- Western and Eastern Cape: 81
- KZN: 46

Bidvest Bank is committed to a customer-centric culture, and we have several initiatives in place to build those systems:

Service Standards: C²ARES
Our service standards are aligned to our company values. We are committed to serving our customers through the C²ARES Service Standards across all customer touchpoints. The Bidvest Bank Academy has implemented training modules on Customer Service Management, where our Management and Supervisors have to actively develop innovative solutions to customer problems and unpack their role in this.

Let's Get Customer Service Excellence Done
The Academy offers a core skills programme for all non-management staff and it is tied in with our brand philosophy of 'GETTING THINGS DONE' for our customers. The overall outcome of this course is to create exceptional service experiences for internal and external customers. This is achieved by incorporating Bidvest Bank's strategy with service and integrate C²ARES with all customer procedures.

Bidlearn Product Knowledge Tests
The Bidvest Bank Academy has implemented weekly product knowledge tests intended to increase product knowledge among our team members. All customer-facing staff are required to complete these tests on the Bidlearn platform. Through these weekly tests, we are able to evaluate existing knowledge of products and services and upskill employees where there are knowledge gaps, and ultimately enable us to provide better customer fulfilment.

Emotional Intelligence Management Training
The Bidvest Academy hosted a two-day EQ Management course for managers and employees – particularly those in which interpersonal relationships are key – to supply them with the necessary awareness, knowledge and confidence on the road to self-mastery and mindfulness. The course, which forms part of the Leadership Curriculum, is run nationally and is open to all managers, supervisors and leaders within the Bank to attend.

Supervisory Development Programme
The Supervisory Development Programme was designed to put a structured plan in place for leadership continuity within branch banking. The programme provides selected future leaders with fundamental skills necessary to become effective and successful supervisors. The comprehensive programme is comprised of 18 modules and assessments. The programme is expected to increase the productivity of the workforce and retain upskilled, and happy employees. The modules include diversity, interview skills, leadership, financial skills, coaching, product mastery, FAIS and personal development.

Learning and Development Plans
In consultation with the Head of Departments, the Learning and Development (L&D) team has developed curriculums for all departments in the Bank. L&D analysed the needs of the Bank by assessing the personal development plans aligned to the business strategy. They then identified skills gaps, learning interventions and considered budget prior to implementation.

Business Bankers Forum (BBF)
The Bidvest Bank Academy has initiated a Bidvest Bank Business Bankers Forum (BBF). This is an essential monthly session for all Business Bankers, Internal Bankers, Corporate Admin staff and support department teams. This networking and learning forum is designed to:

- Professionally develop individual skill-sets;
- Improve communications on key initiatives;
- Share best practices;
- Create a learning culture;
- Present sales figures; and
- Coaching for success.

Building Knowledge

At Bidvest Bank we believe that investment in education not only builds knowledge within our team but builds stronger communities. For the financial year ended June 2018, our total training spend was R11 260 340.00 (including bursaries).

Bursaries

Our spend on bursaries for FY17/18 was R1 518 020.92. Self-study learning, supplemented with an internal course, has afforded our employees the opportunity to take ownership of their own development. To support this, the Bank has an internal study assistance programme for employees who wish to obtain a tertiary qualification. The aim is to enhance the supply of internal candidates for career opportunities within the Bank.

Employee Child Bursary Scheme

During the last financial year, Bidvest Bank introduced an Employee Child Bursary Scheme. Positioned as a talent attraction and retention tool, the scheme aims to assist top-performing employees with their children's school fees on condition that their children have a good academic record. This scheme serves not only the employees but their children as well.

By building respect and inspiring love, business can move the world.

Kevin Roberts

Be patient. Great things take time and empires aren't built in a day.

Unknown

CORPORATE SOCIAL INVESTMENT

CORPORATE SOCIAL INVESTMENT STRATEGY

Through our Corporate Social Investment (CSI) strategy, Bidvest Bank is committed to the development and well-being of the communities that we serve. Our socio-economic investments remain focused on education, business development and job creation in the Small to Medium-sized Enterprise (SME) space.

We believe in building robust relationships and working in partnership with organisations that make a measurable difference to people's lives. In addition to providing financial support, we also encourage our people to play an active part in community affairs and programmes – whether this is by way of business development support, marketing or promotion.

During the last year, Bidvest Bank supported a number of key interventions, some of which will continue into the next financial year.

Columba Leadership

Columba Leadership describes itself as a values-based youth leadership organisation. The organisation works closely with the Department of Education to run programmes at schools located in economically disadvantaged areas in six provinces.

Their mission is to activate a national movement of engaged young leaders with the objective of improving school performance and youth employment prospects. They offer a values-based leadership programme, which aims to change the trajectory of youth by transforming the culture of schools and allowing young people to take ownership of their destiny.

By adopting a youth-led, adult-supported approach to addressing challenges within the school such as bullying, poor academic performance, drugs and teenage pregnancy, young people have the opportunity to play a meaningful role in leading change initiatives. The results they achieve are nothing short of remarkable. This benefit is twofold: schools are strengthened, and youth become more equipped for life after school as a result of developing a host of 21st Century skills such as teamwork, collaboration, critical thinking, creative problem-solving and communication.

Columba partners with schools over at least three years, working with both educators and learners to institutionalise youth engagement as part of the school's culture. Columba is then able to transition out of the school with confidence knowing that this powerful approach to developing young leaders with character and purpose will be sustained. A meaningful measure of the programme's impact is that 75% of Columba's graduates transition successfully to further study, employment or volunteering within six months of leaving school.

Since its establishment, Columba has worked with 169 schools in seven provinces and has seen close on 6 700 learners and educators graduate from its programme. The programme provides a unique opportunity for corporate South Africa not only to contribute to meaningful social impact but also build relationships with schools and youth in hard to reach communities and gain a humbling insight into the remarkable resilience, energy and optimism of young South Africans, regardless of how disadvantaged their backgrounds.

Cloetesville High School during the Awareness of Nature Academy session

Bathebile

Since 2009, Bathebile has been facilitating the development of community-based skills-building projects. Once the projects are self-sustaining they are handed over to the community to manage, thereby contributing to a culture of self-reliance and sustainability.

Bidvest Bank works with Bathebile to assist and support people in need and educate children. One of the main outlets for this is Nomthandazo, which is located in Oliver Village near Zanzele informal settlement in Putfontein.

Bidvest Bank assists with:

- **Creche:** Feeding at the Nomthandazo Children's Care Centre that cares for 120 children between the ages of one and six years old. Twenty percent of these children are orphaned due to the HIV/Aids epidemic. Bidvest Bank works to maintain and improve the facilities, support the 13 full-time teachers, assist in the education and graduation of the children; upgrading of creche premises, and the installation of shade-netting for the play areas and walkways.

- **Feeding Scheme:** The feeding scheme not only caters for the creche's children but also 200 elderly beneficiaries from the Zenzele Informal Settlement. Bidvest Bank has assisted with installation of shade-netting for the feeding scheme area by providing shade and the fitting of a kitchen area for serving food.

- **Education Learning Centre:** Bidvest Bank has created a Maths, Science and Computer learning centre for the Grade 11 and 12 learners from the Daveyton and Etwatwa communities who cannot afford extra lessons. Free exams and assessments are also provided to the Grade 12 learners who have failed certain subjects the previous year.

- **Free basic computer training** is offered to a number of disadvantaged learners and school leavers.

- **Community Vegetable Garden:** Bidvest Bank has worked with the community to establish and maintain vegetable gardens and fruit trees. The community is being taught how to grow their own vegetables and an independent energy and watering system has been installed. Not only do the trees provide shade for better vegetable growth, but also protection from the weather. The garden now provides food to the community, including children and the elderly. The garden also serves to deliver a deep understanding of children's experience of deprivation, exclusion and vulnerability of our disadvantaged communities. It also provides a Christmas meal to the elderly in the Zanele community.

Bidvest Bank has also provided security and worked with Bathebile to ensure their building meets the various safety requirements as set out by the Department of Labour.

Simamisa Orphans Care

Simamisa, a registered orphan care centre, provides a place of refuge for AIDS orphans, abused children and those under the care of social welfare departments.

The mission of the Simamisa regeneration project is to support vulnerable children by providing food and a safe environment. Simamisa also provides basic early learning support for smaller children, and ensures that older children attend school.

Since its establishment in 2005, Simamisa has grown from a single-room Reconstruction and Development Programme (RDP) house and two metal shacks, into an expanded house with a main bedroom, storeroom, office, kitchen, bathroom facilities, a small classroom, lounge area and three bedrooms that can accommodate 18 children.

Bidvest Bank continues to support the centre with teacher-funding and monthly groceries. Our staff have also donated clothes and toys in their personal capacity throughout the year.

The Roedean Academy

Launched in 2009, Roedean School (SA) spearheads a world-class training programme that is having a significant influence on South Africa's English, Mathematics, Physical Science and Accounting education among girls from under-resourced communities. The school has partnered with neighbouring Barnato High School to provide tuition in these core subjects to girls from Grade 8 – 12.

Since 2011, Bidvest Bank has been sponsoring the Roedean Academy in order to fund its vision of providing excellent education to pupils from under-resourced schools. Without such sponsorship, the Academy would not be able to exist.

During the school year, girls attend the programme on various afternoons per week. Classes have a maximum of 20 learners, tutored by dedicated Roedean staff-members, using Roedean's facilities.

An e-learning programme has also been introduced, so that the girls can practise their Mathematics on computers and on tablets. In addition, transport and a hot meal are provided for all the learners. The Grade 12s also attend a five-day study camp and the Grade 11s attend a Careers Evening and undergo careers psychometric testing. Roedean also tries to arrange an excursion every year for all the grades and has recently introduced leadership camps for Grade 10s and 11s.

The Roedean Academy Girls have full access to the Roedean School library and it is encouraging to see how much it is used. In addition, the girls can also attend an HIV/Aids training seminar and can have their eyes screened and tested. Roedean exposes the girls to a wider education and has introduced Life Skills Training each term. This training takes place on Saturday mornings and covers topics including grief management, dealing with stress and study skills. The girls also participate in Science experiments in the labs so that they can be part of "Science in Action".

The Academy also runs a programme called "The Next Step Programme" whereby they assist the matric girls with tertiary opportunities and help them with applications for tertiary institutions, applications for bursaries, scholarships and funding as well as learnership applications.

This programme has been life-changing for many, and its success can be seen in the measured improvement in English, Mathematics, Physical Science and Accounting. Individual care and interest ensure that each pupil's motivation and dedication increase enormously.

Since 2012, Bidvest Bank has offered bursaries to the top student of each year.
The first recipient, Sibongile Zwane, has now completed her BSc honours and is empliyed.
Angella Themba has completed her degree in Actuarial Science and is working at
The Reserve Bank. Chiezda Mudima is in her fourth year, studying Industrial Engineering and Mbahlenhle Motsweni is in her second year studying a Bachelor of Accounting. Without the sponsorship from Bidvest Bank, which has contributed to the success of this programme and to changing the lives of these pupils, this would not have been possible.

eGAMA

Established in 2015, eGAMA is a South African educational solution provider and services company that implements and supports the Public and Private Educational Sector with world-leading interactive curriculum software, diagnostic assessment tools and feedback systems.

eGAMA offers a broad array of products and services that it delivers, trains and implements. These products focus on maths and science improvement for both learners and educators alike. The flagship product of the company is the Modlin adaptive learning application. This world-class e-learning platform provides learners and teachers with high-quality content, which is aligned to the National Curriculum Statement (NCS) and Curriculum Assessment Policy Statements (CAPIS).

eGAMA's diagnostic algorithms empower teachers to understand where learners' weak points lie and equips the teachers with the necessary knowledge to focus on the areas requiring the most attention.

During 2017/2018 eGAMA implemented projects and provided products to the following schools:

- Olievenhoutbosch Secondary School, Gauteng: additional maths tutelage to the learners in Grade 10 and 11.
- Groenvlei Secondary School, Western Cape: adaptive learning application implemented, and strong results achieved.
- Ndunkuhle Secondary School, KwaZulu-Natal: provided and implemented question banks and dictionaries along with user training on behalf of Bidvest Bank.
- These projects and the partnerships with these and other schools will continue into 2019.

A successful man is one who can lay a firm foundation with the bricks others have thrown at him.

David Brinkley

SIX-YEAR REVIEW

ADJUSTED CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE

	2018 R '000	2017 R '000	2016 R '000	2015 R '000	2014 R '000	2013 R '000
Interest income	444 542	342 905	231 845	222 354	188 806	154 528
Imputed interest from rental income*	137 124	133 495	125 939	51 719	61 974	75 733
Interest expense	(280 417)	(210 793)	(146 456)	(91 198)	(79 714)	(71 717)
Net interest income	301 249	265 607	211 328	182 875	171 066	158 544
Fee and commission income	472 105	323 084	289 108	264 142	248 489	228 517
Fee and commission expense	(295 080)	(156 073)	(130 863)	(80 201)	(74 781)	(68 897)
Net fee and commission income	177 025	167 011	158 245	183 941	173 708	159 620
Leasing income	567 107	608 826	572 060	324 459	312 239	369 477
Imputed interest reflected under net interest income*	(137 124)	(133 495)	(125 939)	(51 719)	(61 974)	(75 733)
Net income from leasing	429 983	475 331	446 121	272 740	250 265	293 744
Net trading income	277 768	324 488	327 357	267 734	263 557	238 758
Other income / (loss)	813	1 685	1 530	(9 737)	4 007	10 136
Operating income	1 186 838	1 234 122	1 144 581	897 553	862 603	860 802
Net credit impairment charges	6 137	(4 960)	(25 984)	(562)	(4 111)	(6 737)
Operating income after credit impairment charges	1 192 975	1 229 162	1 118 597	896 991	858 492	854 065
Employment costs	(442 251)	(405 432)	(361 031)	(295 541)	(271 500)	(244 935)
Operating leases	(86 934)	(91 796)	(87 154)	(76 453)	(73 818)	(70 916)
Risk control	(18 606)	(25 649)	(21 865)	(23 646)	(23 656)	(23 751)
Information technology costs	(53 015)	(47 945)	(32 457)	(24 716)	(21 310)	(20 582)
Depreciation and amortisation	(54 561)	(43 572)	(39 454)	(30 151)	(30 000)	(29 592)
Other operating expenditure #	(121 812)	(128 937)	(116 156)	(80 655)	(73 335)	(85 857)
Operating expenditure	(777 179)	(743 331)	(658 117)	(531 162)	(493 619)	(475 633)
Profit before indirect taxation	415 796	485 831	460 480	365 829	364 873	378 432
Indirect taxation	3 482	(19 269)	(19 816)	(11 472)	(18 324)	(15 570)
Profit before direct taxation	419 278	466 562	440 664	354 357	346 549	362 862
Direct taxation	(116 949)	(130 606)	(117 179)	(91 345)	(95 751)	(102 483)
Profit for the year	**302 329**	**335 956**	**323 485**	**263 012**	**250 798**	**260 379**

*Imputed interest is the portion of interest that is included in leasing rental income from operating rental assets. It is calculated on the monthly outstanding capital balance for each asset.

#Includes marketing, communication and other administration expenses.

ADJUSTED CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE

	2018 R '000	2017 R '000	2016 R '000	2015 R '000	2014 R '000	2013 R '000
Assets						
Equipment	80 720	98 375	109 448	74 545	62 713	65 151
Intangible assets	218 526	152 424	112 726	84 914	46 977	36 910
Leased assets	1 687 128	1 707 427	1 489 961	1 851 857	995 188	1 223 601
Loans and advances	2 380 787	2 100 468	1 660 359	1 240 171	1 163 780	1 212 147
Negotiable securities	391 722	248 284	327 442	239 067	-	-
Derivative financial assets	14 755	26 181	46 047	9 844	8 796	21 563
Investment securities	376 702	254 868	255 061	116 184	95 286	98 522
Intergroup loans	58 796	-	445	476	-	-
Current tax receivable	6 545	-	-	30 885	29 099	33 108
Other assets	389 205	377 454	378 830	165 488	112 559	98 767
Cash and cash equivalents	3 614 479	2 846 484	2 522 371	2 387 550	2 128 203	1 825 049
Total assets	9 219 365	7 811 965	6 902 690	6 200 981	4 642 601	4 614 818
Equity and Liabilities						
Equity						
Share capital	2 070	2 070	2 070	2 070	2 070	2 070
Share premium	525 709	525 709	525 709	525 709	525 709	525 709
Share-based payment reserve	86	12 455	14 436	16 126	12 310	4 286
Retained income	2 142 517	1 985 796	1 800 351	1 592 936	1 442 556	1 356 797
	2 670 382	2 526 030	2 342 566	2 136 841	1 982 645	1 888 862
Liabilities						
Intergroup loans	150 089	150 035	150 032	150 026	122 504	292 706
Derivative financial liabilities	45 513	49 585	47 405	6 996	8 361	32 062
Deposits	5 698 945	4 502 591	3 862 609	2 830 773	2 141 298	2 123 953
Trade and other payables	494 404	416 092	334 258	893 413	190 429	149 032
Deferred tax	159 513	161 727	151 087	182 450	196 862	127 762
Current tax payable	-	5 454	14 282	-	-	-
Defined benefit liability	519	451	451	482	482	441
	6 548 983	5 285 935	4 560 124	4 064 140	2 659 936	2 725 956
Total Equity and Liabilities	**9 219 365**	**7 811 965**	**6 902 690**	**6 200 981**	**4 642 601**	**4 614 818**

STATISTICS, RETURNS AND CAPITAL ADEQUACY

Statistical review	2018	2017	2016	2015	2014	2013
Statement of financial performance						
Net interest income to assets (%)	3.27	3.40	3.06	3.61	3.70	3.40
Non-interest income to assets (%)	9.61	12.40	13.52	12.46	14.90	15.20
Operating expenses to assets (%)	8.43	9.52	9.53	8.63	10.60	10.30
Interest income to interest earning assets (%)	7.41	6.93	5.54	6.13	5.70	5.30
Interest expense to funding liabilities (%)	4.79	4.53	3.65	3.06	3.50	3.00
Cost to income (%)*	64.85	62.04	60.60	60.46	59.60	57.50
Non-interest income to total income (%)	74.23	78.79	83.43	85.44	80.20	81.60
Credit loss ratio (%)*	0.15	0.13	0.82	0.02	0.40	0.60
Effective tax excluding indirect tax (%)	28.13	26.88	25.45	24.97	27.60	28.20
Effective tax including indirect tax (%)	27.29	30.85	29.75	28.83	31.30	31.30
Statement of financial position						
Return on assets (%)	3.28	4.30	4.69	4.27	5.40	5.60
Return on equity (%)	11.32	13.30	13.82	12.31	12.6	13.80
Loans and leased assets to deposits (%)	71.38	84.57	81.56	109.23	100.8	114.70
Regulatory capital to risk-weighted assets (%)	20.57	19.95	16.85	18.18	19.4	15.90
Financial leverage (times)	3.45	3.10	2.95	2.90	2.30	2.40
Net stable funding ratio (%)	153.19	101.00	87.00	70.75	94.00	79.00
Liquidity coverage ratio (%)	162.92	151.00	163.00	104.00	117.00	123.00
Statistical information						
Number of employees	1 199	1 179	1 171	1 109	1 022	1 049
Number of branches	76	80	85	85	95	92
Income per employee (R'000)	990	1 048	977	814	1 061	855
Expense per employee (R'000)	648	631	562	484	627	488
Profit before taxation per employee (R'000)	350	396	376	330	428	361
Exchange rates at 30 June						
USD	13.77	13.12	14.70	12.17	10.63	10.00
GBP	18.11	17.03	19.71	19.09	18.18	15.23
EUR	16.05	14.94	16.32	13.54	14.55	13.06
Average exchange rates						
USD	12.85	13.60	15.07	11.45	10.38	8.86
GBP	17.29	17.32	21.40	18.01	16.90	13.88
EUR	15.32	14.98	16.92	13.72	14.09	11.47
Average prime overdraft rate (%)	10.21	10.50	9.94	9.25	8.70	8.52

*Reflected as a percentage of loans and advances only.

If you do build a great experience, customers tell each other about it. Word of mouth is very powerful.

Jeff Bezos

Language is a city to the building of which every human being brought a stone.

Ralph Waldo Emerson

GOVERNANCE REPORT

Bidvest Bank Limited's (the Bank's) corporate governance practices and processes are informed by the Bank's statutes, the Banks Act and particularly Regulation 39, the Companies Act, the King IV Code on Corporate Governance, the Basel Committee on Banking Supervision Guidelines on corporate governance principles for banks, and the Bank's code of conduct. This Corporate Governance review is mandated by Regulation 39(18) of the Banks Act.

Ethical, effective and responsible leadership

Values and ethics

The Board of Directors (the Board) endorses the Bank's commitment to the conduct of the business in accordance with the highest ethical standards, as expressed in the Code of Conduct, and to responsibility, accountability, fairness and transparency. Bank employees receive training on and are required to acknowledge and accept the Code of Conduct at induction. During the year 861 employees (of a total workforce of 1 199) participated in an online survey on their adherence to the Code of Conduct. The Bank's commitment to ethical conduct in its business is expressed in policies addressing procurement, fraud, criminal activity, discrimination, zero tolerance, money laundering, proceeds of crime, discrimination and sexual harassment.

The responsibility for implementing and executing the Code of Conduct and ethics policies lies with management, and disciplinary action is taken against employees who contravene the policies.

Instances of non-compliance are investigated and addressed in accordance with the disciplinary processes.

Related parties

The Conflicts of Interest policy regulates the manner in which dealings with related parties should be conducted, to ensure that potential conflicts of interest are avoided, and all related party transactions are fully disclosed. Declarations of related party transactions are required to be made at least quarterly and are reported to the Audit Committee. The directors are required to make declarations of interest at each directors' meeting.

Whistle-blowing

The Bank participates in the Bidvest Group confidential anti-fraud tip-off line, which is managed by Deloitte & Touche. During the year 11 reports to the anti-fraud line were investigated by the Security department. The following actions were taken: further employee training was provided to improve customer service (one case); employees were dismissed because the complaint was justified (three cases); no action was taken because there was no evidence to support the complaints (in six cases, including complaints by disgruntled employees on resignation) and an email account was closed because of its use in a 419 scam.

The Bank as a responsible corporate citizen

Transformation

The Bank has retained its B-BBEE level 4 rating verified by Empowerdex Verification Agency at 30 June 2018. The impact of the new financial sector rating code is anticipated to lower the rating, and areas of activity in which the Bank can improve its rating have been identified, and a programme to achieve such improvement is being developed.

Preferential procurement

The Bank's B-BBEE spend amounted to R2.4 billion (2017: R2.6 billion).

Corporate citizenship

The Bank is committed to the development and wellbeing of the communities it serves: its socio-economic investments focus on community-based initiatives, youth and education. The Bank seeks to build robust relationships and it works with organisations that make a measurable difference to lives and communities. In addition to providing financial support at an organisational level, the Bank also encourages employees to participate in community affairs and programmes. R2.2 million was allocated to these beneficiaries in 2018 (2017: R2.5 million).

Environment

The Bank is conscious of its environmental responsibilities. The business has a low direct impact and it participates in paper recycling initiatives to ensure that waste paper is disposed of in an environmentally acceptable manner. The Bank encourages responsible use of energy, water and public transport wherever possible, and from 2019 its head office premises will be in a Green Building Council 4-star certified building.

Strategy: core purpose, risk, opportunities, business model, performance and sustainability are all elements of value creation

The Board's objectives are the development and sustainable growth of the Bank's business in accordance with applicable regulatory requirements, for the benefit of all stakeholders. The achievement of these objectives is dependent on the adherence to good corporate governance throughout the organisation. The Board approves the Bank's strategy as proposed by management, and management is responsible for the alignment of the strategy with the approved risk appetite, its implementation and the assessment of its effectiveness. Strategy includes short-, medium- and longer-term goals, and the risks attendant on any initiative. The new product approval process requires all new products and services to be approved for implementation by the revenue-generating and support functions. The impact of strategy on stakeholders is part of the approval process, and the business performance management unit measures the effectiveness of initiative implementation and its realisation of initial objectives. Management reports quarterly to the Board on business performance, including strategic initiatives; such reports include any negative consequences of its activities.

	Group		Company	
Statistical information	**2018**	**2017**	**2018**	**2017**
Operating income (R'000)	1 186 838	1 234 122	1 167 242	1 234 120
Profit before direct taxation (R'000)	419 278	466 562	426 154	466 560
BEE procurement (R'000)	2 465 671	2 609 241	2 465 671	2 609 241
Training spend (R'000)	9 837	8 685	9 730	8 685
Training spend per employee (Rand)	8 204	7 366	8 352	7 366
Number of employees trained	1 199	1 179	1 165	1 179

Going concern

The process for assessing the Bank's going-concern status is reviewed by the Audit Committee. The Committee satisfies itself that the Bank has adequate resources available to continue in operational existence for the foreseeable future, and for this reason the Board adopts the going-concern basis in the preparation of the financial statements.

Moody's Investors Service

On 6 April 2018 Moody's Investors Service confirmed the Bank's long-term local currency global scale issuer rating (B(a1)) and the long-term national scale rating (Aa2.za) and outlook, as stable.

Reporting for informed assessment of performance and prospects

Reports issued by the Bank, including financial statements, the integrated report and the Pillar III Public Disclosure, are approved by the Board, with appropriate review by the Audit Committee. The materiality level for disclosure in the financial statements is determined by the Board for purposes of reporting to the directors.

The Board as the focal point and custodian of corporate governance

The Board terms of reference set its role, responsibilities, membership and processes, and include the responsibilities of the Board chairman. The Board has unrestricted access to management and documentation, and a relationship with executive management is created by management's attendance at board and committee meetings. A method exists for directors to obtain independent professional advice. The Board is satisfied that it has fulfilled its responsibilities in accordance with the terms of reference. The corporate governance policy was amended during the year in line with the Prudential Authority proposed directive on the promotion of sound corporate governance.

Board composition: a balance of knowledge, skill, experience and independence

Board and committee composition, and the mix of executives and non-executives, are in accordance with the requirements of the Banks Act. The Board does not set gender or race targets, but is mindful of the importance of diversity of age, race, gender, knowledge and experience.

The Bank policy on director independence complies with the 2018 SARB directive on corporate governance, in that the independence of any director who has served for nine years or more, is assessed by the Board annually.

The directors are aware of the standard of directors' conduct required in terms of the Companies Act and the Banks Act.

At 30 June 2018, the Board was composed of two executive and six non-executive directors, the majority being independent non-executives. The roles of the chairman and managing director are separate, and Board composition aims to ensure unfettered decision-making without domination by any group or individual. The varied experience and expertise of the directors contribute to the Board's effectiveness and its achievement of its responsibilities. Dr RD Mokate was appointed the lead independent director in February 2018.

Board appointments and succession planning

All appointments are subject to the approval of the regulator in terms of the Banks Act. The selection of candidates for approval is guided by the needs of the Board for skill, knowledge, experience, diversity and the personal attributes of the individual. The Bank's memorandum of incorporation does not provide for director rotation, and directors serve while they meet the requirements of the Banks Act and the Companies Act, subject to review in terms of the Board terms of reference once they reach 70 years of age. Succession plans are not in place; appointments are made as circumstances dictate.

Director induction, training and development programmes

In accordance with the Induction Policy, new directors receive induction information and materials, access to background information about the Bank, its business and environment, and interaction with senior management. Ongoing director training workshops are provided by external subject matter experts on topical issues, including legislative and regulatory changes applicable to the Bank's operations. Updates are provided at quarterly directors' meetings on changes in the regulatory environment applicable to the Bank's operations.

Interest of directors and officers

Directors and officers are required to comply with the Code of Conduct and Section 75 of the Companies Act in respect of the avoidance of any conflict of interest between their personal interests and those of the Bank. Declarations of interest are made at every board meeting, and any transaction with a director is required to be concluded on an arm's-length basis, under terms that are no more favourable than those with third parties. Directors and employees are required to declare their personal interests in accordance with the Companies Act and Code of Conduct.

The Board is supported by the company secretary and by the secretarial department of the Bidvest Group in its corporate governance and legal responsibilities. The appointment of the company secretary is subject to Board and Regulator approval, and the performance of the company secretary is evaluated by the managing director and Board chairman.

Delegation to board committees promoting independent judgement, and the effective discharge of the Board's duties

The Board delegates its supervisory obligations to board committees, which operate in accordance with applicable legislation (the Bank's Act and the Companies Act) and Board-approved terms of reference.

The committees are:

- Audit
- Governance, Social and Ethics, incorporating Nominations
- Risk and Capital Management
- Remuneration

The committees' activities are regularly reported to the Board, which satisfies itself that the committees have performed their functions in accordance with Board-approved terms of reference. Meeting packs for all committee meetings are distributed to all directors for information purposes.

Meeting attendance

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

	Board	Audit	Risk and Capital Management	REMCO	Corporate Governance	SARB Trilateral	SARB Directors' Meetings	Credit	ALCO
Number of meetings	**4**	**4**	**4**	**3**	**2**	**1**	**1**	**12**	**12**
AD Cunningham@*	4	4	4 Chairman	-	-	1	1	12	12
MJ Liebenberg#	4	4i	4i	3i	2i	1i	1	12	12
EK Diack@*	4	2 Chairman	1	-	-	1	1	-	-
NT Madisa*	3	-	1i	2	1	-	1	-	-
RD Mokate@*	4	4	1i	3 Chairman	2	-	1	-	-
NG Payne @*	4 Chairman	4i	4	3	2 Chairman	1i	1	-	-
LP Ralphs	2	-	-	-	-	-	-	-	-
JJ Van Niekerk#	4	4i	4i	3i	2i	1i	1	12	12

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

The **Audit Committee** is composed of three non-executive directors, Mr Diack (chairman), Mr Cunningham, and Dr Mokate. The function of the committee is, inter alia, to monitor the financial, operational and management reporting processes, and to evaluate the adequacy and effectiveness of internal controls, accounting practices and processes. The committee reviews the work of internal audit, and the Head: Internal Audit has unrestricted access to the committee and its chairman. Representatives of the external auditors, Deloitte, attend all committee meetings. The credit committee reports to the audit committee.

The **Risk and Capital Management Committee** is composed of three non-executive directors, Messrs Cunningham (chairman), Diack and Payne. The committee's function is principally to review and monitor the risk management strategy and policy, and to coordinate risk and capital management assurance activities. The committee reviews the work of compliance, and the Head: Compliance and Head: Risk have unrestricted access to the committee, its chairman and the Bank chairman. A representative of Bidvest Group internal audit attends meetings by invitation. The asset and liability committee (ALCO) reports to the risk and capital management committee.

The **Governance, Social and Ethics and Nominations Committee** is composed of three non-executive directors, Mr Payne, Dr Mokate and Mrs Madisa, and chaired by the Board chairman. The committee assists the Board to maintain and enhance the process of corporate governance in the Bank, including the delegation of authority to committees and senior management. The committee also undertakes the functions of the nominations committee, including the appointment, induction and training of directors, and succession planning of senior management. The nominations policy guides the committee in its identification and nomination of candidates to the Board and to senior management positions. The committee undertakes the responsibilities of a social and ethics committee, as prescribed by the Companies Act.

The **Governance, Social and Ethics Committee** received no reports of failure to comply with the social and ethics matters specified in Regulation 43 to the Companies Act in the year under review.

The **Remuneration Committee** is composed of three non-executive directors, Mr Payne, Mrs Madisa and Dr Mokate, who is the chairman. The committee oversees the development of remuneration philosophy and practices, reviews incentive schemes and bonus allocations for senior management; approves employee salary increases and the remuneration of non-executive directors.

Board committees are responsible for approving and reviewing the effectiveness of the corporate governance and risk management policies in their specified areas. The Board and board committees receive regular briefing materials on the Bank's activities, its performance and operating environment. The Board has unfettered access to management and information.

The service by directors and senior managers on more than one committee promotes collaboration and reduces duplication. Senior managers attend committee meetings by invitation.

Performance evaluation to support continued improvement

The director performance assessment process is determined by the governance, social and ethics committee, and an assessment was conducted in 2018, in accordance with the policy approved by the committee. The results of the 2018 assessments were reviewed by the committee. In 2019 individual director appraisals will be conducted, and the performance of the Board chairman will be evaluated by the lead independent director.

Management effectiveness: delegation and the effective exercise of authority and responsibilities

The MD is appointed by and accountable to the Board and is responsible for the implementation of Board-approved strategy, and for the performance of the executive committee in managing and directing Bank operations. The MD attends all Board committee meetings as an invitee. The Board chairman, with the shareholder, evaluates the performance of the MD.

The **Executive Committee** is chaired by the MD and is composed of the financial director (FD), and the heads of the Bank's major revenue-generating divisions, and support functions. The committee is responsible for the implementation of Board-approved strategy. The committee terms of reference specify limits on the committee's authority and those areas reserved for the Board. During the year a talent review was conducted to identify likely successors to the senior managers and heads of business units.

In addition to statutory committees, specialised committees support management in the control and governance of specialised activities, for instance the Projects Steering Committee, Operational Risk Committee, and Risk and Governance Executive Committee. Delegation to individuals is by written mandates in accordance with a Board-approved process and is subject to the Board-approved levels of authority matrix.

Risk management: governance of risk to support achievement of strategic objectives

The Board has overall responsibility for the establishment and oversight of risk management, with assistance from the risk and capital management committee, in the identification of risks inherent in the business and the monitoring of controls to manage those risks. The separate document entitled 'Risk and Capital Management Review' reports on the directors' assessment whether the Bank's processes achieve the Board's objectives.

The Bank has established structures and processes to assist in the achievement of effective risk management and supports the 'Four Lines of Defence' model. The lines of defence are operational management; the risk and compliance functions; internal audit and the external auditors.

It is the responsibility of line management, the first line of defence, to monitor risks and adherence to limits. Through its training and management standards and procedures, the Bank aims to maintain a disciplined and constructive control environment, in which all employees understand their roles and obligations.

As part of the second line of defence, the risk function identifies and analyses risks and recommends appropriate risk limits, controls and policies. The function is staffed by qualified professionals and the chief risk officer (CRO) has unrestricted access to the risk and capital management committee and its chairman.

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

The Board recognises the importance of ongoing identification and management of risk to maintain a sound financial and reputational condition, and the risk management policy affirms the need to establish a programme for enterprise risk management (ERM). The Board further commits to providing sufficient personnel and other resources to ensure full implementation of the ERM programme, which includes investment towards achievement of the Bank's risk data aggregation and risk reporting (RDARR) capability. The Board acknowledges that each of the Bank's activities has an element of risk. Due to the diverse nature of the business units, products and services, and the fact that not all risk can be transferred to third parties through insurance policies, contracts or waivers, the management of residual risk at all levels is imperative.

The Bank maintains an ERM policy and framework to coordinate the many aspects of risk. The risk management policy articulates the content of the ERM and risk appetite statement. The Board expects executive management to be committed to building a risk culture and increased awareness and a shared responsibility for risk management at all levels. A clearly defined risk management policy including a risk appetite statement supports this.

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

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

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

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

The risk function has the necessary status and independence: the CRO is a member of the executive committee and reports to the MD.

Information Technology (IT) and Information: supporting achievement of strategic objectives

The Bank's IT and information requirements are informed by the Board-approved business strategy, and management is responsible for the effective use of IT and information under the review of the risk and capital management committee, which receives regular reports on the governance of IT and IT risks, including cyber security. IT forms part of the enterprise-wide risk framework, and IT legislation is included in the Bank's regulatory universe, and compliance with regulatory requirements is subject to ongoing monitoring. Formally documented disaster recovery and business continuity plans are in place for all business units.

Disaster recovery testing takes place bi-annually; a small component of business continuity is tested (due to practical considerations) and has been identified as an area of required improvement.

The use of any outsourced service provider is subject to a due diligence exercise, and the Guidance Note 5 principles issued by the Prudential Authority, where appropriate. IT policies address security of information, risk management and the achievement of strategic objectives.

The management of IT risk is subject to quarterly independent review by the Bidvest Group internal audit.

Projects completed during the 2018 financial year included authenticated collections, global payments online, Evolution (point of sale system), creating a credit model compliant with International Financial Reporting Standards (IFRS) as required by IFRS 9: Financial Instruments (IFRS 9) and the online security register. Projects scheduled for completion during the 2019 financial year include Global World Currency Card, online money transfer, activity based costing, implementation of IFRS 9 and the FIC Amendment Act. The modernisation of payments programme will commence in October 2018 and will be a significant focus area.

The road to success is always under construction.

Arnold Palmer

Infrastructure programmes initiated during the 2018 financial year and continuing in 2019 include replacing legacy networks; migration of systems and platforms to the Cloud; improving hardware capabilities; and improving logical environment segregation.

IT Risk and cyber security initiatives include an information security management system (ISMS) and an IT Risk and cyber security committee. Information security policies and response plans have been implemented, and information security monitoring tools have been deployed.

The 2019 focus will include protection of personal information (POPI) and general data protection regulation (GDPR) compliance, RDARR project, cyber security monitoring, information security, incident response and information security awareness and training.

Compliance: supporting the Bank as an ethical corporate citizen

Compliance, as part of the second line of defence, functions independently of operations and enjoys the support and cooperation of the Board and executive management. Compliance is a core focus of the Board, which is ultimately responsible for ensuring that the Bank identifies and complies with applicable laws, rules, codes and standards.

Processes supporting generally accepted compliance practice (GACP) are mature and risk management methodology is used to prioritise the meeting of high-risk regulatory requirements.

The requirements of the Companies Act for assessment of the Bank's adherence to legislation and codes of good practice in the areas of good corporate citizenship, social and economic development, the environment, labour and consumer relations, are the responsibility of the corporate governance committee, which functions as the Bank's social and ethics committee.

Continuous compliance monitoring is conducted to assess the levels of compliance with regulatory requirements specific to banking, and to meet the requirements of Regulation 43 of the Companies Act in relation to the social and ethics committee.

The Head: Compliance reports to the CRO, MD and to the risk and capital management committee, with unfettered access to the chairman of that committee, and corresponds with the regulators for the financial services industry, including the Prudential Authority.

Other compliance function initiatives include:

- being the custodian, creating awareness and driving adherence to the Bank's compliance culture;
- monitoring that the Bank takes appropriate action to manage its regulatory and supervisory risks, and complies with applicable laws, rules, codes and standards;
- identifying the Bank's regulatory universe;
- monitoring adherence to compliance risk parameters;
- initiating and monitoring corrective action where appropriate;
- assessing the impact of any new regulatory requirements and legislation across the Bank and overseeing the successful implementation thereof; and
- providing reasonable assurance to the Board that the compliance risks to which the Bank is exposed are identified and appropriately managed and controlled.

Regulatory compliance

The Bank is governed by the Banks Act and the regulations relating to banks, which are based on the requirements of the Basel III framework. Within this regulatory environment, the Bank is required to hold adequate capital against its assets to safeguard its solvency and overall economic stability. The Bank maintains a strong relationship with the Prudential Authority of the Prudential Authority, and communication and transparency are regarded as key factors in this relationship. The objectives of the regulators are considered in the preparation of policies, operating procedures and in system development. These objectives are:

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

Basel III requires banks to hold adequate, high-quality capital. It also requires leverage and liquidity standards to strengthen regulation to improve the banking sector's ability to absorb shocks arising from financial and economic stress. The Bank complies with the Net Stable Funding Ratio and Liquidity Coverage Ratio. The Bank views these requirements as an improvement in the financial regulatory environment as they will promote a more resilient banking sector.

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

Remuneration: fair, responsible and transparent, promoting strategic objectives and positive outcomes

Remuneration philosophy

The Bank strives to be an employer of choice in its chosen market by creating an environment where people deliver great results and share in the value they create. Appropriate remuneration and reward policies and practices play a critical role in attracting, motivating and retaining high-performance individuals, and those with scarce and critical skills. The philosophy is underpinned by the following principles:

Support for strategic objectives
The compensation management policy supports and reinforces the achievement of Bank vision and strategy.

Transparent communication
The Bank is committed to open communication with employees about the design of its remuneration programmes, and of ongoing changes to these, with clear statements of what remuneration is designed to achieve. The Bank maintains discretion and confidentiality regarding the specific and individual details of remuneration, to improve the quality of decision-making, promote openness and honesty, and ensure that ownership and accountability are accepted.

Non-discriminatory practices
All remuneration policies and practices are free of unfair distinction, since discrimination based on race, gender, pregnancy, marital status, family responsibility, ethnic or social origin, sexual orientation, age, disability, HIV status, political orientation, culture, language and birth is unacceptable to the Bank. Distinction based on scarcity factors and skills will be applied.

Internal equity
The Bank remunerates all employees fairly and consistently according to their role and individual value, and has commenced a project to eliminate unjustified and historic pay discrepancies. The consistent application of the remuneration system is mandatory.

External equity
The Bank continuously considers sectorial and national remuneration trends, to ensure competitive total remuneration within the parameters of affordability, as far as is achievable and sustainable.

Affordability and sustainability

In accordance with the Bank's business plan and strategy, and in consideration of the annual budgetary scope, limits are set for remuneration and other human resources costs. The annual adjustment in the remuneration account and the components of the remuneration adjustments are made with due allowance for:

- the necessity for competitive remuneration;
- the budget;
- approval of the Board and remuneration committee;
- the inflation rate;
- the desirability and extent of performance bonuses; and
- the need for structural adjustments in the remuneration of individuals and occupational groups.

Annual salary increases are based on a cost-to-company package and consider:

- the Bank's performance;
- affordability;
- external market (forecast increases);
- inflation and market movements; and
- recognition agreements.

Remuneration is based on the cost of employment, offering certain flexible structuring choices to employees, which is the fairest way of managing remuneration and costs within the bounds of tax legislation.

Performance incentive (bonus scheme)

The scheme is linked directly to the performance management system, and any award is paid annually based on the results of the performance review. The performance incentive is a component of variable remuneration, based on the following:

- a zero base each year with no carry-through effect;
- quantum in any year is a direct function of the availability of funds; and
- achievement of annual strategic goals.

Governance

The remuneration committee approves director and senior management remuneration and ensures compliance with principles of good governance. The Bank does not offer a share incentive scheme, but senior management and executives participate in the share incentive scheme of The Bidvest Group Limited.

2018 achievements

All roles in the Bank have been profiled and graded in terms of their content, complexity, requirements and expected outputs. The Bank will be adopting the Paterson Grading model.

The change management process has been completed with all line managers, including the executive team, attending the remuneration 101 workshops. All grades have been approved by the job family custodians.

Remuneration of critical roles is constantly monitored and benchmarked against that in the financial services market. Scarce skills have been reviewed this year to ensure risk is managed.

Commission schemes implemented this year have been linked directly to the performance management system. Commission is paid monthly or quarterly based on targets met. As a component of variable remuneration, commission is based on:

- a zero base each year with no carry-through effect;
- the self-funding principle; and
- achievement of realistic targets aligned with achievement of annual strategic goals.

2019 focus areas

The focus area for 2019 will be the implementation of a pay scale in which salary ranges are applicable to a grade or role. The transparent communication and education on employee grades will be completed in the year. The Bank will maintain current pay scales using the market median (50th percentile) approach for the industry as a key anchor point. All roles will be allocated to a remuneration scale based on the grading results as well as an assessment of their internal and external value to the Bank. Remuneration levels will be firmly linked to both grade and role.

Internal and external assurance: enabling an effective control environment and the integrity of information

Internal audit is the third line of defence, providing independent assurance to the Board of the effectiveness of the other lines of defence in the achievement of the objectives of sound risk management and corporate governance. The internal audit charter specifies adherence to international best practice methods, and the department is subject to independent review on a regular basis. The King IV guidelines on independence, status and recognition of the internal audit function are applied.

The fourth line of defence, the external auditors, Deloitte, provide assurance on the integrity of the financial statements, facilitating informed decision-making, both by the Board and by external stakeholders, such as the shareholder, regulators and public.

The Board is satisfied that assurance services promote an effective control environment, supporting the integrity of information for decision-making, and the quality of external reports. The assurance model effectively addresses significant risks and material issues.

A stakeholder-inclusive approach: balancing the needs, interest and expectations of material stakeholders with the Bank's best interests

The management of stakeholder relationships and implementation of the stakeholder policy is the responsibility of executive management.

Employees

The Bank's most important stakeholder body is its employees. In addition to fair and transparent remuneration practices, the Bank talent management review process ensures that critical talent is rewarded, developed and retained.

Skills development

The Bank contributes 1% of the total remuneration monthly in terms of the Skills Development Levies Act.

The Bank has been accredited by the Banking Sector Education and Training Authority (Bank Seta) as a training provider for assessment and delivery of the National Certificate: Banking (NQF Level 5 and 4).

The Bankers Graduate Development and Learnership Programmes provide capacity building for business, and selected employees benefit from study assistance for further education.

35 learners commenced the learnership programme on 1 November 2017 (2016: 35); the learners are from previously disadvantaged communities and participated in the Bank's National Certificate in Banking Level 4 programme. Bank Seta approved funding of R1.4 million (2017: R1.1 million), payable in two tranches.

Bursaries totalling R1.4 million (2017: R1.3 million) were granted to 68 (2017: 82) employees during this period.

11 graduates participated in the Bankers Graduate Development programme from 1 November 2017, and Bank Seta approved funding of R480 000 payable in two tranches.

8 employees participated in the National Certificate in Banking Level 5 programme, and Bank Seta approved funding of R320 000 (2017: R1.2 million) payable in two tranches.

8 disabled learners are participating in a Business Administration Services Level 3 learnership, and Bank Seta approved funding of R360 000 payable in two tranches.

10 housekeepers and receptionists are attending Adult Education and Training (AET) and are in the second phase of communication and numeracy training.

Staff development and retention
The education and development of employees is based on individual development plans and necessary competencies, skills and knowledge for the business to succeed. The Learning and Development department provides training ranging from technical, system and product, to regulatory and compliance.

The Bank uses online training materials, and has launched its own academy in Cape Town and in KwaZulu-Natal.

Government - contribution to the state

	Group		Company	
	2018 R'000	**2017** R'000	**2018** R'000	**2017** R'000
Employees' tax	95 057	74 145	92 789	74 145
Value added tax	52 291	36 315	52 291	36 315
Rates and taxes	3 213	2 819	3 213	2 819
Skills development levies	4 022	3 499	3 927	3 499
Unemployment insurance fund	3 569	3 394	3 498	3 394
Workman's compensation	256	275	239	275
Net income taxation paid	131 164	113 870	131 164	114 124
	289 572	**234 317**	**287 121**	**234 571**

Suppliers

The procurement policy requires adherence by suppliers to the Code of Conduct. In 2018 all suppliers were required to accept the Code of Conduct, promoting transparent and fair dealings between the Bank and its suppliers.

Conclusion

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

You can't build a reputation on what you are going to do.

Henry Ford

DIRECTORS' RESPONSIBILITIES AND APPROVAL STATEMENT

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the Summarised Consolidated and Separate Annual Financial Statements and related financial information included in this report. It is their responsibility to ensure that the Summarised Consolidated and Separate Annual Financial Statements fairly present the state of affairs of The Group (Bidvest Bank and its subsidiaries) as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards and the Companies Act 71 of 2008. The external auditors are engaged to express an independent opinion on these Summarised Consolidated and Separate Annual Financial Statements.

The Summarised Consolidated and Separate Annual Financial Statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Summarised Consolidated and Separate Annual Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

The directors have reviewed the Group's cash flow forecast for the 12 months after signing the AFS and, in light of this review and the current financial position, they are satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Group's consolidated and separate annual financial statements. The Summarised Consolidated and Separate Annual Financial Statements have been examined by the Group's external auditors and their report is presented on page 118 - 119.

The Summarised Consolidated and Separate Annual Financial Statements set out on pages 124 - 146 that have been prepared on the going-concern basis, were approved by the Board on 12 December 2018 and were signed on its behalf by:

Approval of financial statements

Nigel George Payne
Chairman

Jacob Jozua van Niekerk
Managing Director

We shape our buildings;
thereafter they shape us.

Winston Churchill

Great projects require the highest quality output at every stage.

Unknown

AUDIT COMMITTEE REPORT

The Audit Committee is composed of three independent non-executive directors. The work of the committee is specified by its charter, the provisions of the Banks Act, 1990 and the King IV Code. The committee reviewed the Bank's Summarised Consolidated and Separate Annual Financial Statements, assessed their integrity and whether they accurately represented the financial position of the Group. The committee assessed the directors' opinion that the Group has adequate resources available to continue in operational existence for the foreseeable future, and the directors' decision to adopt the going-concern basis of accounting in the preparation of the Summarised Consolidated and Separate Financial Statements.

The committee is satisfied that the financial director has the appropriate expertise and experience to fulfil his obligations in terms of all applicable legislation, and that the finance function is effective.

The committee reviewed the work of the external auditors, Deloitte & Touche, including the audit plan and budget, and recommended to the Board and shareholders the reappointment of the auditors. The committee is satisfied that the external auditors are independent of the Group, and with the quality of the audit work. Deloitte & Touche were first appointed in the 2011 financial year, and the audit partner changed during the 2017 financial year. Significant risks identified by the external auditors at June 2018 were the risk of fraudulent revenue recognition and the risk of management override of controls. The auditors concluded that non-interest revenue and net interest income were not materially misstated, and that there were no material findings to bring to the attention of the audit committee.

The committee reviewed details of non-audit services provided by the external auditors and satisfied itself that the nature and extent of the work was within the committee's guidelines on auditor independence.

A new Head: Internal Audit, Ms M van Vreden, was appointed on 1 July 2017. The committee reviewed and approved the internal audit plan. The committee is satisfied with the internal audit arrangements, the effectiveness of the Head: Internal Audit, and the quality of assurance provided by internal audit and other assurance providers.

The committee satisfied itself with the effectiveness of internal financial controls, and that no material losses were attributable to weaknesses in the functioning of such controls. The committee reviewed the activities of the Bank's credit committee.

The committee met five times during the year, including the trilateral meeting with representatives of the Prudential Authority. The chairman of the committee reported quarterly on the work of the committee to the Board. The committee is satisfied that it has discharged all its responsibilities.

On behalf of the Audit Committee:

Eric Diack
Chairman
Audit Committee

You don't build a business.
You build people and then
people build the business.

Zig Ziglar

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF BIDVEST BANK LIMITED

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS

Opinion

The Summary Consolidated and Separate Financial Statements of Bidvest Bank Limited, which comprise the Summary Consolidated and Separate Statement of Financial position as at 30 June 2018, the Summary Consolidated and Separate Statements of Comprehensive Income, changes in Equity and Cash Flows for the year then ended, and related notes (together 'the Summary Financial Statements') on pages 124-146, are derived from the Audited Consolidated and Separate Financial Statements of Bidvest Bank Limited for the year ended 30 June 2018.

In our opinion, the accompanying Summary Financial Statements are consistent, in all material respects, with the Audited Consolidated and Separate Financial Statements of Bidvest Bank Limited, in accordance with the International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to Summary Financial Statements.

Summary Financial Statements

The Summary Financial Statements do not contain all the disclosures required by the International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to financial statements. Reading the Summary Financial Statements and the auditor's report thereon, therefore, is not a substitute for reading the Audited Consolidated and Separate Financial Statements and the auditor's report thereon. The Summary Financial Statements and the Audited Consolidated and Separate Financial Statements do not reflect the effects of events that occurred subsequent to the date of our report on those Consolidated and Separate Annual Financial Statements.

The Audited Consolidated and Separate Financial Statements and our Report Thereon

We expressed an unmodified audit opinion on the Audited Consolidated and Separate Financial Statements in our report dated 30 October 2018.

Directors' Responsibility for the Summary Financial Statements

The directors are responsible for the preparation of the Summary Financial Statements in accordance with the International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to Summary Financial Statements and for such internal control as the directors determine is necessary to enable the preparation of the Summary Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the Summary Financial Statements are consistent, in all material respects, with the Audited Consolidated and Separate Financial Statements based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised): *Engagements to Report on Summary Financial Statements.*

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per: Claudette van der Merwe
Partner
12 December 2018

The blueprint for success is inside you. It will stay there unless you take it out and create it.

Larina Kase

DIRECTORS' REPORT

The directors have pleasure in submitting their report on the Summarised Consolidated and Separate Annual Financial Statements of Bidvest Bank Limited and its subsidiaries for the year ended 30 June 2018.

General information

The Bank is a wholly-owned subsidiary of Bidvest Bank Holdings Limited. The Bank's ultimate holding company is The Bidvest Group Limited (Bidvest), which is listed on the Johannesburg Stock Exchange. The Bank and its direct subsidiaries, Bidvest Merchant Services Proprietary Limited, Cash Axcess Proprietary Limited, Viamax Proprietary Limited and McCarthy Retail Finance Proprietary Limited and its indirect subsidiaries Viamax Fleet Solutions Proprietary Limited and Bidvest Leasing Proprietary Limited, (the Group) are incorporated and domiciled in South Africa.

Nature of business

The Bank is a registered commercial bank.

Financial results

The financial results are set out in the Summarised Consolidated and Separate Financial Statements and accompanying notes for the year ended 30 June 2018.

Interest of directors and officers

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

Directorate

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

Executive directors

Jacob Jozua van Niekerk | BA, MBA (UCT) | Managing Director appointed 1 October 2013.
Marthinus Johannes Liebenberg | BComp, B Compt Hons, CA(SA) | Financial Director appointed 1 January 2013.

Non-executive directors

Eric Kevin Diack | B Acc CA(SA), AMF | Appointed 23 May 2011.

Mr Diack is a director of various companies, including Aveng Ltd, African Consolidated Resources Plc, and McConnel Dowell Corporation Ltd, The Bidvest Group Limited and Bidvest Holdings Limited.

Alastair Dunsmore Cunningham | BComm CA(SA), AMP | Appointed 1 June 2015.

Mr Cunningham is a director of Bidvest Bank Holdings Ltd and Bidvest Insurance Ltd.

Renosi Denise Mokate (Lead Independent Director) | BA, MA, PHD | Appointed 1 July 2013.

Dr Mokate is a director of companies including Vukile Property Fund Ltd and The Bidvest Group Ltd

and is the chairperson of the Government Employees Pension Fund.

Nigel George Payne | CA(SA) | Chairman, appointed 1 August 2009.

Mr Payne is a director of various listed and unlisted companies, including Bidcorp Ltd, The Bidvest Group Ltd, JSE Ltd, Mr Price Group Ltd, BSI Steel Ltd and Vukile Property Fund Ltd.

Lindsay Peter Ralphs | BCom, BAcc, CA(SA) | Appointed 8 December 2016.

Mr Ralphs is the Chief Executive of The Bidvest Group Ltd and a director of McCarthy Ltd and Adcock Ingram Ltd.

Nompumelelo Themekile Madisa | BSc, B Comm Hon, Hon, MMFI | Appointed 8 December 2016.

Mrs Madisa is an executive director of The Bidvest Group Ltd.

Dividend declaration

A dividend of R72 million was declared on 18 August 2017, and paid on 15 September 2017. A further dividend of R70.5 million was declared on 18 February 2018 and paid on 14 March 2018 (2017: R150 million).

Group financial performance

Profit after tax decreased by 10% to R302.3 million (2017: R335.9 million) while net interest income increased to R164 million (2017: R132 million). Net fee, commission, trading and other income was lower at R455.6 million (2017: R493.2 million) and net income from leasing activities decreased to R567.1 million (2017: R608.8 million).

Deposits grew by 27% to R5.7 billion (2017: R4.5 billion). Loans and advances increased by 13% to R2.4 billion (2017: R2.1 billion) and leased assets remained at R1.7 billion (2017: R1.7 billion). Total loans and advances and leased assets ended on R4.1 billion (2017: R3.81 billion). Negotiable securities increased by 58% to R392 million (2017: R248 million). The Bank's total assets increased to R9.2 billion (2017: R7.8 billion). Cash generated from operations before dividends and taxation increased to R1.5 billion (2017: R1.1 billion). A low-risk appetite was maintained. Credit quality remained good and impairments were well managed. The credit loss ratio was 0.15% (2017: 0.13%).

The return on assets and return on equity were 3.28% and 11.32% respectively. A low financial leverage ratio of 3.45 times was maintained. The Bank's capital adequacy ratio was 20.57%. The Bank's Liquidity Coverage Ratio was 162.9% and the Net Stable Funding Ratio was 153%. Moody's national-scale issuer rating (NSR) did not change and was kept at Aa2.za on the 6th of April 2018. The NSR short-term issue rating remained the same at P-1.za.

Company Secretary and registered office

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

Corporate Office

9th Floor, Rennie House
19 Ameshoff Street

Braamfontein
Johannesburg 2001

Postal address

PO Box 185
Johannesburg
2000

Telephone

Corporate Office
+27 011 407 3000

Call Centre
+27 0860 11 11 77

Telefax

+27 011 407 3322

Website

www.bidvestbank.co.za

Auditors

Deloitte & Touche

Events after the reporting date

A dividend of R80.5 million was declared on 24 August 2018, and paid on 18 September 2018.

Certificate from the Company Secretary

In terms of Section 88(2) (e) of the Companies Act, 71 of 2008, as amended, I certify that, to the best of my knowledge and belief, the Bank has lodged with the Registrar of Companies, for the financial year ended 30 June 2018, all such returns and notices as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

DJ Crawley
Company Secretary
26 October 2018

SUMMARISED CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME

		Group		Company	
	Notes	2018 R '000	2017 R '000	2018 R '000	2017 R '000
Interest income		444 542	342 905	444 472	342 903
Interest expense		(280 417)	(210 793)	(280 417)	(210 793)
Net interest income		**164 125**	**132 112**	**164 055**	**132 110**
Fee and commission income		472 105	323 084	366 346	323 084
Fee and commission expense		(295 080)	(156 073)	(208 857)	(156 073)
Net fee and commission income		**177 025**	**167 011**	**157 489**	**167 011**
Leasing income		1 090 814	1 553 630	1 090 814	1 553 630
Depreciation		(170 242)	(196 275)	(170 242)	(196 275)
Other leasing costs		(353 465)	(748 529)	(353 455)	(748 529)
Net income from leasing		**567 107**	**608 826**	**567 117**	**608 826**
Net trading income		277 768	324 488	277 768	324 488
Other income / (loss)		813	1 685	813	1 685
Operating income		**1 186 838**	**1 234 122**	**1 167 242**	**1 234 120**
Net credit impairment income / (charge)	2.2	6 137	(4 960)	6 137	(4 960)
Operating income after credit impairment charges		**1 192 975**	**1 229 162**	**1 173 379**	**1 229 160**
Employment costs		(442 251)	(405 432)	(426 026)	(405 432)
Operating leases		(86 934)	(91 796)	(85 960)	(91 796)
Other non-operating losses		(18 606)	(25 649)	(18 447)	(25 649)
Information technology costs		(53 015)	(47 945)	(51 929)	(47 945)
Depreciation and amortisation		(54 561)	(43 572)	(51 961)	(43 572)
Other operating expenditure		(121 812)	(128 937)	(116 541)	(128 937)
Operating expenditure		**(777 179)**	**(743 331)**	**(750 864)**	**(743 331)**
Operating income before indirect taxation		**415 796**	**485 831**	**422 515**	**485 829**
Indirect taxation		3 482	(19 269)	3 639	(19 269)
Profit before direct taxation		**419 278**	**466 562**	**426 154**	**466 560**
Direct taxation		(116 949)	(130 606)	(116 949)	(130 606)
Profit for the year		**302 329**	**335 956**	**309 205**	**335 954**
Other comprehensive income: net of income tax					
Items that will not be reclassified to profit or loss:					
Fair value reserve for available-for-sale assets		(3 111)	2 037	(3 111)	2 037
Total comprehensive income for the year		**299 218**	**337 993**	**306 094**	**337 991**

SUMMARISED CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE

		Group		Company	
	Notes	2018 R '000	2017 R '000	2018 R '000	2017 R '000
Assets					
Equipment		80 720	98 375	80 074	98 375
Intangible assets		218 526	152 424	179 521	152 424
Leased assets	1	1 687 128	1 707 427	1 687 128	1 707 427
Investment in subsidiaries		-	-	94 078	56 387
Loans and advances	2	2 380 787	2 100 468	2 413 799	2 100 468
Negotiable securities	3	391 722	248 284	391 722	248 284
Derivative financial assets		14 755	26 181	14 755	26 181
Investment securities		376 702	254 868	376 702	254 868
Intergroup loans		58 796	-	58 968	172
Current tax receivable		6 545	-	6 239	-
Other assets		389 205	377 454	326 204	377 454
Cash and cash equivalents	5	3 614 479	2 846 484	3 615 434	2 846 484
Total Assets		**9 219 365**	**7 811 965**	**9 244 624**	**7 868 524**
Equity and Liabilities					
Equity					
Share capital		2 070	2 070	2 070	2 070
Share premium		525 709	525 709	525 709	525 709
Fair value reserve		524	3 635	524	3 635
Share-based payment reserve		86	12 452	86	12 452
Retained income		2 141 993	1 982 164	2 140 474	1 973 769
Total Equity		**2 670 382**	**2 526 030**	**2 668 863**	**2 517 635**
Liabilities					
Intergroup loans		150 089	150 035	214 740	214 686
Derivative financial liabilities		45 513	49 585	45 513	49 585
Deposits	6	5 698 945	4 502 591	5 721 209	4 502 591
Trade and other payables	7	494 404	416 092	437 803	416 092
Deferred tax		159 513	161 727	155 977	161 727
Current tax payable		-	5 454	-	5 757
Defined benefit liability		519	451	519	451
Total Liabilities		**6 548 983**	**5 285 935**	**6 575 761**	**5 350 889**
Total Equity and Liabilities		**9 219 365**	**7 811 965**	**9 244 624**	**7 868 524**

SUMMARISED CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

		Group		Company	
	Notes	2018 R '000	2017 R '000	2018 R '000	2017 R '000
Cash flows from operating activities					
Cash generated from operations		1 299 216	945 691	1 317 884	945 693
Interest received		444 542	342 905	444 472	342 903
Interest paid		(280 417)	(210 793)	(280 417)	(210 793)
Cash generated by operations after interest		**1 463 341**	**1 077 803**	**1 481 939**	**1 077 803**
Dividends		(142 500)	(150 000)	(142 500)	(150 000)
Tax paid		(131 164)	(113 870)	(131 164)	(114 124)
Proceeds on disposal of leased assets		104 134	265 552	104 134	265 552
Acquisition of leased assets	1	(254 077)	(622 069)	(254 077)	(622 069)
Net cash from operating activities		**1 039 734**	**457 416**	**1 058 332**	**457 162**
Cash flows from investing activities					
Dividends received		1 639	1 685	1 639	1 685
Acquisition of equipment		(24 846)	(78 236)	(23 785)	(78 236)
Acquisition of intangible assets		(48 929)	(57 117)	(47 351)	(57 117)
Net acquisition of investment securities		(123 452)	(83)	(123 452)	(83)
Increase in investment in subsidiaries	4	-	-	(37 691)	-
Net cash on acquisition of subsidiary		(17 409)	-	-	-
Net cash from investing activities		**(235 200)**	**(133 751)**	**(230 640)**	**(133 751)**
Cash flows from financing activities					
(Increase) / decrease in intergroup loans		(58 742)	448	(58 742)	702
Total cash movement for the year		**767 995**	**324 113**	**768 950**	**324 113**
Cash at the beginning of the year		2 846 484	2 522 371	2 846 484	2 522 371
Total cash at end of the year	**5**	**3 614 479**	**2 846 484**	**3 615 434**	**2 846 484**

SUMMARISED CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Total share capital	Fair value reserve	Share-based payment reserve	Total reserves	Retained income	Total equity
	R '000	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Group								
Balance at 1 July 2016	**2 070**	**525 709**	**527 779**	**1 107**	**14 436**	**15 543**	**1 799 244**	**2 342 566**
Profit for the year	-	-	-	-	-	-	335 956	335 956
Other comprehensive income	-	-	-	2 528	-	2 528	-	2 528
Total comprehensive income for the year	**-**	**-**	**-**	**2 528**	**-**	**2 528**	**335 956**	**338 484**
Share-based payment expense	-	-	-	-	10 229	10 229	-	10 229
Settlement of share-based payments	-	-	-	-	(18 972)	(18 972)	-	(18 972)
Deferred tax on share-based payments recognised directly in equity	-	-	-	-	6 705	6 705	-	6 705
Intergroup transfer of share-based payment reserve	-	-	-	-	54	54	-	54
Dividends	-	-	-	-	-	-	(150 000)	(150 000)
Tradeflow insurance transferred	-	-	-	-	-	-	(3 036)	(3 036)
Balance at 1 July 2017	**2 070**	**525 709**	**527 779**	**3 635**	**12 452**	**16 087**	**1 982 164**	**2 526 030**
Profit for the year	-	-	-	-	-	-	302 329	302 329
Other comprehensive income	-	-	-	(3 111)	-	(3 111)	-	(3 111)
Total comprehensive income for the year	**-**	**-**	**-**	**(3 111)**	**-**	**(3 111)**	**302 329**	**299 218**
Share-based payment expense	-	-	-	-	14 674	14 674	-	14 674
Settlement of share-based payments	-	-	-	-	(30 568)	(30 568)	-	(30 568)
Deferred tax on share-based payments recognised directly in equity	-	-	-	-	3 528	3 528	-	3 528
Dividends	-	-	-	-	-	-	(142 500)	(142 500)
Balance at 30 June 2018	**2 070**	**525 709**	**527 779**	**524**	**86**	**610**	**2 141 993**	**2 670 382**

SUMMARISED CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Share capital	Share premium	Total share capital	Fair value reserve	Share-based payment reserve	Total reserves	Retained income	Total equity
	R '000	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Company								
Balance at 1 July 2016	**2 070**	**525 709**	**527 779**	**1 107**	**14 436**	**15 543**	**1 790 851**	**2 334 173**
Profit for the year	-	-	-	-	-	-	335 954	335 954
Other comprehensive income	-	-	-	2 528	-	2 528	-	2 528
Total comprehensive income for the year	**-**	**-**	**-**	**2 528**	**-**	**2 528**	**335 954**	**338 482**
Share-based payment expense	-	-	-	-	10 229	10 229	-	10 229
Settlement of share-based payments	-	-	-	-	(18 972)	(18 972)	-	(18 972)
Deferred tax on share-based payments recognised directly in equity	-	-	-	-	6 705	6 705	-	6 705
Intergroup transfer of share-payment reserve	-	-	-	-	54	54	-	54
Dividends	-	-	-	-	-	-	(150 000)	(150 000)
Tradeflow insurance transferred	-	-	-	-	-	-	(3 036)	(3 036)
Balance at 1 July 2017	**2 070**	**525 709**	**527 779**	**3 635**	**12 452**	**16 087**	**1 973 769**	**2 517 635**
Profit for the year	-	-	-	-	-	-	309 205	309 205
Other comprehensive income	-	-	-	(3 111)	-	(3 111)	-	(3 111)
Total comprehensive income for the year	**-**	**-**	**-**	**(3 111)**	**-**	**(3 111)**	**309 205**	**306 094**
Share-based payment expense	-	-	-	-	14 674	14 674	-	14 674
Settlement of share-based payments	-	-	-	-	(30 568)	(30 568)	-	(30 568)
Deferred tax on share-based payments recognised directly in equity	-	-	-	-	3 528	3 528	-	3 528
Dividends	-	-	-	-	-	-	(142 500)	(142 500)
Balance at 30 June 2018	**2 070**	**525 709**	**527 779**	**524**	**86**	**610**	**2 140 474**	**2 668 863**

The door handle
is the handshake
of the building.

Juhani Pallasmaa

Whatever good things we build end up building us.

Jim Rohn

ACCOUNTING POLICIES

Presentation of Summarised Consolidated and Separate Financial Statements

The same accounting policies and methods of computation are followed in the Summarised Consolidated and Separate Financial Statements as the complete consolidated and separate set.

The Summarised Consolidated and Separate Financial Statements have been prepared in compliance with IAS 34: Interim Financial Reporting.

1. Leased assets

Operating leases relate to moveable assets rented to customers for a fixed term. The Bank retains all the risk and benefits of ownership of these leased assets. Rentals received under operating leases, are accounted for as income on a straight-line basis over the period of the lease.

	Group		Company	
	2018 R '000	**2017** R '000	**2018** R '000	**2017** R '000
Cost	2 270 692	2 109 824	2 270 692	2 109 824
Accumulated depreciation	(563 265)	(619 863)	(563 265)	(619 863)
Carrying value at the beginning of the year	**1 707 427**	**1 489 961**	**1 707 427**	**1 489 961**
Movement for the year				
Additions	254 077	613 270	254 077	613 270
Disposals	(92 010)	(208 328)	(92 010)	(208 328)
Depreciation	(170 242)	(196 275)	(170 242)	(196 275)
Capital work in progress	(12 124)	8 799	(12 124)	8 799
Carrying value at the end of the year	**1 687 128**	**1 707 427**	**1 687 128**	**1 707 427**
Cost	2 316 150	2 270 692	2 316 150	2 270 692
Accumulated depreciation	(629 022)	(563 265)	(629 022)	(563 265)
Carrying value at the end of the year	**1 687 128**	**1 707 427**	**1 687 128**	**1 707 427**

2. Loans and advances

2.1 Analysis of loans and advances

	Group		Company	
	2018 R '000	**2017** R '000	**2018** R '000	**2017** R '000
Loans and advances to customers				
Call and term loans	855 364	717 902	888 376	717 902
Mortgage loans	403 587	318 002	403 587	318 002
Finance leases and instalment finance	1 111 977	1 055 742	1 111 977	1 055 742
	2 370 928	**2 091 646**	**2 403 940**	**2 091 646**
Less: impairment provision	(8 276)	(11 763)	(8 276)	(11 763)
	2 362 652	2 079 883	2 395 664	2 079 883
Loans and advances to banks				
Finance leases	18 135	20 585	18 135	20 585
	2 380 787	**2 100 468**	**2 413 799**	**2 100 468**

2. Loans and advances (continued)

2.2 Movement in impairments

	Group		Company	
	2018 R '000	2017 R '000	2018 R '000	2017 R '000
Specific impairment				
Opening balance	(7 019)	(12 879)	(7 019)	(12 879)
Released to income statement	2 488	976	2 488	976
Net bad debts written off	-	4 884	-	4 884
	(4 531)	**(7 019)**	**(4 531)**	**(7 019)**
Portfolio impairment				
Opening balance	(4 744)	(5 380)	(4 744)	(5 380)
Released to income statement	999	636	999	636
	(3 745)	**(4 744)**	**(3 745)**	**(4 744)**
Carrying value at the end of the year				
Specific impairment	(4 531)	(7 019)	(4 531)	(7 019)
Portfolio impairment	(3 745)	(4 744)	(3 745)	(4 744)
	(8 276)	**(11 763)**	**(8 276)**	**(11 763)**
Net (charge against) / release to income				
Specific impairment	2 488	976	2 488	976
Portfolio impairment	999	636	999	636
Cardholder debit balances	-	(6)	-	(6)
Net bad debts recovered	-	479	-	479
	3 487	2 085	3 487	2 085
Impairment charge on negotiable securities	2 650	(7 045)	2 650	(7 045)
	6 137	**(4 960)**	**6 137**	**(4 960)**

2. Loans and advances (continued)

Maturity of finance leases

Group - 2018	Gross R '000	Unearned finance charges R '000	Net R '000
Due within one year	775 755	(74 664)	701 091
Between one and five years	487 875	(64 486)	423 389
More than five years	5 793	(161)	5 632
	1 269 423	**(139 311)**	**1 130 112**

Group - 2017	Gross R '000	Unearned finance charges R '000	Net R '000
Due within one year	628 318	(18 832)	609 486
Between one and five years	569 206	(102 365)	466 841
	1 197 524	**(121 197)**	**1 076 327**

Company - 2018	Gross R '000	Unearned finance charges R '000	Net R '000
Due within one year	775 755	(74 664)	701 091
Between one and five years	487 875	(64 486)	423 389
More than five years	5 793	(161)	5 632
	1 269 423	**(139 311)**	**1 130 112**

Company - 2017	Gross R '000	Unearned finance charges R '000	Net R '000
Due within one year	628 318	(18 832)	609 486
Between one and five years	569 206	(102 365)	466 841
	1 197 524	**(121 197)**	**1 076 327**

Under the terms of the lease agreements, no contingent rentals are payable.
These agreements relate to motor vehicles and equipment.

3. Negotiable securities

	Group		Company	
	2018 R '000	2017 R '000	2018 R '000	2017 R '000
Held to maturity investments carried at amortised cost				
Bills of exchange	402 009	266 439	402 009	266 439
Less: allowance for impairment	(10 287)	(18 155)	(10 287)	(18 155)
	391 722	**248 284**	**391 722**	**248 284**

The bills of exchange consist of customer deals financed by the Bank on behalf of Tradeflow (Pty) Ltd (Tradeflow). Tradeflow draws up the bills containing the invoice amount and all interest costs, fees and charges agreed with the customer, after which the Bank purchases the bill from Tradeflow and settles the supplier. The customer undertakes to pay the Bank the amount of the bill on the due date.

4. Acquisition of subsidiaries

The Bank acquired 100% of the share capital of Bidvest Merchant Services (Pty) Ltd (BMS), formally First Data Resources South Africa and indirectly Cash Axcess Corporation (Pty) Ltd (CAX). CAX is a wholly-owned subsidiary of BMS. BMS engages in payment, credit and debit card facilities and CAX is engaged in automated teller machine deployment and related activities. The acquisition has been funded with existing cash resources.

Goodwill arose on the acquisition as the anticipated value of future cash flows that were taken into account in determining the purchase consideration, exceeded the net assets acquired at fair value.

	Bidvest Merchant Services (Pty) Ltd R '000
Property, plant and equipment	104
Intangible assets	8 899
Deferred tax	(3 536)
Trade and other receivables	22 389
Cash and cash equivalents	20 282
Trade and other payables	(41 056)
Goodwill	30 609
Net amount paid	**37 691**

5. Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash in banks. The average interest rate is 5.03% (2017 3.84%).

	Group		Company	
	2018 R '000	2017 R '000	2018 R '000	2017 R '000
Cash on hand	215 865	183 013	215 865	183 013
Interbank investments:				
Current accounts	653 065	1 032 297	654 020	1 032 297
Money on call	2 473 815	1 461 625	2 473 815	1 461 625
South African Reserve Bank	94 582	46 726	94 582	46 726
Preference shares purchased three months prior to redemption	19 092	-	19 092	-
Restricted cash held at South African Reserve Bank	158 060	122 823	158 060	122 823
	3 614 479	**2 846 484**	**3 615 434**	**2 846 484**

6. Deposits

Deposits from customers				
Fixed and notice	2 553 381	1 922 931	2 560 881	1 922 931
Call	3 145 564	2 579 660	3 160 328	2 579 660
	5 698 945	**4 502 591**	**5 721 209**	**4 502 591**

The maturity analysis of deposits is based on the contractual period to maturity from the statement of financial position date. The average interest rate on deposits is 5.4% (2017: 5.5%).

7. Trade and other payables

	Group		Company	
	2018 R '000	2017 R '000	2018 R '000	2017 R '000
Provisions	131 124	87 814	131 124	87 814
Trade payables	346 967	312 964	290 388	312 964
Outstanding bank credits	9 345	7 052	9 345	7 052
Straight-lining of leases	6 968	8 262	6 946	8 262
	494 404	**416 092**	**437 803**	**416 092**

Included in trade and other payables are the following provisions in both the Group and Company numbers:

	Profit share provision R '000	Maintenance obligation provision R '000	Total R '000
Balance at 1 July 2017	69 135	18 679	87 814
Provision raised	46 201	5 561	51 762
Provision utilised	(540)	(6 933)	(7 473)
Reversal	(983)	4	(979)
Balance at 30 June 2018	**113 813**	**17 311**	**131 124**

The profit share provision represents a present obligation as a result of a profit-sharing arrangement arising within certain leasing contracts. The Bank and lessee will share a percentage:

- of the difference between the actual realised sale value of the leased asset and the estimated residual value used in the determination of the lease rental; and
- the maintenance net profit or loss earned over the term of the contract.

A key assumption in the provision calculation is the estimated residual values of the leased assets.

The maintenance obligation provision represents a present obligation for expected economic outflows arising from the full maintenance leasing contracts. A key assumption in the provision calculation is the maintenance burn rate defined as maintenance expense as a percentage of maintenance income.

8. Classification of assets and liabilities

2018 Group	Held for trading	Loans at amortised cost	Available-for-sale	Other amortised cost	Non-financial assets / liabilities	Total
Assets	R'000	R'000	R'000	R'000	R'000	R'000
Equipment	-	-	-	-	80 720	80 720
Intangible assets	-	-	-	-	218 526	218 526
Leased assets	-	-	-	-	1 687 128	1 687 128
Loans and advances	-	2 380 787	-	-	-	2 380 787
Negotiable securities	-	391 722	-	-	-	391 722
Derivative financial assets	14 755	-	-	-	-	14 755
Investment securities	-	-	376 702	-	-	376 702
Intergroup loans	-	58 796	-	-	-	58 796
Current tax receivable	-	-	-	-	6 545	6 545
Other assets	-	367 222	-	-	21 983	389 205
Cash and cash equivalents	-	3 614 479	-	-	-	3 614 479
	14 755	**6 813 006**	**376 702**	**-**	**2 014 902**	**9 219 365**
Liabilities						
Intergroup loans	-	-	-	150 089	-	150 089
Derivative financial liabilities	45 513	-	-	-	-	45 513
Deposits	-	-	-	5 698 945	-	5 698 945
Other liabilities	-	-	-	494 404	-	494 404
Deferred tax	-	-	-	-	159 513	159 513
Defined benefit liability	-	-	-	-	519	519
	45 513	**-**	**-**	**6 343 438**	**160 032**	**6 548 983**

8. Classification of assets and liabilities (continued)

2017 Group	Held for trading	Loans at amortised cost	Available-for-sale	Other amortised cost	Non-financial assets / liabilities	Total
Assets	R'000	R'000	R'000	R'000	R'000	R'000
Equipment	-	-	-	-	98 375	98 375
Intangible assets	-	-	-	-	152 424	152 424
Leased assets	-	-	-	-	1 707 427	1 707 427
Loans and advances	-	2 100 468	-	-	-	2 100 468
Negotiable securities	-	248 284	-	-	-	248 284
Derivative financial assets	26 181	-	-	-	-	26 181
Investment securities	-	-	254 868	-	-	254 868
Other assets	-	356 068	-	-	21 386	377 454
Cash and cash equivalents	-	2 846 484	-	-	-	2 846 484
	26 181	**5 551 304**	**254 868**	**-**	**1 979 612**	**7 811 965**
Liabilities						
Intergroup loans	-	-	-	150 035	-	150 035
Derivative financial liabilities	49 585	-	-	-	-	49 585
Deposits	-	-	-	4 502 591	-	4 502 591
Other liabilities	-	-	-	416 092	-	416 092
Deferred tax	-	-	-	-	161 727	161 727
Current tax	-	-	-	-	5 454	5 454
Defined benefit liability	-	-	-	-	451	451
	49 585	**-**	**-**	**5 068 718**	**167 632**	**5 285 935**

8. Classification of assets and liabilities (continued)

2018 Company	Held for trading	Loans at amortised cost	Available-for-sale	Other amortised cost	Non-financial assets / liabilities	Total
Assets	R'000	R'000	R'000	R'000	R'000	R'000
Equipment	-	-	-	-	80 720	80 720
Intangible assets	-	-	-	-	179 521	179 521
Leased assets	-	-	-	-	1 687 128	1 687 128
Investment in subsidiaries	-	-	-	-	94 078	94 078
Loans and advances	-	2 413 799	-	-	-	2 413 799
Negotiable securities	-	391 722	-	-	-	391 722
Derivative financial assets	14 755	-	-	-	-	14 755
Investment securities	-	-	376 702	-	-	376 702
Intergroup loans	-	58 968	-	-	-	58 968
Current tax receivable	-	-	-	-	6 239	6 239
Other assets	-	304 221	-	-	21 983	326 204
Cash and cash equivalents	-	3 615 434	-	-	-	3 615 434
	14 755	**6 784 144**	**376 702**	**-**	**2 069 023**	**9 244 624**
Liabilities						
Intergroup loans	-	-	-	214 740	-	214 740
Derivative financial liabilities	45 513	-	-	-	-	45 513
Deposits	-	-	-	5 721 209	-	5 721 209
Other liabilities	-	-	-	437 803	-	437 803
Deferred tax	-	-	-	-	155 977	155 977
Defined benefit liability	-	-	-	-	519	519
	45 513	**-**	**-**	**6 373 752**	**156 496**	**6 575 761**

8. Classification of assets and liabilities (continued)

2017 Company	Held for trading	Loans at amortised cost	Available-for-sale	Other amortised cost	Non-financial assets / liabilities	Total
Assets	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Equipment	-	-	-	-	98 375	98 375
Intangible assets	-	-	-	-	152 424	152 424
Leased assets	-	-	-	-	1 707 427	1 707 427
Investment in subsidiaries	-	-	-	-	56 387	56 387
Loans and advances	-	2 100 468	-	-	-	2 100 468
Negotiable securities	-	248 284	-	-	-	248 284
Derivative financial assets	26 181	-	-	-	-	26 181
Investment securities	-	-	254 868	-	-	254 868
Intergroup loans	-	-	-	172	-	172
Other assets	-	356 068	-	-	21 386	377 454
Cash and cash equivalents	-	2 846 484	-	-	-	2 846 484
	26 181	**5 551 304**	**254 868**	**172**	**2 035 999**	**7 868 524**
Liabilities						
Intergroup loans	-	-	-	214 686	-	214 686
Derivative financial liabilities	49 585	-	-	-	-	49 585
Deposits	-	-	-	4 502 591	-	4 502 591
Other liabilities	-	-	-	416 092	-	416 092
Deferred tax	-	-	-	-	161 727	161 727
Current tax	-	-	-	-	5 757	5 757
Defined benefit liability	-	-	-	-	451	451
	49 585	**-**	**-**	**5 133 369**	**167 935**	**5 350 889**

8.1 Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Bank adopted the amendment to IFRS 7: Financial instruments: Disclosures and IFRS 13: Fair value measurement regarding the fair value measurement of financial instruments in the statement of financial position on 1 July 2009 and July 2013 respectively. These statements require disclosure of fair value measurements by using the following fair value measurement hierarchy:

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

8. Classification of assets and liabilities (continued)

8.2 The following table presents the Group and Company's assets and liabilities that are measured at fair value at 30 June

2018 Assets	Level 1 R '000	Level 2 R '000	Level 3 R '000	Level 4 R '000
Investment securities	376 686	-	16	376 702
Derivative financial assets	-	14 755	-	14 755
	376 686	**14 755**	**16**	**391 457**
Liabilities				
Derivative financial liabilities	-	45 513	-	45 513

2017 Assets	Level 1 R '000	Level 2 R '000	Level 3 R '000	Level 4 R '000
Investment securities	245 852	-	16	254 868
Derivative financial assets	-	26 181	-	26 181
	245 852	**26 181**	**16**	**281 049**
Liabilities				
Derivative financial liabilities	-	49 585	-	49 585

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

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

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

8. Classification of assets and liabilities (continued)

8.3 Fair value of financial instruments

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

2018 **Assets**	**Carrying value** R '000	**Fair value** R '000
Total advances at amortised cost	2 380 787	2 327 216

2017 **Assets**	**Carrying value** R '000	**Fair value** R '000
Total advances at amortised cost	2 100 468	2 099 528

9. Events after the reporting period

A dividend of R80.5 million was declared on 24 August 2018, and paid on 18 September 2018.

10. Key assumptions

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

Investment securities

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

Credit impairment losses on loans and advances

Performing loans

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

Non-performing loans

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

The Bank continues to experience a low credit loss ratio on its loan portfolio as a result of the high credit quality and the high security values held on the loan book.

Income taxes

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

Impairment of non-financial assets

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

Residual value of leased assets

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

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

Profit share and maintenance obligation provision

The estimated residual values and maintenance burn rates are reviewed at each reporting date. The estimated residual values are based on the most recent resale profit and losses on leased assets. The maintenance burn rates are based on actual maintenance income and expenditure.

Leased assets – maintenance obligation

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

11. New standards and interpretations

The Bank is in the process of determining the impact of these new standards and interpretations:

11.1 Standards and interpretations not yet effective

The Bank has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Bank's accounting periods as stated below:

IFRS 9: Financial Instruments

IFRS 9: Financial Instruments (IFRS 9) issued on 24 July 2014 is the IASB's replacement of IAS 39: Financial Instruments: Recognition and Measurement (IAS 39). The standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The version of IFRS 9 issued in 2014 supersedes all previous versions and is effective for financial reporting periods beginning on or after 1 January 2018 with early adoption permitted. The Bank has considered the impact of the change in the accounting standards from IAS 39 to IFRS 9, which became effective for The Bidvest Group on 1 July 2018.

Statement of financial position credit impairment allowance

Total statement of financial position credit impairment provisions did not materially increase from 30 June 2018 to 1 July 2018.

Changes in classification and measurement of certain financial assets

Changes in classification and measurement of certain of the Bank's other financial instruments had no material impact on equity on 1 July 2018.

By adopting IFRS 9, and hence applying the newly adopted accounting policies and expected credit loss (ECL) measurement methodologies from 1 July 2018 onwards, will have an immaterial impact on the Bank's 1 July 2018 equity.

IFRS 16: Leases

IFRS 16: Leases (IFRS 16) specifies how entities will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to financial reporting periods beginning on or after 1 January 2019.

IFRS 15 Revenue from Contracts with Customers

IFRS 15: Revenue from contracts with customers (IFRS 15) supersedes IAS 11: Construction contracts; IAS 18: Revenue; IFRIC 13: Customer Loyalty Programmes; IFRIC 15: Agreements for the construction of Real Estate; IFRIC 18: Transfers of Assets from Customers and SIC 31: Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for financial reporting periods beginning on or after 1 January 2018.

The Bank expects to adopt the standard for the first time in the 2019 consolidated and separate annual financial statements.

The implementation of IFRS 15 is not expected to have a material impact on the Bank's financial results.

Everyone talks about building a relationship with your customer. I think you build one with your employees first.

Angela Ahrendts

BIDVEST BANK LIMITED
(Registration number 2000/006478/06)
Summarised Consolidated and Separate Annual Financial Statements for the year ended 30 June 2018.

The preparation of these Summarised Consolidated and Separate Annual Financial Statements was supervised by:

G Oxford CA(SA)
Head: Financial Control

These Summarised Consolidated and Separate Annual Financial Statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

These financial statements represent the summary of the Consolidated and Separate Annual Financial Statements for the year ended 30 June 2018.

A copy of the full set of Consolidated and Separate Financial Statements can be obtained from the Company Secretary Di Crawley, by sending a request to **di.crawley@bidvestbank.co.za**