Bidvest Bank Limited

Audited Integrated Annual Report
for the year ended June 30 2014

(preparation supervised
by G Oxford CA(SA)
head: Financial Control)

Bidvest Bank Limited (Registration No 2000/006478/06) is a licensed financial services and registered credit provider, NCRCP17.

Contents

Audited Integrated Annual Report for the year ended June 30 2014

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Six-year review

Consolidated statement of financial performance

for the year ended June 30

	2014 R'000	Restated 2013 R'000	Restated 2012 R'000	Restated 2011 R'000	2010 R'000	2009 R'000
Net interest income	**171 066**	158 544	139 690	120 344	61 534	58 305
Interest income	**188 806**	154 528	100 514	93 523	97 751	105 109
Imputed interest from rental income[#]	**61 974**	75 733	99 014	101 222	9 168	2 774
Interest expense	**(79 714)**	(71 717)	(59 838)	(74 401)	(45 385)	(49 578)
Net fee and commission income	**173 708**	159 620	153 542	144 941	153 815	147 621
Fee and commission income	**248 489**	228 517	216 435	199 582	200 492	190 606
Fee and commission expense*	**(74 781)**	(68 897)	(62 893)	(54 641)	(46 677)	(42 985)
Net income from leasing activities	**250 265**	293 744	398 392	317 794	16 630	959
Leasing income	**312 239**	369 477	497 406	419 016	25 798	3 733
Imputed interest reflected under net interest income[#]	**(61 974)**	(75 733)	(99 014)	(101 222)	(9 168)	(2 774)
Net trading income	**263 557**	238 758	237 819	262 172	245 822	251 084
Other income	**4 007**	10 136	902	2 819	7 023	3 477
Operating income	**862 603**	860 802	930 345	848 070	484 824	461 446
Net credit impairment charges	**(4 111)**	(6 737)	(1 456)	(2 239)	(1 402)	(2 276)
Operating income after credit impairment charges	**858 492**	854 065	928 889	845 831	483 422	459 170
Operating expenditure	**(493 619)**	(475 633)	(483 412)	(445 758)	(326 349)	(271 657)
Employment costs	**(271 500)**	(244 935)	(246 637)	(210 794)	(134 427)	(121 525)
Operating leases	**(73 818)**	(70 916)	(67 186)	(66 915)	(46 998)	(38 534)
Risk control	**(23 656)**	(23 751)	(24 552)	(27 041)	(31 976)	(26 988)
Information technology costs	**(21 310)**	(20 582)	(21 464)	(23 746)	(20 737)	(16 234)
Depreciation and amortisation	**(30 000)**	(29 592)	(29 925)	(31 309)	(22 422)	(14 257)
Other operating expenditure*	**(73 335)**	(85 857)	(93 648)	(85 953)	(69 789)	(54 119)
Operating income before indirect taxation	**364 873**	378 432	445 477	400 073	157 073	187 513
Indirect taxation	**(18 324)**	(15 570)	(12 558)	(11 247)	(10 216)	(4 748)
Profit before direct taxation	**346 549**	362 862	432 919	388 826	146 857	182 765
Direct taxation	**(95 751)**	(102 483)	(115 881)	(105 309)	(38 536)	(50 134)
Profit for the year	**250 798**	260 379	317 038	283 517	108 321	132 631

[#] *2011 – 2013 restated to exclude interest on operating rentals classified as loans and advances.*

* *Card expenses were reallocated from other operating expenditure to fee and commission expenses as they are directly incurred in relation to revenue earned.*

Six-year review *continued*

Consolidated statement of financial position

at June 30

	2014 R'000	2013 R'000	2012 R'000	2011 R'000	2010 R'000	2009 R'000
Assets						
Cash and cash equivalents	**2 128 203**	1 825 049	1 385 083	927 336	975 582	752 374
Derivative financial assets	**8 796**	21 563	27 550	17 831	28 123	49 356
Loans and advances	**1 163 780**	1 212 147	1 002 466	680 246	548 169	582 145
Leased assets	**995 188**	1 223 601	1 399 660	1 702 077	1 640 712	16 480
Investment securities	**95 286**	98 522	101 599	82 714	59 028	62 808
Other assets	**112 559**	98 767	122 215	95 373	96 288	41 620
Equipment	**62 713**	65 151	70 817	81 582	66 276	41 438
Intangible assets	**46 977**	36 910	34 969	31 535	30 046	26 436
Deferred taxation	**–**	–	–	–	8 030	1 882
Current taxation	**29 099**	33 108	9 321	–	2 980	–
Total assets	**4 642 601**	4 614 818	4 153 680	3 618 694	3 455 234	1 574 539
Equity and liabilities						
Equity	**1 982 645**	1 888 862	1 636 405	1 235 251	952 858	604 983
Share capital	**2 070**	2 070	2 070	1 980	1 980	1 800
Share premium	**525 709**	525 709	525 709	435 799	435 799	165 979
Reserves	**1 454 866**	1 361 083	1 108 626	797 472	515 079	437 204
Liabilities	**2 659 956**	2 725 956	2 517 275	2 383 443	2 502 376	969 556
Intergroup loans	**122 504**	292 706	419 612	619 548	863 036	–
Derivative financial liabilities	**8 361**	32 062	18 560	13 376	17 872	41 492
Deposits	**2 141 298**	2 123 953	1 780 330	1 360 381	1 178 110	832 386
Other liabilities	**190 429**	149 032	186 440	235 105	242 708	95 110
Deferred taxation	**196 882**	127 762	112 133	112 461	103 150	–
Current taxation	**–**	–	–	42 372	97 062	368
Defined benefit liability	**482**	441	200	200	438	200
Total equity and liabilities	**4 642 601**	4 614 818	4 153 680	3 618 694	3 455 234	1 574 539

Six-year review *continued*

Statistics, returns and capital adequacy

	2014	Restated 2013	Restated 2012	Restated 2011	2010	2009
Statistical review						
Statement of financial performance						
Net interest income to assets (%)	**3,7**	3,4	3,4	3,3	2,8	3,7
Non-interest income to assets (%)	**14,9**	15,2	19,0	20,1	12,3	25,6
Operating expenses to assets (%)	**10,6**	10,3	11,6	12,3	9,4	17,3
Interest income to interest earning assets (%)	**5,7**	5,3	5,1	5,7	3,3	7,6
Interest expense to funding liabilities (%)	**3,5**	3,0	2,7	4,1	3,2	7,6
Cost to income (%)	**59,6**	57,5	53,4	54,0	69,6	60,2
Non-interest income to total income (%)	**80,2**	81,6	85,0	85,8	87,3	87,4
Credit loss ratio (%)*	**0,4**	0,6	0,1	0,3	0,3	0,4
Effective tax excluding indirect tax (%)	**27,6**	28,2	26,8	27,1	26,2	27,4
Effective tax including indirect tax (%)	**31,3**	31,3	28,8	29,1	31,0	29,3
Statement of financial position						
Return on assets (%)	**5,4**	5,6	7,6	5,9	3,6	8,4
Return on equity (%)	**12,6**	13,8	19,4	23,0	15,9	21,9
Loans and leased assets to deposits (%)	**100,8**	114,7	134,9	120,3	109,7	71,9
Regulatory capital to risk-weighted assets (%)	**19,4**	15,9	17,1	16,2	21,9	12,8
Financial leverage (times)	**2,3**	2,4	2,5	2,9	3,6	2,6
Net stable funding ratio (%)#	**94,0**	79,0	N/A	N/A	N/A	N/A
Liquidity coverage ratio (%)#	**117,0**	123,0	N/A	N/A	N/A	N/A
Statistical information						
Number of employees	**1 022**	1 049	1 113	1 058	997	699
Number of branches	**95**	92	94	90	88	79
Income per employee (R'000)	**1 061**	855	836	814	713	660
Expense per employee (R'000)	**627**	488	434	434	452	389
Profit before taxation per employee (R'000)	**428**	361	400	378	256	268
Market indicators						
Exchange rates at June 30						
USD	**10,63**	10,00	8,19	6,79	7,67	7,71
GBP	**18,18**	15,23	12,86	10,87	11,48	12,75
Euro	**14,55**	13,06	10,39	9,82	9,39	10,86
Average exchange rates						
USD	**10,38**	8,86	7,74	7,01	7,59	9,04
GBP	**16,90**	13,88	12,27	11,14	12,03	14,42
Euro	**14,09**	11,47	10,38	9,55	10,57	12,32
Average prime overdraft rate (%)	**8,70**	8,52	9,00	9,30	10,38	14,17

* *Reflected as a percentage of loans and advances only.*

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

Sustainability report

Material issues

- Ensuring compliance with regulations and responsible banking practices in the Bank
- Focus on the information technology strategies of the Bank to harness competitive advancements in technology
- Diversification of revenue streams and broadening of the customer base
- Mobilising liquidity and capital to enhance return on assets
- Continued focus to reduce crime losses
- Attracting and retaining senior historically disadvantaged individuals
- Improved efficiency, productivity and the elimination of expense waste
- Succession planning
- Challenging trading conditions and the impact of the worldwide recession on the South African economy

Statistical information

	Year ended June 2014	Year ended June 2013
Operating income (R'000)	**862 603**	860 802
Profit before direct taxation (R'000)	**346 549**	362 862
BEE procurement (R'000)	**861 532**	893 003
Training spend (R'000)	**13 720**	18 348
Training spend per employee (Rand)	**13 464**	17 491
Number of employees trained	**1 022**	1 049

Sustainability report *continued*

1. Corporate governance

1.1 Introduction

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

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

1.2 Corporate governance, King III, values and ethics

Corporate governance

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

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

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

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, and the environment, labour and consumer relations are the responsibility of the Corporate Governance Committee, which functions as the Bank's Social and Ethics committee.

King III

The guidelines set out in King III, embodying international best practice, are endorsed by the Board.

Values and ethics

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

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

2. The Board of Directors

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

2.1 Board composition

At June 30 2014, the Board was composed of two executive and six non-executive directors, the majority of who are independent non-executives. The chairman is an independent non-executive, and the roles of the chairman and chief executive are separate. Board composition aims to ensure unfettered decision-making without domination by any group or individual. The varied experience and expertise of the directors contributes to the Board's effectiveness and its achievement of its responsibilities. The Board met seven times during the period.

2.2 Board committees

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

- Audit;
- Corporate Governance and Social and Ethics;
- Risk and Capital Management; and
- Remuneration.

Sustainability report *continued*

2. The Board of Directors continued

2.3 Meeting attendance

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

	Committee attendance								
	Board	Audit	Risk and Capital Management	Corporate Governance (including Remuneration and Social and Ethics)	Quarterly credit	Operational credit	Quarterly ALCO	Operational ALCO	SARB trilateral and directors' meeting
Number of meetings	7	4	5	2	4	9	4	10	2
PC Baloyi[@*]	7	4							1
EK Diack[@*]	7	4 (Chairman)	5 (Chairman)						2
B Joffe[*]	5								
MJ Liebenberg[#]	7	4[i]	5[i]	1[i]	4	8	4	9	2
RD Mokate[@*] (appointed July 2013)	6			1					1
P Nyman[@*]	7	4	5	2	4 (Chairman)	2	4 (Chairman)	1	2
NG Payne[^*]	7 (Chairman)	4[i]	4	2 (Chairman)					2
JJ van Niekerk[#] (appointed October 2013)	7	4[i]	5[i]	2[i]	4	5	4	4	2

[*] Non-executive director   [@] Independent   [#] Executive director   [i] Attendance by invitation   [^] A separate Remuneration Committee was established in May 2014

2.4 Bidvest Bank committee composition and terms of reference

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

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

- The **Credit Committee** is chaired by a non-executive director, Peter Nyman, and is composed of the executive directors and the heads: transactional banking and credit. Credit Committee meetings are held quarterly. The Committee's role is the effective management of credit risk within the mandate set out in the credit risk management policy. In addition to quarterly Credit Committee meetings, weekly and monthly meetings are held and focus on credit approvals and other operational credit matters. Such meetings are chaired by an executive director.

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

2. The Board of Directors continued

2.4 Bidvest Bank committee composition and terms of reference continued

The Committee has one sub-committee:

- The **Asset and Liability Committee (ALCO)** is chaired by a non-executive director, Peter Nyman, and is composed of the executive directors, and the heads: Transactional Banking, Risk and the Chief Dealer. The Committee's function is the optimum management of the Bank's assets, liabilities and commitments in accordance with Board mandates and limits: this includes liquidity and cash flow management, and maintaining a strong and sound balance sheet. Quarterly meetings have a strong focus on strategic matters and are chaired by a non-executive director. Monthly meetings, with a more specific focus on operational asset and liability management matters, are chaired by an executive director.

The **Corporate Governance and Social and Ethics Committee** is composed of three non-executive directors, Messrs Nyman and Payne, and Dr Mokate, and chaired by the Board Chairman. The Committee's purpose is to assist the Board to maintain and enhance the process of corporate governance in the Bank, including the delegation of authority to committees and senior management. The Committee considers for implementation in the Bank appropriate Bidvest Group corporate governance policies and processes. The Committee also undertakes the functions of the Nominations Committees, including the appointment, induction and training of directors, and succession planning of the Board and senior management. The nominations policy guides the Committee in its identification and nomination of candidates to the Board and to senior management positions. In addition, the Committee undertakes the responsibilities of a Social and Ethics Committee, as prescribed by the Companies Act, 2008.

The **Remuneration Committee** is composed of three non-executive directors, Messrs Payne and Nyman, and Dr Mokate, who is the chairman. The Committee oversees the development of remuneration guidelines for executives and senior management.

The **Executive Committee** is chaired by the Managing Director and is composed of the Financial Director, and the heads of the Bank's major divisions, namely Fleet and Asset Finance, Transactional Banking, and Products, and the heads of Information Technology, Human Capital and Marketing. The Committee meets monthly, and its focus is strategic.

The **Management Committee** meets quarterly and is composed of the heads of business units and support areas. Its focus is operational.

In addition to the aforementioned committees, Internal Audit, the Risk and Compliance functions and the Forensic Investigations and Security Department address corporate governance in the Bank.

2.5 Board appointments and succession planning

Mr AC Salomon retired as Managing Director on September 30 2013, and from the Board on December 31 2013, the Bank acknowledges his contribution to the Bank over seven years.

Mr JJ van Niekerk was appointed Managing Director with effect from October 1 2013.

2.6 Director induction, training and development programmes

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

2.7 Directors' independence and performance

The King III definition of director independence is adhered to.

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

The directors are aware of the standard of directors' conduct required in terms of the Companies Act 2008 and the Banks Act.

2. The Board of Directors continued

2.7 Directors' independence and performance continued

Interests of directors and officers

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

2.8 Related parties

The Bank is conscious of the importance of identifying, managing and disclosing dealings with related parties, and of the need for transparency. The Bank's 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.

3. Risk management

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board sub-committees are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All Board sub-committees report regularly to the Board on their activities.

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

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

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

4. Compliance

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

Processes supporting Generally Accepted Compliance Practice (GACP) are mature and risk management methodology is used to prioritise the meeting of high-risk regulatory requirements.

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

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

Other compliance initiatives include:

- A new product approval process to encourage appropriate regulatory risk assessments at the earliest stage of a new product proposal;
- Treating customers fairly (TCF) programme which encourages the consideration, by management and all staff, of customer needs, expectations and experience; and
- New regulatory risk assessment process to ensure that all new legislation and changes to existing legislation are appropriately incorporated into the regulatory risk framework of the Bank.

4.1 Regulatory compliance

The Bank is governed by the Banks Act 1990 and the Regulations relating to banks, which are based on the requirements of the Basel III framework. Within this regulatory environment, the Bank is required to hold adequate capital against its assets to safeguard its solvency and overall economic stability. The Bank maintains a strong relationship with the Bank Supervision Department of the South African Reserve Bank, and communication and transparency are regarded as key factors in this relationship.

4. Compliance continued

4.1 Regulatory compliance continued

The objectives of the main regulators, being the Financial Services Board (FSB) and the South African Reserve Bank (SARB), are considered in the preparation of policies, operating procedures and in system development. These objectives are:

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

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

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

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

4.2 Compliance governance

Management is responsible for ensuring compliance by all employees. A Compliance Manual describing regulatory requirements, together with internal policies, procedures and rules, is available on the Bank's intranet, and encourages adherence by staff. All staff members are required to acknowledge and sign the Bank's Code of Ethics on an annual basis. Online awareness training modules are prescribed for all staff, and classroom training is compulsory for legislation which has a significant impact on specific areas of the Bank.

4.3 Key compliance focus areas

All departmental regulatory risk profiles are amalgamated into a bank-wide Regulatory Risk Profile. This indicates the following key areas of focus for compliance:

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

4.4 Regulatory developments

Bidvest Bank has been involved in the initiatives to meet South Africa's Foreign Account Tax Compliance Act (FATCA) obligations and will be ready for the testing phase by December 2014. Reporting will commence in 2015.

The Protection of Personal Information Act, 4 of 2013 was introduced to promote the protection of personal information processed by public and private institutions. Bidvest Bank is currently in the process of introducing measures to meet these obligations by the required effective date.

5. Forensic Investigations and Security Department

5.1 Security

The department is responsible for the prevention and investigation of all unlawful activity against the Bank, either by third parties, or Bank employees, and this includes any money laundering activity. The head of the department is also the Bank's money laundering control officer. The department conducted 96 surprise cash counts during the year, detecting R1 162 in differences in R84 million counted. During the year, 18 branch inspections were conducted to assess branch physical security, and adherence to security operating procedures. A total of 916 active investigations were conducted by FISD and 783 asylum seeker permits confirmed with Home Affairs. Security visits for new or renovated branches are conducted to ensure that security features are working correctly. Security programmes are continuously updated and enhanced to suit the Bank's requirements.

5. Forensic Investigations and Security Department continued

5.1 Security continued

A 24/7 transactional monitoring division monitors card fraud and transactions via exception rules, and is composed of six employees. On average, the department handles 117 100 exception reports monthly, which resulted in 117 fraud cases being identified, and frauds totalling R55 406 were prevented. The division monitored 7 744 incoming ACB transactions, and was able to prevent losses of R1,1 million to third parties, and provided 2 322 authorisations for transactions exceeding the limits of authority.

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

5.2 Anti-money laundering

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

Branch visits are conducted to ensure that employees comply with the Financial Intelligence Centre Act and other regulatory provisions. Bank systems comply with cash threshold reporting (CTR) and suspicious transaction reporting (STR) obligations for each business unit. During the year, the Bank submitted 120 281 STR reports to the Financial Intelligence Centre (FIC) with a value of R3,2 million, and responded to 693 section 27 requests from the FIC. The Bank has identified 196 PEPs.

Ongoing employee training and workshops on the requirements of applicable legislation are conducted, and the department, compliance and internal audit conduct branch inspections to assess the level of compliance. Employees are trained in AML typologies, and enhanced due diligence exercises on the Bank's customer base. The Bank's Executive Committee and Management Committee were trained. The Bank has improved its branch registration process to ensure the correct reporting of CTRs to the FIC.

6. Going concern

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

7. Information technology

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

8. Employee relations

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

8.1 Remuneration

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

8. Employee relations continued

8.2 Staff development and retention

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

The Bank conducts Executive Development Programmes and 27 employees successfully completed the latest programme in June 2013, which comprised lectures, business simulations and practical exercises. All 27 graduates were appointed into more senior management roles with effect from July 1 2013, and all participating employees have committed to ongoing employment with the Bank as a return on the training investment by the Bank.

8.3 Employee wellbeing

The Bank provides a 24-hour confidential support service through Independent Counselling and Advisory Services Organisation (ICAS) 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.

8.4 Talent management

The Bank is committed to employee development and retention. At the end of June 2014, the Bank had 1 022 employees, and its employee turnover rate (resignations, retrenchments, dismissals and death) was 25,07%. The resignation rate was 12,54% (2013: 17,89%).

8.5 Health and safety

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

8.6 Illness and HIV/Aids

During the year, two Wellness Days were held nationally, at which various health assessments were conducted. Employee response was good in all regions. Altogether 252 employees completed VCT testing during the year, comprising 25% of the staff complement, and of those tested, four employees tested positive for HIV, some of which were newly diagnosed. Affected employees are eligible for assistance from the Bank's employee support programme, ICAS.

8.7 Environment

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

9. Transformation

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

9.1 Enterprise development

The Bank spent R36 million (2013: R15 million) on enterprise development during the year.

9.2 Preferential procurement

The Bank's Broad-Based Black Economic Empowerment spend amounted to R862 million (2013: R893 million).

9.3 Skills development

The Bank has been accredited as a service provider for assessment and delivery by the Bank Seta for the National Certificate: Banking (NQF Level 5). There are currently 13 employees from the Western Cape and seven from KwaZulu-Natal enrolled on the course. The Bank submitted its skills plan and workplace skills report to the Bank Seta during the prior year, and R350 000 (2013: R1,2 million) was received from the Bank Seta for the year under review.

Sustainability report *continued*

9. Transformation continued

9.4 Learnerships

A total of 49 (2013: 135) learners from previously disadvantaged communities participated in the Bank's learnership programme during the year. The Banking Sector Education and Training Authority (Bank Seta) subsidised the Bank with R350 000 for the implementation of the disability learnership programme. Total spend on learnerships was R1,5 million (2013: R3,5 million).

9.5 Bursaries

A total of 80 (2013: 77) bursaries totalling R894 000 (2013: R703 000) were granted to permanent employees.

9.6 Employment equity

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

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

Demographic breakdown of staff complement:

Black males	208	20,4%
Black females	439	43,1%
White males	161	15,8%
White females	211	20,7%
Total	1 019	100,0%

9.7 Social economic development

The Bank acknowledges its place in the community and every year the Bank donates funds to worthy causes. The Bank spent R4,4 million (2013: R4,8 million) in the current year on social economic development. In addition, employees perform charity work in their own time.

10. Direct exchanges with government

	Year ended June 2014 R'000	Year ended June 2013 R'000
Employees' tax	**45 455**	38 475
Value added tax	**90 788**	97 607
Rates and taxes	**2 717**	1 749
Skills development levies	**2 437**	2 352
Unemployment insurance fund	**2 658**	2 198
Workmen's compensation	**156**	127
Income taxation received	**(63 526)**	–
Income taxation paid	**77 821**	110 641
	158 506	253 149

11. Moody's Investors Service

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

12. Conclusion

The directors are committed to the promotion of sound risk management in the conduct of the Bank's activities. The ultimate responsibility for the management of risk lies with the Board, which is assisted by the Risk and Capital Management Committee in the identification of risks inherent in the business and the monitoring of controls to manage those risks. Day-to-day risk management is the responsibility of line managers, with oversight, monitoring and assessment of the effectiveness of controls and mitigations provided by the risk management department, compliance, and the following structures:

- Risk and Capital Management Committee;
- Asset and Liability Committee;
- Credit Committee;
- Operational Risk Committee; and
- Exco Risk Committee

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

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the Bank financial statements, comprising the directors' report, consolidated statement of financial position at June 30 2014, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these Bank financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

Approval of the financial statements

The Bank financial statements were approved by the Board of Directors on September 19 2014 and signed on its behalf by:

NG Payne	JJ van Niekerk
Chairman	*Managing Director*

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

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

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

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

EK Diack
Chairman

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF BIDVEST BANK LIMITED

We have audited the consolidated financial statements of Bidvest Bank Limited set out on pages 21 to 72, which comprise the consolidated statement of financial position as at 30 June 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bidvest Bank Limited as at 30 June 2014, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated financial statements for the year ended 30 June 2014, we have read the Directors' Report, Report of the Audit Committee and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche
Deloitte & Touche
Registered Auditors

Per: Jan van Staden
Partner
19 September 2014

Directors' report

General information

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

Nature of business

The Bank is a registered commercial bank.

Financial results

The financial results are set out in the financial statements and accompanying notes for the year ended June 30 2014.

Share capital

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

Interest of directors and officers

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

Directorate

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

Executive directors

Jacob Jozua van Niekerk
MBA (UCT)

Managing Director appointed October 1 2013

Japie has had wide-ranging experience in various industries, including paper and print, property, consumer products, logistics and five years in banking, during which he was CEO of Old Mutual Bank. He led the restructuring and growth of that bank, improving risk management, customer service and the product range.

Marthinus Johannes Liebenberg
CA(SA)

Financial Director appointed January 1 2013

Thinus is a chartered accountant and he has 24 years' experience in banking, of which 20 years have been in Finance. He has held various financial manager and general manager finance positions in the retail, business banking and corporate segments. He was formerly a divisional CFO at Absa Bank.

Non-executive directors

Paul Baloyi
MBA, MDP, SEP (Harvard)

Appointed August 2012

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

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

Appointed May 23 2011

Eric is a chartered accountant and is a director of a number of listed companies, including The Bidvest Group Limited. He was formerly the CEO of Anglo American Ferrous and Industries Division. He has been a director of several major listed and unlisted companies. He was appointed chairman of the Audit Committee and of the Risk and Capital Management Committee on May 23 2011.

Brian Joffe
CA(SA)

Appointed May 16 2000

Brian is the chief executive of The Bidvest Group Limited, and has 37 years of South African and international commercial experience. He was one of the *Sunday Times* top-five businessmen in 1992 and is a past recipient of the Jewish Business Achiever of the Year award. Brian was a nominee in the "Ernst & Young World Entrepreneur of the Year" award in 2003. He was awarded an honorary doctorate in May 2008 by Unisa.

Renosi Mokate
PhD (University of Delaware)

Appointed July 1 2013

Renosi is an independent consultant, having previously been, *inter alia*, executive director of the World Bank and Deputy Governor of the South African Reserve Bank. She is executive director and chief executive officer of the UNISA Graduate School of Business Leadership, and chairperson of The Government Employees Pension Fund. She chairs the Remuneration Committee.

Peter Nyman
CA(SA), HDip Tax Law, ACMA

Appointed February 16 2001

Peter was financial director of The Bidvest Group Limited, and is now the chairman of the Asset and Liability Committee and the Credit Committee and is a member of the Audit Committee, the Risk and Capital Management Committee, Remuneration Committee and the Corporate Governance Committee.

Nigel Payne
CA(SA), MBL

Appointed August 1 2009 – Appointed Chairman May 23 2011

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

Directors' report *continued*

Dividend declaration

A dividend of R100 million was declared on August 19 2013, and paid on September 19 2013. A further dividend of R61 625 000 was declared on March 24 2014 and paid on April 1 2014 (2013: Nil).

Performance

Profit after tax decreased 3,7% to R250,8 million (2013: R260,4 million) while net interest income rose to R109,1 million (2013: R82,8 million). Net fee, commission, trading and other income was also higher at R441,3 million (2013: R408,5 million) and net income from leasing activities decreased to R312,2 million (2013: R369,5 million), primarily as a result of the expiry of a major leasing contract on March 31 2012.

Deposits grew by 0,8% to R2,14 billion (2013: R2,12 billion). Loans and advances decreased by 4% to R1,16 billion (2013: R1,21 billion) and leased assets decreased 19% to R0,995 billion (2013: R1,2 billion). Total loans and advances and leased assets ended on R2,16 billion (2013: R2,4 billion). The Bank's total assets increased to R4,64 billion (2013: R4,61 billion). Cash generated from operations before dividends and taxation decreased to R631,7 million (2013: R693,8 million). A low risk appetite was maintained. Credit quality remained good and impairments were well managed. The credit loss ratio was 0,4% (2013: 0,6%).

The return on assets and return on equity were 5,4% and 12,6% respectively. A low financial leverage ratio of 2,3 times was maintained. The Bank's capital adequacy ratio was 19,4%. The bank's Liquidity Coverage Ratio was 117% and the Net Stable Funding Ratio was 94%. The Bank's Moody's rating was unchanged during the year at A3.za/P-2.za with a stable outlook. The ratings agency issued a favourable credit report in July 2013.

Company Secretary and registered office

DJ Crawley

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

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

Directors' report *continued*

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Auditors

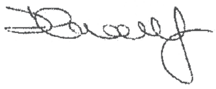
Deloitte & Touche

Events after the reporting date

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

Certificate from the Company Secretary

In terms of section 88(2) (e) of the Companies Act, 71 of 2008, as amended, I certify that, to the best of my knowledge and belief, the Bank has lodged with the Registrar of Companies, for the financial year ended June 30 2014, all such returns and notices as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.



DJ Crawley
Company Secretary
September 19 2014

Consolidated statement of comprehensive income

for the year ended June 30

	Notes	2014 R'000	Restated 2013 R'000
Net interest income	6.1	**109 092**	82 811
Interest income		**188 806**	154 528
Interest expense		**(79 714)**	(71 717)
Net fee and commission income		**173 708**	159 620
Fee and commission income		**248 489**	228 517
Fee and commission expense*		**(74 781)**	(68 897)
Net income from leasing		**312 239**	369 477
Leasing income	6.2	**711 843**	707 182
Depreciation		**(177 130)**	(164 206)
Other costs		**(222 474)**	(173 499)
Net trading income		**263 557**	238 758
Other income	6.3	**4 007**	10 136
Operating income		**862 603**	860 802
Net credit impairment charges	13.2	**(4 111)**	(6 737)
Operating income after credit impairment charges		**858 492**	854 065
Operating expenditure		**(493 619)**	(475 633)
Employment costs	7	**(271 500)**	(244 935)
Operating leases	8.1	**(73 818)**	(70 916)
Risk control		**(23 656)**	(23 751)
Information technology costs		**(21 310)**	(20 582)
Depreciation and amortisation		**(30 000)**	(29 592)
Other operating expenditure*	8.2	**(73 335)**	(85 857)
Operating income before indirect taxation		**364 873**	378 432
Indirect taxation	9.1	**(18 324)**	(15 570)
Profit before direct taxation		**346 549**	362 862
Direct taxation	9.2	**(95 751)**	(102 483)
Profit for the year		**250 798**	260 379
Other comprehensive income, net of income tax			
Actuarial (losses): Post-retirement medical obligations		**(48)**	–
Fair value reserve through equity on available-for-sale assets		**(3 368)**	(9 306)
Total comprehensive income for the year attributable to the equity holder of the company		**247 382**	251 073

** Card expenses were reallocated from other operating expenditure to fee and commission expenses as they are directly incurred in relation to revenue earned. Refer to note 29 for prior period restatements.*

Consolidated statement of cash flows

for the year ended June 30

	Notes	2014 R'000	2013 R'000
Cash flows from operating activities			
Cash generated by operations before interest	10.1	522 639	610 974
Net interest income		109 092	82 811
Interest received		188 806	154 528
Interest paid		(79 714)	(71 717)
Cash generated by operations after interest		631 731	693 785
Dividends paid		(161 625)	–
Taxation paid	10.2	(14 295)	(110 641)
Net cash flows from operating activities		455 811	583 144
Cash flows from investing activities		17 545	(16 272)
Proceeds on disposal of equipment and leased assets		138 041	110 602
Dividends received		1 371	1 403
Acquisition of leased assets		(80 189)	(93 823)
Acquisition of equipment		(23 301)	(16 922)
Acquisition of intangible assets		(18 245)	(11 303)
Acquisition of investment securities	10.3	(132)	(6 229)
Cash flows from financing activities			
Decrease in intergroup loans		(170 202)	(126 906)
Net increase in cash and cash equivalents		303 154	439 966
Cash and cash equivalents at beginning of year		1 825 049	1 385 083
Cash and cash equivalents at end of year	11	2 128 203	1 825 049

Consolidated statement of financial position

at June 30

	Notes	2014 R'000	2013 R'000
Assets			
Cash and cash equivalents	11	**2 128 203**	1 825 049
Derivative financial assets	12	**8 796**	21 563
Loans and advances	13	**1 163 780**	1 212 147
Leased assets	14	**995 188**	1 223 601
Investment securities	15	**95 286**	98 522
Other assets	16	**112 559**	98 767
Equipment	17	**62 713**	65 151
Intangible assets	18	**46 977**	36 910
Current taxation	10.2	**29 099**	33 108
Total assets		**4 642 601**	4 614 818
Equity and liabilities			
Equity		**1 982 645**	1 888 862
Share capital	19	**2 070**	2 070
Share premium	20	**525 709**	525 709
Fair value reserve		**(9 170)**	(5 802)
Retained earnings		**1 464 036**	1 366 885
Liabilities		**2 659 956**	2 725 956
Intergroup loans	21	**122 504**	292 706
Derivative financial liabilities	12	**8 361**	32 062
Deposits	22	**2 141 298**	2 123 953
Other liabilities	23	**190 429**	149 032
Deferred taxation	24	**196 882**	127 762
Defined benefit liability		**482**	441
Total equity and liabilities		**4 642 601**	4 614 818

Consolidated statement of changes in equity

for the year ended June 30

	2014 R'000	2013 R'000
Share capital		
Balance at June 30	**2 070**	2 070
Share premium		
Balance at June 30	**525 709**	525 709
Fair value reserve	**(9 170)**	(5 802)
Opening balance at July 1	**(5 802)**	3 504
Items recognised directly in equity		
– fair value adjustment on available-for-sale investments	**(3 368)**	(9 306)
Retained earnings	**1 464 036**	1 366 885
Opening balance at July 1	**1 366 885**	1 105 122
Profit for the year	**250 798**	260 379
Transactions with owners, recorded directly in equity		
Contributions by and distributions to owners		
Dividends paid	**(161 625)**	–
Share-based payment transactions	**5 238**	1 384
Settlement of option grants	**(989)**	–
Deferred tax on share-based payments recognised directly in equity	**3 777**	–
Actuarial (losses): Post-retirement medical obligations	**(48)**	–
Closing balance at June 30	**1 982 645**	1 888 862
Total equity		
Opening balance at July 1	**1 888 862**	1 636 405
Transactions with owners	**(153 599)**	1 384
– dividends paid	**(161 625)**	–
– share-based payments	**5 238**	1 384
– settlement of option grants	**(989)**	–
– deferred tax on share-based payments recognised directly in equity	**3 777**	–
Total comprehensive income	**247 382**	251 073
Items recognised directly in equity	**(3 416)**	(9 306)
Profit for the year	**250 798**	260 379
Closing balance at June 30	**1 982 645**	1 888 862

Notes to the consolidated financial statements

for the year ended June 30

1. Reporting entity

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

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared using accounting policies that comply with IFRS and which are consistent with those applied in the preparation of the financial statements for the year ended June 30 2013.

2.2 Basis of measurement

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

- Financial instruments at fair value through profit or loss; and
- Financial assets classified as available-for-sale.

2.3 Functional currency

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

2.4 Basis of consolidation

Subsidiaries

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

Control is defined as follows: An investor consolidates an investee when it controls the investee. The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This principle applies to all investees, including structured entities.

An investor must possess all of the following elements to be deemed to control an investee:

- Power over the investee, which is described as having existing rights that give the current ability to direct the activities of the investee that significantly affect the investee's returns (such activities are referred to as the "relevant activities");
- Exposure, or rights, to variable returns from its involvement with the investee; and
- Ability to exert power over the investee to affect the amount of the investor's returns.

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

2.5 Use of estimates and judgements

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

3. Significant accounting policies

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

3.1 Acquisitions from entities under common control

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

3. Significant accounting policies *continued*

3.1 Acquisitions from entities under common control *continued*

notional distribution to owners and presented in the common control reserve. If the net asset value exceeds the consideration, the credit is recognised in equity as a capital contribution and presented in the common control reserve.

3.2 Foreign currency

Foreign currency transactions

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

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

3.3 Cash and cash equivalents

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

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

3.4 Financial instruments

Initial recognition and measurement

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

Subsequent measurement

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

Held-to-maturity

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

Loans and advances

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

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

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

Fair value through profit or loss

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

Derivative financial instruments

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

3. Significant accounting policies *continued*

3.4 Financial instruments *continued*

Available-for-sale financial assets

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

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

Fair value measurement

Fair value is defined as 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.

Amortised cost measurement

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

Deposits

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

Impairment of financial assets

Identification and measurement of impairment

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

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

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

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

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

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

3. Significant accounting policies *continued*

3.4 Financial instruments *continued*

Available-for-sale financial assets

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

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

Maximum credit risk

Credit risk arises principally from loans and advances to clients, investment securities, derivatives and irrevocable commitments to provide facilities. The maximum credit risk is typically the gross carrying amount, net of any amounts offset and impairment losses. The maximum credit exposure for loan commitments is the full amount of the commitment if the loan cannot be settled net in cash or using another financial asset.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

Collateral

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

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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

3.5 Financial guarantee contracts

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

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

3. Significant accounting policies *continued*

3.5 Financial guarantee contracts *continued*

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

3.6 Leased assets

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

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

3.7 Equipment

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

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

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

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

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

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

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

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

3.8 Intangible assets

Goodwill

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

Goodwill is tested for impairment annually.

Computer software

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

Subsequent expenditure

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

Development costs

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

3. Significant accounting policies *continued*

3.8 Intangible assets *continued*

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

Amortisation

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

- Computer software 2 months – 10 years
- Development costs 5 years

3.9 Maintenance contracts

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

3.10 Impairment of non-financial assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

3.11 Provisions

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

3.12 Leases

Bank as lessee

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

3. Significant accounting policies *continued*

3.12 Leases *continued*

Bank as lessor

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

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

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

3.13 Deposits, intergroup loans and trade payables

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

3.14 Employee benefits

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

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

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

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

3.15 Share-based payment transactions

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

3.16 Share capital

Share capital is carried at issued cost.

3.17 Share premium

Share premium is carried net of share issue costs.

3.18 Interest

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

3. Significant accounting policies *continued*

3.18 Interest *continued*

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

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

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

3.19 Fee and commission

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

3.20 Net leasing income

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

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

3.21 Net trading income

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

3.22 Other income

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

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

3.23 Taxation

Normal tax

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

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

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

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

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

Indirect tax

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

3.24 Distributions to the shareholder

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

4. Financial risk management

4.1 Introduction and overview

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

- Credit risk;
- Liquidity risk;
- Market risks;
- Operational risks; and
- Reputational risk.

This note presents information about the Bank's exposure to each of the above-mentioned risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital. Further disclosure of the Bank's capital composition and other Pillar III disclosure in terms of the Regulations relating to banks can be found on the Bank's website: www.bidvestbank.co.za.

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

Risk management framework

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

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

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

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

4.2 Credit risk

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

Credit risk is managed within the risk appetite of the Bank. Acceptable credit risk identified in a credit application is mitigated through sufficient underlying security. To enhance the return on funds, and therefore shareholder value, a certain amount of risk has to be taken in the lending activities of the Bank. The risk tolerance of the Bank is, however, low and therefore all credit is mitigated through sound credit principles, and all lending done against appropriate security, except where other factors deem it not necessary to obtain specific security.

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

Management of credit risk

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

- Approves the credit risk management policy and review it at least bi-annually;
- Ensures that the Bank operates within sound and well-defined credit-granting criteria;
- Ensures the senior management is fully capable of managing credit activities conducted by the Bank;

4. Financial risk management *continued*

4.2 Credit risk *continued*

- Ensures through independent inspection and audit adherence to the policy, techniques, controls, procedures and information systems;
- Reviews all significant credit exposure of the Bank;
- Reviews all significant delinquent credits and management's actions taken or contemplated for their recovery;
- Reviews any credit granted in conflict of the written credit risk management policy;
- Reviews trends in the quality of, and concentration in the Bank's credit portfolio, to identify emerging problems and take action to deal with the problems; and
- Ensures that the Bank's remuneration policy is in line with the credit risk strategy and does not reward imprudent activities of credit staff.

The Board has delegated responsibility for the management of credit risk to its Credit Committee, which is chaired by a non-executive director. The role and responsibilities of the Credit Committee, as reported in the Credit Committee Charter, is to support the Board in fulfilling its duties and responsibilities regarding the management of credit risk. Senior management who are members of the Credit Committee have the responsibility of implementing the credit risk strategy approved by the Board and of developing policies and processes for identifying, measuring, monitoring and controlling credit risk. Such policies and processes address credit risk in all of the Bank's credit activities and at both the individual credit and portfolio levels. A separate Credit Department is responsible for oversight of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- *Establishing the authorisation structure for the approval and renewal of credit facilities.* All facilities require approval by the Head of Credit, Credit Committee or the Board of Directors according to authorisation limits;
- *Reviewing and assessing credit risk.* The Credit Department assesses all credit exposures prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- *Limiting concentration of exposure* to counterparties, geographies, products and industries;
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Credit Committee on the credit quality of portfolios and appropriate corrective action is taken; and
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk.

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

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

4 Financial risk management *continued*

4.2 Credit risk *continued*

Exposure to credit risk

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

	Gross maximum exposure 2014 R'000	Gross maximum exposure 2013 R'000
Exposure to credit risk		
Loans and advances (excluding banks)		
Non-performing book		
Good and average credit quality	–	12
Deteriorated credit quality	14 865	14 103
Total	14 865	14 115
Specific allowance for impairment	(8 213)	(5 896)
Carrying amount	6 652	8 219
Performing book – collectively impaired		
Good and average credit quality	684 331	658 118
Deteriorated credit quality	23 895	11 843
Total	708 226	669 961
Portfolio allowance for impairment	(1 364)	(1 676)
Carrying amount	706 862	668 285
Performing book – neither past due nor impaired		
Net exceptional credit quality	434 257	331 949
Exceptional credit quality	434 600	348 120
Specific allowance for impairment – warranted debt (see commentary that follows)	(343)	(16 171)
Exceptional credit quality (banks)	9 118	21 192
Good and average credit quality	6 891	181 145
Deteriorated credit quality	–	1 357
Total	450 266	535 643
Total carrying amount of loans and advances	1 163 780	1 212 147
Other financial assets		
Exceptional credit quality	191 758	188 251
Exceptional credit quality (banks)	2 013 418	1 731 400
Good credit quality	123 341	102 889
Total of other financial assets	2 328 517	2 022 540
Non-financial assets as per statement of financial position		
Leased assets	995 188	1 223 601
Equipment	62 713	65 151
Intangible assets	46 977	36 910
Inventory	16 327	21 361
Current taxation	29 099	33 108
Total of non-financial assets	1 150 304	1 380 131
Total assets	4 642 601	4 614 818

4. Financial risk management *continued*

4.2 Credit risk *continued*

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

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

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

Leased assets

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

Impaired loans

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

Impairment policy

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

Allowances for impairment

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

Security held

The Bank holds financial collateral and other security against loans and advances to customers in the form of cash, mortgage bonds over property, assets financed, 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.

4. Financial risk management *continued*

4.2 Credit risk *continued*

	Note	2014 R'000	2013 R'000
Loans and advances: balances with security			
Non-performing book: individually impaired			
Secured: Moveable assets		**6 325**	8 232
Unsecured		**327**	(13)
Total		**6 652**	8 219
Performing book: collectively impaired			
Secured			
Moveable assets		**493 987**	337 048
Cash, debtors, stock		**17 684**	189 815
Property		**182 691**	134 649
Total secured		**694 362**	661 512
Unsecured		**12 500**	6 773
Total		**706 862**	668 285
Performing book: neither past due nor impaired			
Secured			
Moveable assets		**191 815**	331 970
Cash, debtors, stock		**–**	1 038
Property		**44 603**	27 387
Guarantees		**203 401**	164 114
Total secured		**439 819**	524 509
Unsecured		**10 447**	11 134
Total		**450 266**	535 643
Carrying value	13	**1 163 780**	1 212 147

4. Financial risk management *continued*

4.2 Credit risk *continued*

Security valuation

Type	Tangible value
Rand cash (cession over deposit account)	100%
Foreign cash (cession over CFC account)	85%
Pledge of shares (JSE top 100) Quarterly statements are obtained from the customer's Broker.	50%
Cession of unit trusts Monthly statements are obtained from the customer's broker.	50%
Gold coins	50%
Cession of insurance/endowment policy Valuation at the time the cession is signed by obtaining surrender values directly from the assurance company.	Extra security, no commercial value
Cession of debtors Valuation monthly upon submission of debtor lists to the Bank	25% excluding arrears, depending on the quality of the book
General notarial bond over stock Valuation monthly upon submission of stock lists to the Bank	25%
Residential mortgage bonds over property Valuation conducted by an independent valuator approved by the Bank when the deal is initiated	65% (2013:66%)
Commercial mortgage bonds over property Valuation conducted by an independent valuator approved by the Bank when the deal is initiated	70%
A1-rated guarantees	100%
Suretyships	0%
Moveable assets	80%

4. Financial risk management *continued*

4.2 Credit risk *continued*

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

	Note	Loans and advances 2014 R'000	Loans and advances 2013 R'000	Investment securities 2014 R'000	Investment securities 2013 R'000
Credit risk by sector					
Concentration by sector					
Agriculture, hunting, forestry and fishing		**5 023**	6 542	**–**	–
Manufacturing		**130 779**	89 617	**–**	–
Mining and quarrying		**19 700**	43 199	**–**	–
Construction		**55 299**	30 108	**–**	–
Wholesale and retail trade		**114 137**	256 567	**–**	–
Transport, storage and communication		**140 115**	144 336	**–**	–
Financial intermediation, insurance, real estate and business services		**546 869**	461 931	**18 379**	18 290
Community, social and personal services		**137 139**	168 813	**–**	–
Private households		**14 485**	10 398	**–**	–
Utilities		**234**	636	**–**	–
Other		**–**	–	**76 907**	80 232
Total	13	**1 163 780**	1 212 147	**95 286**	98 522
Of which:					
Sovereign		**124 419**	156 504	**72 228**	76 312

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

Settlement risk

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

External credit assessment

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

4. Financial risk management *continued*

4.2 Credit risk *continued*

Counterparty credit risk

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

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

	Gross R'000	(Impair-ment) R'000	Net R'000	Guarantees and suretyships R'000	Pledge of assets R'000	Total R'000	Carrying value for which no collateral is held R'000	Net R'000
2014								
Not past due	**1 158 996**	**(1 707)**	**1 157 289**	**203 401**	**937 105**	**1 140 506**	**22 947**	**1 163 453**
Past due 0 – 30 days	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Past due 31 – 180 days	**1 338**	**(767)**	**571**	**–**	**–**	**–**	**–**	**–**
Past due 181 – 365 days	**13 366**	**(7 446)**	**5 920**	**–**	**–**	**–**	**327**	**327**
Total	**1 173 700**	**(9 920)**	**1 163 780**	**203 401**	**937 105**	**1 140 506**	**23 274**	**1 163 780**
2013								
Not past due	1 234 542	(22 395)	1 212 147	164 114	1 030 139	1 194 253	16 547	1 210 800
Past due 0 – 30 days	806	(806)	–	–	–	–	806	806
Past due 31 – 180 days	–	–	–	–	–	–	–	–
Past due 181 – 365 days	541	(541)	–	–	–	–	541	541
Total	1 235 889	(23 742)	1 212 147	164 114	1 030 139	1 194 253	17 894	1 212 147

Capital requirements for credit risk are calculated by making use of daily average balances for all overdraft, corporate, money market and overnight loan exposures as required in terms of Regulation 23(3) of the Regulations relating to banks. The gross month-end exposures reflected above are representative of these average balances.

4. Financial risk management *continued*

4.3 Liquidity risk

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

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

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

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

Management of liquidity risk

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

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

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

At June 30 2014, the Bank holds a committed borrowing facility of R125 million (2013: R248 million) from The Bidvest Group Limited. This facility is contractually repayable in an instalment of R125 million per annum (2013: R248 million). Any unutilised portion of this committed facility remains available on demand and can be accessed to meet liquidity needs.

The Bank also has a standing internal limit (referred to as the liquidity cushion) that the greater of R200 million, or 25% of its call deposits plus next-day notice deposits pay-outs, will be covered at all times by immediately available funds. At June 30 2014, immediately available funds (comprising central bank, interbank and intergroup call and current accounts) totalled R1,904 million.

4. Financial risk management *continued*

4.3 Liquidity risk *continued*

Residual contractual maturities of financial liabilities

	Gross value R'000	Contractual undiscounted cash flows R'000	6 months or less R'000	6 – 12 months R'000	1 – 5 Years R'000
June 30 2014					
Non-derivative liabilities					
Intergroup loans	**(122 504)**	**(131 006)**	**(1 763)**	**(129 243)**	**–**
Other liabilities	**(190 429)**	**(190 429)**	**(190 429)**	**–**	**–**
Deposits	**(2 141 298)**	**(2 157 627)**	**(2 081 775)**	**(75 852)**	**–**
Derivative liabilities					
Trading: outflow (liabilities)	**(8 361)**	**(8 361)**	**(8 302)**	**(59)**	**–**
	(2 462 592)	**(2 519 988)**	**(2 301 186)**	**(218 802)**	**–**
June 30 2013					
Non-derivative liabilities					
Intergroup loans	(292 706)	(360 389)	(62 561)	(139 360)	(158 468)
Other liabilities	(149 032)	(149 032)	(149 032)	–	–
Deposits	(2 123 953)	(2 137 177)	(2 081 435)	(55 742)	–
Derivative liabilities					
Trading: outflow (liabilities)	(32 062)	(32 062)	(32 062)	–	–
	(2 597 753)	(2 678 660)	(2 325 090)	(195 102)	(158 468)

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

4. Financial risk management *continued*

4.3 Liquidity risk *continued*

Maturity analysis of financial assets held for managing liquidity risk

	Carrying amount R'000	Less than 3 months R'000	3 – 12 months R'000	1 – 5 years R'000	More than 5 years R'000
June 30 2014					
Cash and balances with banks	**2 128 203**	**2 128 203**	**–**	**–**	**–**
Loans and advances	**1 163 780**	**240 329**	**95 881**	**621 661**	**205 909**
Investment securities	**95 286**	**23 058**	**15 230**	**56 998**	**–**
Other assets#	**96 232**	**96 232**	**–**	**–**	**–**
	3 483 501	**2 487 822**	**111 111**	**678 659**	**205 909**
June 30 2013					
Cash and balances with banks	1 825 049	1 825 049	–	–	–
Loans and advances	1 212 147	412 110	61 499	606 810	131 728
Investment securities	98 522	22 209	–	76 313	–
Other assets#	77 406	77 406	–	–	–
	3 213 124	2 336 774	61 499	683 123	131 728

Other assets exclude inventory.

4.4 Market risk

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

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

4. Financial risk management *continued*

4.4 Market risk *continued*

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by the Risk Department in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

	Carrying amount R'000	Less than 3 months R'000	3 – 12 months R'000	1 – 5 years R'000	More than 5 years R'000
June 30 2014					
Financial assets/(liabilities)[@]					
Cash and balances with banks	**2 128 203**	**2 128 203**	**–**	**–**	**–**
Loans and advances	**1 163 780**	**1 032 806**	**23 932**	**107 042**	**–**
Investment securities	**95 286**	**23 058**	**15 230**	**56 998**	**–**
Intergroup loans	**(122 504)**	**2 018**	**(124 522)**	**–**	**–**
Deposits	**(2 141 298)**	**(1 541 939)**	**(599 359)**	**–**	**–**
	1 123 467	**1 644 146**	**(684 719)**	**164 040**	**–**
June 30 2013					
Financial assets/(liabilities)[@]					
Cash and balances with banks	1 825 049	1 825 049	–	–	–
Loans and advances	1 212 147	1 052 196	25 600	134 351	–
Investment securities	98 522	22 209	–	76 313	–
Intergroup loans	(292 706)	(293 641)	–	935	–
Deposits	(2 123 953)	(2 064 836)	(59 117)	–	–
	719 059	540 977	(33 517)	211 599	–

[@] *Only interest-bearing assets and liabilities have been considered.*

4. Financial risk management *continued*

4.4 Market risk *continued*

Analysis based on interest terms

	Effective rate of interest 2014 %	Effective rate of interest 2013 %	2014 R'000	2013 R'000
Loans and advances				
Loans and advances with floating interest rates*	**8,28**	6,81	**1 041 527**	1 075 873
Loans and advances with fixed interest rates	**11,11**	11,37	**132 173**	160 016
			1 173 700	1 235 889
Less: impairment provisions			**(9 920)**	(23 742)
			1 163 780	1 212 147
Deposits				
Deposits with floating interest rates*	**3,69**	3,60	**(2 058 972)**	(2 029 685)
Deposits with fixed interest rates	**4,79**	5,38	**(82 326)**	(94 268)
			(2 141 298)	(2 123 953)

* *The current floating interest rate as at June 30.*

Interest rate sensitivities

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

	2014 %	2013 %
Average prime lending rate		
For the current year ended June 30	**8,70**	8,52

	R'000	R'000
Interest rate sensitivity based on movements in prime lending rate:		
(Decrease) before tax in net interest income for the year#	**(4 532)**	(9 181)

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

4. Financial risk management *continued*

4.4 Market risk *continued*

Interest rate sensitivities *continued*

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

	200bp parallel increase R'000	200bp parallel decrease R'000
Monthly impact on interest income before tax		
As at June 30 2014	**2 838**	**(2 838)**
As at June 30 2013	2 840	(2 840)

Overall non-trading interest rate risk positions are managed by the Treasury Department, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

Foreign exchange rate sensitivities

Currency profile

R'000	ZAR	GBP	USD	EUR	Other	Total
2014						
Assets						
Cash and balances with banks	**1 939 284**	**36 012**	**77 463**	**51 065**	**24 379**	**2 128 203**
Derivative financial assets	**8 796**	–	–	–	–	**8 796**
Loans and advances	**1 128 351**	–	**25 444**	**9 966**	**19**	**1 163 780**
Leased assets	**995 188**	–	–	–	–	**995 188**
Investment securities	**95 286**	–	–	–	–	**95 286**
Other assets	**112 029**	**262**	**206**	**16**	**46**	**112 559**
Equipment	**62 713**	–	–	–	–	**62 713**
Intangible assets	**46 977**	–	–	–	–	**46 977**
Current taxation	**29 099**	–	–	–	–	**29 099**
	4 417 723	**36 274**	**103 113**	**61 047**	**24 444**	**4 642 601**
Commitments to purchase foreign currency	–	**89 587**	**1 065 321**	**287 136**	**102 307**	**1 544 351**
Total assets	**4 417 723**	**125 861**	**1 168 434**	**348 183**	**126 751**	**6 186 952**
2013	4 322 397	11 793	243 896	16 924	19 808	4 614 818
Commitments to purchase foreign currency	–	70 542	1 007 589	383 188	182 920	1 644 239
Total assets	4 322 397	82 335	1 251 485	400 112	202 728	6 259 057

4. Financial risk management *continued*

4.4 Market risk *continued*

Foreign exchange rate sensitivities *continued*

Currency profile continued

R'000	ZAR	GBP	USD	EUR	Other	Total
2014						
Equity and liabilities						
Share capital	**2 070**	**–**	**–**	**–**	**–**	**2 070**
Share premium	**525 709**	**–**	**–**	**–**	**–**	**525 709**
Reserves	**1 454 866**	**–**	**–**	**–**	**–**	**1 454 866**
Intergroup loans	**122 504**	**–**	**–**	**–**	**–**	**122 504**
Derivative financial liabilities	**8 361**	**–**	**–**	**–**	**–**	**8 361**
Deposits	**1 582 866**	**95 875**	**281 724**	**135 833**	**45 000**	**2 141 298**
Other liabilities	**176 096**	**290**	**13 092**	**224**	**727**	**190 429**
Defined benefit liability	**482**	**–**	**–**	**–**	**–**	**482**
Deferred taxation	**196 882**	**–**	**–**	**–**	**–**	**196 882**
	4 069 836	**96 165**	**294 816**	**136 057**	**45 727**	**4 642 601**
Commitments to sell foreign currency	**–**	**22 153**	**867 040**	**215 808**	**91 327**	**1 196 328**
Total equity and liabilities	**4 069 836**	**118 318**	**1 161 856**	**351 865**	**137 054**	**5 838 929**
2013	4 175 033	64 531	238 021	97 109	40 124	4 614 818
Commitments to sell foreign currency	–	19 008	995 730	296 597	183 250	1 494 585
Total equity and liabilities	4 175 033	83 539	1 233 751	393 706	223 374	6 109 403

This currency profile analyses the assets and liabilities in terms of their originating currencies. These totals are then expressed in South African rand at the closing spot exchange rate.

	GBP R'000	USD R'000	EUR R'000	Other R'000	Total R'000
Net open position					
June 30 2014	**7 543**	**6 578**	**(3 682)**	**(10 302)**	**137**
June 30 2013	(1 204)	17 734	6 406	(20 646)	2 290
Closing spot exchange rate	**GBP**	**USD**	**EUR**		
June 30 2014	**R18,09**	**R10,61**	**R14,49**		
June 30 2013	R15,23	R10,00	R13,06		
Average exchange rate					
For the year ended June 30 2014	**R16,92**	**R10,39**	**R14,11**		
For the year ended June 30 2013	R13,88	R8,86	R11,47		
For the year ended June 30 2012	R12,27	R7,74	R10,38		

4. Financial risk management *continued*

4.4 Market risk *continued*

Foreign exchange rate sensitivities continued

Currency profile continued

	2014 R'000	2013 R'000
Foreign currency sensitivity based on movements in exchange rate:		
Increase before tax in operating income for the year#	**34 253**	32 263
Foreign currency net open position sensitivity based on a 10% movement in exchange rates:		
GBP	**754**	(120)
USD	**658**	1 773
EUR	**(368)**	641
Other	**(1 030)**	(2 065)
	14	229

Effect of foreign exchange rate fluctuations on a constant balance sheet.

4.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

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

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

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

4. Financial risk management *continued*

4.6 Reputational risk

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

The following basic strategies are followed to manage reputational risk:

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

4.7 Capital management

Regulatory capital

The South African Reserve Bank (SARB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements the SARB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets, market risk exposure and operational risk exposure. The Bank follows the standardised approach under Basel III and calculates requirements for market risk in its banking portfolios based on 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 so as to maintain investor, credit and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

4. Financial risk management *continued*

4.7 Capital management *continued*

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

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

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

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

5. Related party information

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

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

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

Notes to the consolidated financial statements *continued*

for the year ended June 30

	2014 R'000	2013 R'000
5. Related party information *continued*		
Related party balances – outstanding at year-end		
Intergroup loans receivable/(payable)		
The Bidvest Group Limited	**2 018**	(45 454)
Bid Industrial Holdings (Pty) Limited	**(125 021)**	(248 187)
Bidvest share incentive trust	**499**	935
Advances		
Loans to fellow subsidiaries	**250 726**	221 803
Derivative assets with fellow subsidiaries	**2 242**	4 277
Loans to senior employees and key management	**546**	572
Deposits		
Deposits from fellow subsidiaries	**(84 638)**	(107 750)
Deposits from directors, senior employees and key management	**(8 031)**	(5 153)
Derivative liabilities with fellow subsidiaries	**(1 111)**	(15 844)
Accounts receivable from fellow subsidiaries	**24 290**	24 392
Accounts payable to fellow subsidiaries	**(5 340)**	(1 586)
Related party transactions – fellow subsidiaries		
Income		
Net interest income	**(8 083)**	(10 236)
Commission and fees	**(1 057)**	(1 005)
Administration fee received	**(10 631)**	(8 017)
Leasing income	**(9 318)**	(5 434)
Expenses		
Advertising	**731**	6 476
Administration fee paid	**12 447**	7 446
IT charges	**316**	297
Leasing activities – other costs	**5 090**	11 055
Property rentals	**1 131**	1 041
Security fees	**14 396**	14 530
Stationery	**5 276**	3 456
Royalties paid	**–**	90
Offices services	**3 523**	4 268
Travel	**1 447**	1 751
Other	**761**	222
Assets purchases		
Equipment	**2 752**	883
Leased assets and financing equipment	**113 500**	123 449

	2014 R'000	2013 R'000
5. Related party information *continued*		
Related party transactions – key management		
Savings deposits		
Credit balance July 1	(155)	(1 995)
Interest paid	(20)	(12)
Net new (investments)/disinvestments	(45)	1 852
Balance June 30	(220)	(155)
Call and notice deposits		
Balance July 1	(4 998)	(8 305)
Interest paid	(231)	(293)
Net new (investments)/disinvestments	(2 582)	3 600
Balance June 30	(7 811)	(4 998)
Other fees		
Fees and commissions	–	5
Advertising	2 652	2 380
Other	309	932

Key management compensation

	Salaries and other short-term benefits R'000	Share-based payments R'000	Benefit arising on exercise of share options R'000	Services as directors R'000	Total R'000
2014					
PC Baloyi*	–	–	–	274	274
EK Diack*	–	–	–	574	574
P Nyman	–	–	–	734	734
R Makote	–	–	–	161	161
MJ Liebenberg	2 800	–	–	–	2 800
JP van Niekerk	2 667	–	–	–	2 667
NG Payne*	–	–	–	676	676
AC Salomon	4 778	3 107	–	–	7 885
	10 245	3 107	–	2 419	15 771
2013					
PC Baloyi*	–	–	–	168	168
EK Diack*	–	–	–	523	523
MJ Liebenberg	2 245	–	–	–	2 245
JL Pamensky	–	–	–	20	20
NG Payne*	–	–	–	580	580
AC Salomon	6 831	2 499	–	–	9 330
	9 076	2 499	–	1 291	12 866

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

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

5. Related party information *continued*

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

The aforementioned key management compensation only reflects compensation paid by Bidvest Bank Limited. For a full listing of key management compensation of directors that are board members of The Bidvest Group Limited refer to the director's report in The Bidvest Group Limited annual financial statements for the year ended June 30 2014 which can be inspected at the following registered address:

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

Related party off-balance sheet transactions – Fellow subsidiaries

	2014 R'000	2013 R'000
Letters of credit issued on behalf of group companies	(4 918)	(442)
Guarantees issued on behalf of group companies	(12 615)	(5 785)
Notional value of derivative liabilities with fellow subsidiaries	(169 800)	(254 165)
Notional value of derivative assets with fellow subsidiaries	210 466	149 025

Director-related transactions

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

6. Income

6.1 Net interest income

	2014 R'000	2013 R'000
Interest income	188 806	154 528
> Cash and cash equivalents	84 946	55 572
> Loans and advances to customers	91 265	88 362
> Investment securities	5 694	5 694
> Other	6 901	4 900
Interest expense	(79 714)	(71 717)
> Deposits from banks	(407)	(179)
> Deposits from customers	(79 062)	(71 016)
> Intergroup loan	(245)	(522)
Net interest income	109 092	82 811
Included within various captions under interest income for the year is interest accrued on impaired financial assets	645	4 385
Included in interest income relating to available-for-sale financial assets	5 694	5 694

6.2 Leasing income

	2014 R'000	2013 R'000
Contingent rentals included in leasing income	12 537	21 308

6.3 Other income

	2014 R'000	2013 R'000
Dividends on investment securities	1 371	1 403
Other investment income	2 636	8 733
	4 007	10 136

		2014 R'000	2013 R'000
7.	**Employment costs**		
	Salaries	**231 424**	213 567
	Contributions to the provident fund	**12 707**	11 751
	Contributions to the defined contribution pension fund	**1 207**	1 313
	Increase in liability for the defined benefit plan	**–**	241
	Share-based payment expense	**5 238**	1 384
	Performance incentive	**20 924**	16 679
	Net retrenchment costs	**–**	–
	Retrenchment costs	**–**	222
	Warranty claim	**–**	(222)
		271 500	244 935
8.	**Operating expenditure**		
8.1	**Operating leases**		
	Property rentals	**73 569**	72 148
	Office equipment	**175**	759
	Vehicles	**7**	3
	Straight-lining of leases	**67**	(1 994)
		73 818	70 916
8.2	**Other operating expenditure**		
	Other operating expenditure includes:		
	Auditors' remuneration	**6 631**	6 455
	Audit fees	**6 379**	6 340
	Fees for other services	**252**	115
	Consulting fees	**3 469**	488
	Directors' emoluments	**15 771**	12 866
	For services as non-executive directors	**2 419**	1 291
	For services as executive directors	**13 352**	11 575
	(Profit) on disposal of equipment and leased assets	**(2 658)**	(2 640)

Notes to the consolidated financial statements *continued*

for the year ended June 30

	2014 R'000	2013 R'000
9. Taxation		
9.1 Indirect taxation		
Value added tax	**15 904**	13 409
Skills development levy	**2 420**	2 161
	18 324	15 570
9.2 Direct taxation		
South African normal taxation	**22 855**	86 854
Current year	**77 376**	86 194
Prior year (over)/underprovision#	**(54 521)**	660
Deferred taxation	**72 896**	15 629
Current year	**19 765**	11 313
Prior year under provision#	**53 131**	4 316
	95 751	102 483
Tax rate reconciliation	**%**	%
Effective rate	**27,63**	28,24
Disallowed expenditure	**(0,31)**	–
Non-taxable income	**0,28**	4,05
Prior year over/(under)provision	**0,40**	(4,29)
Standard taxation rate	**28,00**	28,00

2014 reclassification adjustments between normal and deferred taxation relate largely to the deferment of recoupments on leased assets in terms of paragraph 66 of the Schedule 8 of the Income Tax Act. This was applied to the 2012 and 2013 tax returns which were submitted and assessed in the current year.

	2014 R'000	2013 R'000
10. Notes to the statement of cash flows		
10.1 Reconciliation of cash generated by operations		
Profit before direct taxation	**346 549**	362 862
Adjustments		
Depreciation of equipment and leased assets	**198 952**	184 507
Amortisation of intangible assets	**8 178**	9 362
Profit on disposal of equipment and leased assets	**(2 658)**	(2 640)
Interest received	**(188 806)**	(154 528)
Interest paid	**79 714**	71 717
Share-based payments	**4 250**	1 384
Dividends from investment securities	**(1 371)**	(1 403)
Operating profit before changes in working capital	**444 808**	471 261
(Increase)/decrease in net derivative financial instruments	**(10 934)**	19 489
(Increase)/decrease in other assets	**(18 343)**	23 448
Increase/(decrease) in other liabilities	**41 397**	(37 167)
Decrease/(increase) in loans and advances	**48 367**	(209 681)
Increase in deposits	**17 344**	343 624
	522 639	610 974

		2014 R'000	2013 R'000
10.	**Notes to the statement of cash flows** *continued*		
10.2	**Taxation paid**		
	Opening balance	**33 108**	9 321
	Normal taxation charge	**(22 855)**	(86 854)
	Interest receivable	**4 551**	–
	Closing balance	**(29 099)**	(33 108)
	Net taxation paid	**(14 295)**	(110 641)
10.3	**Movement in investment securities**		
	Opening balance at fair value	**98 522**	101 599
	(Decrease) in fair value adjustments during the year	**(3 368)**	(9 306)
	Additions during the year	**132**	6 229
	Closing balance	**(95 286)**	(98 522)
	Disposals during the year	**–**	–
11.	**Cash and cash equivalents**		
	Cash on hand and in transit	**119 530**	111 938
	Interbank investments		
	> Current accounts	**337 485**	56 555
	> Money on call	**1 604 123**	1 540 555
	> South African Reserve Bank	**44 556**	85 988
	> Restricted cash held at South African Reserve Bank	**22 509**	30 013
		2 128 203	1 825 049
	Total debit balances	**2 137 962**	1 826 476
	Total credit balances	**(9 759)**	(1 427)
12.	**Derivative financial instruments**		
	Foreign exchange contracts (FECs)		
	> Derivative financial assets	**8 796**	21 563
	> Derivative financial liabilities	**(8 361)**	(32 062)
	Net fair values	**435**	(10 499)
	Notional amount of derivative financial assets	**901 467**	873 129
	Notional amount of derivative financial liabilities	**1 106 460**	895 279

The notional amount is the value of all bought and sold contracts respectively. The amount does not represent the market risk or credit risk exposure of the Bank, and should only be used in assessing the Bank's participation in derivative contracts. Derivatives are held for banking purposes.

Notes to the consolidated financial statements *continued*

for the year ended June 30

		2014 R'000	2013 R'000
13.	**Loans and advances**		
13.1	**Analysis of loans and advances**		
	Loans and advances to customers		
	Call and term loans	**238 717**	383 667
	Mortgage loans	**232 708**	152 185
	Finance leases and instalment finance	**693 157**	678 845
		1 164 582	1 214 697
	Less: impairment provision (note 13.2)	**(9 920)**	(23 742)
		1 154 662	1 190 955
	Loans and advances to banks		
	Finance leases	**9 118**	21 192
	Total loans and advances	**1 163 780**	1 212 147
13.2	**Movement in impairments**		
	Specific impairments		
	Call and term loans	**(246)**	(1 631)
	Opening balance	**(1 631)**	(683)
	Charge against income	**(48)**	(948)
	Net bad debts written off	**1 433**	–
	Finance leases	**(8 309)**	(20 435)
	Opening balance	**(20 435)**	(27 127)
	Charge against income	**(5 780)**	(10 550)
	Net bad debts written off	**17 906**	17 242
	Portfolio impairment	**(1 365)**	(1 676)
	Opening balance	**(1 676)**	(2 389)
	Release to/(charge against) income	**311**	713
	Carrying value at end of the year		
	Specific impairments – warranted debt	**(342)**	(16 171)
	Specific impairments	**(8 213)**	(5 895)
	Portfolio impairment	**(1 365)**	(1 676)
		(9 920)	(23 742)

	2014 R'000	2013 R'000
13. Loans and advances *continued*		
13.2 Movement in impairments *continued*		
Net (charge against)/release to income		
Call and term loans	**(48)**	(948)
Finance leases	**(4 283)**	(6 175)
> Increase in impairment	**(5 779)**	(10 550)
> Warranty claim	**1 496**	4 375
Portfolio impairment	**311**	713
Accounts receivable – provision charge net of warranty claim	**(269)**	(385)
Net bad debts recovered	**178**	58
Total	**(4 111)**	(6 737)

13.3 Maturity of finance leases

	Gross R'000	Unearned finance charges R'000	Net R'000
2014			
Due within one year	**122 415**	**3 460**	**118 955**
Between one and five years	**660 494**	**84 691**	**575 803**
More than five years	**9 132**	**1 618**	**7 514**
	792 041	**89 769**	**702 272**
2013			
Due within one year	123 627	4 506	119 121
Between one and five years	648 506	80 728	567 778
More than five years	14 599	1 461	13 138
	786 732	86 695	700 037

Under the terms of the lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the reporting date is R0,5 million (2013: R20,4 million).

		2014 R'000	2013 R'000
14.	**Leased assets**		
	Carrying value at beginning of year	**1 223 601**	1 399 660
	Cost	**1 730 600**	1 837 028
	Accumulated depreciation	**(506 999)**	(444 196)
	Capital work in progress	**–**	6 828
		(228 413)	(176 059)
	Additions	**80 189**	100 651
	Disposals	**(131 472)**	(105 676)
	Depreciation	**(177 130)**	(164 206)
	Capital work in progress	**–**	(6 828)
	Carrying value at end of year	**995 188**	1 223 601
	Cost	**1 553 845**	1 730 600
	Accumulated depreciation	**(558 657)**	(506 999)
	Leased assets are made up of motor vehicles and material handling equipment.		
15.	**Investment securities**		
	Available-for-sale securities		
	> Investment in RSA government bonds	**72 229**	76 313
	> Listed preference shares	**22 360**	21 544
	> Listed equities	**681**	649
	> Unlisted shares at directors' valuation	**16**	16
		95 286	98 522
	Government bonds, listed preference shares and listed equities are held as available-for-sale and are valued by using the market-quoted prices. The movement in the fair value is recognised directly in other comprehensive income (refer consolidated statement of changes in equity).		
16.	**Other assets**		
	Net accounts receivable	**80 197**	65 262
	Uncleared effects	**469**	108
	Payments in advance	**6 602**	5 638
	Encashed travellers' cheques	**557**	873
	Terminated leased assets available-for-resale	**16 327**	21 361
	Other	**8 407**	5 525
		112 559	98 767

	2014 R'000	2013 R'000
17. Equipment		
Office equipment	**5 490**	5 675
Cost	**18 684**	17 323
Accumulated depreciation and accumulated impairment	**(13 194)**	(11 648)
Furniture and fittings	**36 656**	43 556
Cost	**91 148**	88 087
Accumulated depreciation and accumulated impairment	**(54 492)**	(44 531)
Computer equipment	**18 721**	12 776
Cost	**45 860**	36 733
Accumulated depreciation and accumulated impairment	**(27 139)**	(23 957)
Motor vehicles	**1 846**	3 144
Cost	**7 212**	11 405
Accumulated depreciation and accumulated impairment	**(5 366)**	(8 261)
	62 713	65 151
Movement in equipment		
Carrying value at beginning of year	**65 151**	70 817
Cost	**153 548**	151 474
Accumulated depreciation	**(88 397)**	(80 657)
Additions	**23 301**	16 922
Office equipment	**2 692**	1 850
Furniture and fittings	**5 426**	9 268
Computer equipment	**13 576**	5 541
Motor vehicles	**1 607**	263
Disposals	**(3 917)**	(2 287)
Office equipment	**(107)**	(170)
Furniture and fittings	**(185)**	107
Computer equipment	**(2 256)**	(1 002)
Motor vehicles	**(1 369)**	(1 222)
Depreciation	**(21 822)**	(20 301)
Office equipment	**(2 771)**	(2 388)
Furniture and fittings	**(12 142)**	(11 762)
Computer equipment	**(5 375)**	(4 303)
Motor vehicles	**(1 534)**	(1 848)
Carrying value at end of year	**62 713**	65 151
Cost	**162 905**	153 548
Accumulated depreciation	**(100 192)**	(88 397)

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

		2014 R'000	2013 R'000
18.	**Intangible assets**		
	Goodwill at cost	**14 831**	14 831
	Computer software	**18 027**	16 626
	Cost	**61 489**	55 518
	Accumulated amortisation and accumulated impairment	**(43 462)**	(38 892)
	Development costs	**14 119**	5 543
	Cost	**18 562**	7 112
	Accumulated amortisation and accumulated impairment	**(4 443)**	(1 659)
		46 977	36 910
	Movement in intangible assets		
	Carrying value at beginning of year	**36 910**	34 969
	Cost	**77 460**	66 232
	Accumulated amortisation	**(40 550)**	(31 263)
	Additions	**18 245**	11 303
	Computer software	**6 640**	7 545
	Development costs	**11 605**	3 758
	Amortisation	**(8 178)**	(9 362)
	Computer software	**(5 239)**	(7 807)
	Development costs	**(2 939)**	(1 555)
	Carrying value at end of year	**46 977**	36 910
	Cost	**94 882**	77 460
	Accumulated amortisation	**(47 905)**	(40 550)

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

Basis of assessment of carrying value of goodwill

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

		2014 R'000	2013 R'000
19.	**Share capital**		
19.1	**Authorised**		
	360 000 000 ordinary shares of 1 cent each	**3 600**	3 600
19.2	**Issued**		
	207 000 000 (2013: 207 000 000) ordinary shares of 1 cent each		
	Opening balance	**2 070**	2 070
		2 070	2 070
	The unissued shares are under the control of the directors until the forthcoming annual general meeting of the shareholder.		
20.	**Share premium**		
	Opening balance	**525 709**	525 709
		525 709	525 709
21.	**Intergroup loans payable/(receivable)**		
	The Bidvest Group Limited	**(2 018)**	45 454
	Bid Industrial Holdings (Pty) Limited	**125 021**	248 187
	Bidvest share incentive trust	**(499)**	(935)
		122 504	292 706
	The Bidvest Group Limited loan is interest free and has no fixed terms of repayment.		
	The Bid Industrial Holdings (Pty) Limited loan bears interest at prime less 3% and is repayable in an instalment of R125 million (2013: R248 million). The full amount was repaid after year-end but the facility remains available should it be required.		
	The share incentive loan bears interest at 0,25% and has no fixed terms of repayment.		
22.	**Deposits**		
	Deposits from customers		
	> Fixed and notice	**778 713**	769 863
	> Call	**1 362 585**	1 354 090
		2 141 298	2 123 953
	The maturity analysis of deposits is based on the contractual period to maturity from the statement of financial position as reflected in note 4.3.		
23.	**Other liabilities**		
	VAT	**7 195**	6 052
	Accrual for vehicle maintenance obligations	**13 608**	18 605
	Trade accruals	**163 171**	119 977
	Outstanding bank credits	**5 505**	3 515
	Straight-lining of leases	**950**	883
		190 429	149 032

		2014 R'000	2013 R'000
24.	**Deferred taxation liability**		
	Balance at beginning of year	**127 762**	112 133
	Current year movement		
	> Charged to the statement of comprehensive income	**19 765**	11 313
	> Charge to equity	**(3 777)**	–
	> Prior year under provision	**53 132**	4 316
	Balance at end of year	**196 882**	127 762
	The net deferred tax liability consists of temporary differences arising from:		
	Equipment and leased assets	**207 157**	145 109
	Accruals	**(11 061)**	(18 071)
	Straight-lining of leases liability	**(266)**	(247)
	Prepayments	**1 052**	971
	Balance at end of year	**196 882**	127 762
25.	**Contingent liabilities and commitments**		
25.1	**Capital commitments**		
	Authorised and contracted for	**33 054**	48 444
	Authorised but not yet contracted for undrawn facilities	**728 241**	654 904
	Funds to meet capital expenditure commitments will be provided from the Bank's internal resources.		
25.2	**Off-balance sheet transactions**		
	Guarantees issued on behalf of group companies	**12 615**	5 785
	Guarantees issued on behalf of third parties	**88 080**	21 153
	Letters of credit issued on behalf of third parties	**35 780**	11 242
	Letters of credit issued on behalf of group companies	**4 918**	442
		141 393	38 622
	Guarantees are both payment and performance-related guarantees on behalf of customers. Management has assessed the probability that a liability should be raised and are satisfied that the liability adequacy test indicated that there is no present obligation to raise a liability.		
	Letters of credit include documentary letters of credit with customers regarding imports and exports.		
25.3	**Future operating lease commitments**		
	Property leases		
	Payable within one year	**42 623**	57 653
	Payable between one and five years	**57 632**	83 129
		100 255	140 782
	Some property rentals include a turnover clause as additional rental.		
	Escalations are between 8% and 10%.		

26. Classification of assets and liabilities

Accounting classification and fair values

	Held for trading R'000	Loans and receivables R'000	Available-for-sale R'000	Other amortised cost R'000	Non-financial assets/ liabilities R'000	Total R'000
2014						
Assets						
Cash and cash equivalents	–	2 128 203	–	–	–	2 128 203
Derivative financial assets	8 796	–	–	–	–	8 796
Loans and advances	–	1 163 780	–	–	–	1 163 780
Leased assets	–	–	–	–	995 188	995 188
Investment securities	–	–	95 286	–	–	95 286
Other assets	–	96 232	–	–	16 327	112 559
Equipment	–	–	–	–	62 713	62 713
Intangible assets	–	–	–	–	46 977	46 977
Current taxation	–	–	–	–	29 099	29 099
	8 796	3 388 215	95 286	–	1 150 304	4 642 601
Liabilities						
Intergroup loans	–	–	–	122 504	–	122 504
Derivative financial liabilities	8 361	–	–	–	–	8 361
Deposits	–	–	–	2 141 298	–	2 141 298
Other liabilities	–	–	–	190 429	–	190 429
Deferred taxation	–	–	–	–	196 882	196 882
Defined benefit liability	–	–	–	–	482	482
	8 361	–	–	2 454 231	197 364	2 659 956
2013						
Assets						
Cash and cash equivalents	–	1 825 049	–	–	–	1 825 049
Derivative financial assets	21 563	–	–	–	–	21 563
Loans and advances	–	1 212 147	–	–	–	1 212 147
Leased assets	–	–	–	–	1 223 601	1 223 601
Investment securities	–	–	98 522	–	–	98 522
Other assets	–	77 406	–	–	21 361	98 767
Equipment	–	–	–	–	65 151	65 151
Intangible assets	–	–	–	–	36 910	36 910
Current taxation	–	–	–	–	33 108	33 108
	21 563	3 114 602	98 522	–	1 380 131	4 614 818
Liabilities						
Intergroup loans	–	–	–	292 706	–	292 706
Derivative financial liabilities	32 062	–	–	–	–	32 062
Deposits	–	–	–	2 123 953	–	2 123 953
Other liabilities	–	–	–	149 032	–	149 032
Deferred taxation	–	–	–	–	127 762	127 762
Defined benefit liability	–	–	–	–	441	441
	32 062	–	–	2 565 691	128 203	2 725 956

26. Classification of assets and liabilities *continued*

26.1 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 and IFRS 13 regarding the fair value measurement of financial instruments in the statement of financial position on July 1 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).

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

	Notes	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total balance R'000
2014					
Assets					
Investment securities	15	**95 270**	**–**	**16**	**95 286**
Derivative financial assets	12	**–**	**8 796**	**–**	**8 796**
Total assets		**95 270**	**8 796**	**16**	**104 082**
Liabilities					
Derivative financial liabilities	12	**–**	**8 361**	**–**	**8 361**
Total liabilities		**–**	**8 361**	**–**	**8 361**
2013					
Assets					
Investment securities	15	98 506	–	16	98 522
Derivative financial assets	12	–	21 563	–	21 563
Total assets		98 506	21 563	16	120 085
Liabilities					
Derivative financial liabilities	12	–	32 062	–	32 062
Total liabilities		–	32 062	–	32 062

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

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

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

26. Classification of assets and liabilities *continued*

26.2 Fair value of financial instruments

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

	Carrying value R'000	Fair value R'000
2014		
Assets		
Total advances at amortised cost	**1 163 780**	**1 167 546**
2013		
Assets		
Total advances at amortised cost	1 212 147	1 215 737

27. Share-based payments

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

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

27.1 Share option scheme

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

The terms and conditions of the options are:

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

27. Share-based payments *continued*

27.1 Share option scheme *continued*

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

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

	2014		2013	
	Number	**Average price R**	Number	Average price R
Beginning of the year	**300 945**	**153,21**	228 445	119,74
Granted	**160 000**	**234,51**	105 000	134,67
Lapsed	**–**	**–**	(20 000)	39,10
Exercised	**(28 945)**	**40,45**	(12 500)	208,91
End of the year	**432 000**	**188,53**	300 945	153,21

The options outstanding at June 30 2014 have an exercise price in the range of R68,30 to R235,57 (2013: R39,10 to R208,91) and a weighted average contractual life of 0,75 to 9,8 years (2013: 0,5 to 9,8 years). The average share price of The Bidvest Group Limited during the year was R265,83 (2013: R221,27).

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

	2014		2013	
	Number	**Average price R**	Number	Average price R
2004 and prior	**–**	**–**	17 500	51,51
2005	**7 500**	**68,30**	11 445	68,30
2011	**32 500**	**135,00**	40 000	135,00
2012	**127 000**	**134,56**	127 000	134,56
2013	**105 000**	**208,91**	105 000	208,91
2014	**160 000**	**234,51**	–	–
	432 000	**188,53**	300 945	153,21

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

27. Share-based payments *continued*

27.1 Share option scheme *continued*

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

	2014	2013
Fair value at measurement date (Rand)	82,79 – 83,07	68,05
Exercise price (Rand)	221,40 – 237,54	208,26
Expected volatility (%)	21,88 – 27,90	28,39
Option life (years)	4,00 – 6,00	4,00 – 6,00
Distribution yield (%)	2,69 – 2,71	2,88
Risk-free interest rate (based on National Government Bonds) (%)	8,09 – 8,24	6,15

The volatility is based on the historic volatility.

27.2 Share purchase scheme

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

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

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

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

	2014		2013	
	Number	Average price R	Number	Average price R
Beginning of the year	8 963	104,34	12 890	107,33
Repurchased	(4 005)	100,48	–	–
Shares taken up by staff	–	–	(3 927)	105,71
End of the year	4 958	100,48	8 963	104,34

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

	2014 R'000	2013 R'000
Share-based payment expense recognised relating to the share options and share purchase scheme	5 238	1 384

28. Key assumptions

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

28.1 Investment securities

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

28.2 Credit impairment losses on loans and advances

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

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

28.3 Income taxes

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

28.4 Impairment of non-financial assets

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

28.5 Residual value of leased assets

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

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

28.6 Leased assets – maintenance obligation

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

29. Prior period errors and related restatements

29.1 Reclassification of operating expenses to fee and commission expense

Card expenses were reclassified from other operating expenditure to fee and commission expenses as they are directly incurred in relation to revenue earned. The 2013 comparatives have been restated as follows:

Statement of comprehensive income:	Effects on 2013 R'000
Decrease in other operating expenditure	35 937
Increase in fee and commission expense	35 937

30. Adoption of new and revised standards

Standards and interpretations adopted with no effect on financial statements

The following new and revised standards and interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements.

Standard	Effective date
IFRS 10 – *Consolidated Financial Statements*	January 1 2013
IFRS 12 – *Disclosure of Interests in Other Entities*	January 1 2013
IFRS 13 – *Fair Value Measurement*	January 1 2013
IAS 19 – *Employee Benefits*	January 1 2013
IAS 27 – *Separate Financial Statements* (2011)	January 1 2013
Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	January 1 2013
Government Loans (Amendments to IFRS 1)	January 1 2013
IFRS 11 – *Joint Arrangements*	January 1 2013
IAS 28 – *Investments in Associates and Joint Ventures* (2011)	January 1 2013
Annual Improvements 2009 – 2011 Cycle	January 1 2013
Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	January 1 2013
IFRIC 20 – *Stripping Costs in the Production Phase of a Surface Mine*	January 1 2013
Annual Improvements 2009 – 2011 cycle Makes amendments to the following standards: > IFRS 1 – Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets; > IAS 1 – Clarification of the requirements for comparative information; > IAS 16 – Classification of servicing equipment; > IAS 32 – Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 – *Income Taxes*; and > IAS 34 – Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 – *Operating Segments*.	January 1 2013

30. Adoption of new and revised standards *continued*

Standards and Interpretations in issue not yet adopted

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

Standard	Effective date
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	January 1 2014
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	January 1 2014
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	January 1 2014
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	January 1 2014
IFRIC 21 – *Levies*	January 1 2014
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	January 1 2014
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	January 1 2014
Annual Improvements 2010 – 2012 Cycle > IFRS 2 – Amends the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition' and 'service condition"; > IFRS 3 – Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date; > IFRS 8 – Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly; > IFRS 13 – Clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only); > IAS 16 and IAS 38 – Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount; > IAS 24 – Clarifies how payments to entities providing management services are to be disclosed; > IFRS 1 – Clarifies which versions of IFRS can be used on initial adoption (amends basis for conclusions only); > IFRS 3 – Clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; > IFRS 13 – Clarifies the scope of the portfolio exception in paragraph 52; and > IAS 40 – Clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	January 1 2014
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	January 1 2016
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	January 1 2016
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	January 1 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	January 1 2016
IFRS 14 – *Regulatory Deferral Accounts*	January 1 2016
IFRS 15 – *Revenue from Contracts with Customers*	January 1 2017
IFRS 9 – *Financial Instruments* (2014)	January 1 2018

Annexure A

Interest in subsidiaries

Investment in:	Number of shares in issue	Number of shares held	Effective % held	**2014 R'000**	2013 R'000
Direct subsidiaries					
Viamax (Pty) Limited	10 000 000	10 000 000	100	**15 000**	15 000
McCarthy Retail Finance (Pty) Limited	99	99	100	*	*
Indirect subsidiaries					
Bidvest Capital (Pty) Limited	8 001	8 001	100		
Viamax Fleet Solutions (Pty) Limited	40 000 000	40 000 000	100		

* *Less than R500.*


100000
10000
8000
6000
4000
2000
0
-2000
-4000
-6000
-8000
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep


Success
Solution
Business Strategy
Innovation
Branding
Solution
Marketing
Analysis
Ideas
Success
Management
Innovation
Branding
Solution
Marketing
Analysis
Ideas
Success
Management
SOCIAL NETWORK
Oct
Nov
Dec