Bidvest Bank
Let's get it done

2019 Integrated Annual Report

Contents

How to navigate our report

Throughout our integrated annual report, the following icons are used to provide linkages to relevant aspects or indicate where further detail is available:

This icon signifies related information elsewhere in this report.

This icon signifies related information available online at www.bidvestbank.co.za.

About this report

Bidvest Bank Limited is pleased to present its 2019 integrated annual report.

Scope and boundary

This integrated annual report covers all the operations and performance of Bidvest Bank for the year ended 30 June 2019. The information in this report has been chosen to cater for the interests of all our stakeholders, but with specific emphasis on our investors and funders. We believe the report will provide stakeholders an overview and understanding of the Bank's business model, how we provided value to society in 2019, and an insight into our operational and financial performance, our strategic objectives and our most important risks and opportunities.

Materiality

The selection of information covered in this report was informed by inputs from our stakeholders and was refined through engagement with the executive management and Board of Directors (the Board) of the Bank.

Reporting comparability

There has been no change in the scope and boundary of this report relative to the 2018 report.

Frameworks applied

In selecting the content for this report, we have used the reporting principles and guidelines provided by International Financial Reporting Standards (IFRS), the JSE Listings Requirements, the International Integrated Reporting Council's (IIRC) Framework (the Framework) and the King Report on Corporate Governance™ for South Africa, 2016 (King IV)*.

Assurance

Bidvest Bank utilises a combination of assurance services and functions to support the integrity of external reports and the overall assurance provided to stakeholders. Internally, assurance is required from the Bank's line and specialist functions that take ownership of and oversee risk and compliance and internal audit. In addition, independent external assurance is sought from the external auditor and regulatory inspections from our various regulators.

Suite of reports

The integrated annual report forms part of and should be read in conjunction with the annual financial statements which are available at www.bidvestbank.co.za.

Forward looking statements

This report contains forward looking statements with respect to the Bank's operations, financial position and anticipated performance. While these statements represent our judgements and future expectations, several factors may cause actual results to differ materially from our expectations. Readers are cautioned not to place undue reliance on these statements.

For further information, please contact the Bank directly at 011 407 3103.

Approval of the integrated annual report

The Board of Bidvest Bank acknowledges its responsibility to ensure the integrity of this report and confirms that this integrated annual report addresses all material matters and provides a balanced overview of the Bank and its prospects. The Board has therefore approved the 2019 integrated annual report for publication.

On behalf of the Board

Nigel George Payne
Chairman

Who we are

Where innovation and financial solutions merge, that's Bidvest Bank.

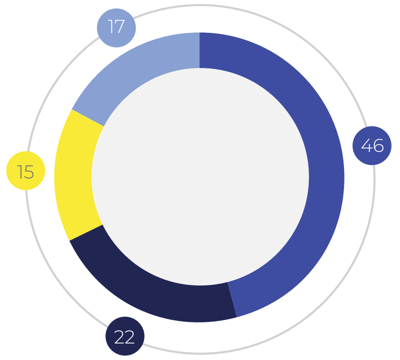
A wholly owned subsidiary of The Bidvest Group Limited, Bidvest Bank is a leading second tier South African bank whose goal is to change the way people and businesses view financial solutions, turning every opportunity into a success.

We pride ourselves in offering our customers the latest Foreign Exchange, Fleet, Business and Personal financial solutions and services. As a proudly South African company, we believe in the importance of transformation that Broad-Based Black Economic Empowerment (B-BBEE) brings. Our positive investment and contribution is a testament to our commitment as a level 4 B-BBEE contributor.

Together, let's get it done.

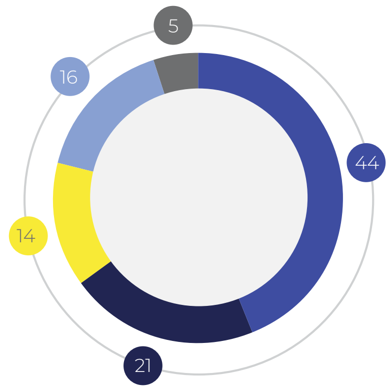
80 branches
1 124 employees

Contribution to revenue (%)



- Net income from leasing activities
- Net interest income
- Net trading income
- Net fee and commission income

Operating income composition (%)



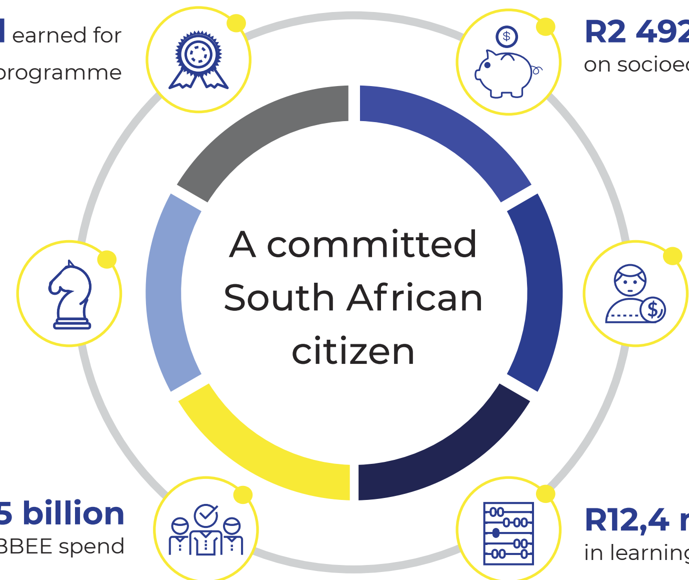
- Net income from leasing activities
- Net interest income
- Net trading income
- Net fee and commission income
- Other

Business Banking | **Personal Banking** | **Fleet Solutions** | **Money Transfer**

International **award** earned for our **elearning** programme

R2 492 112 on socioeconomic development (SED)

Recruitment of **100%** of competent learners on learnership and graduate programmes



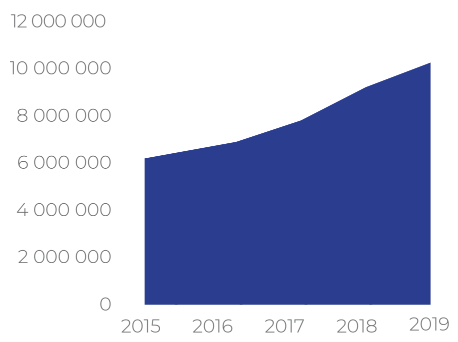
R621 231 spend on corporate social investment (CSI)

R1,5 billion B-BBEE spend

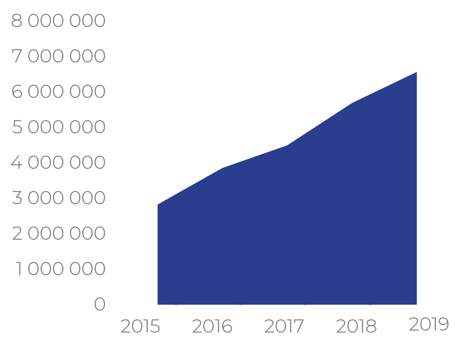
R12,4 million in learning initiatives

One of the fastest growing banks in South Africa

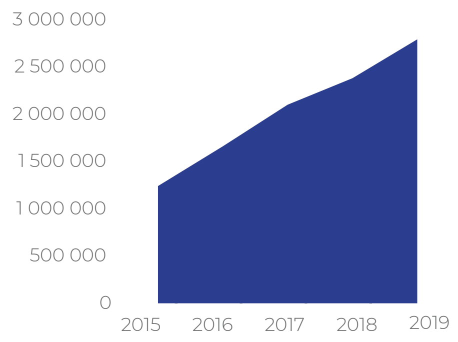
Total assets (R000)



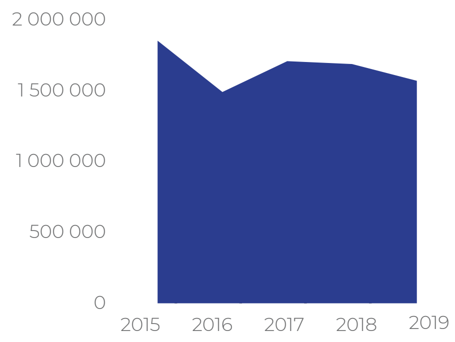
Deposits (R000)



Loans and advances (R000)



Leased assets (R000)



Our vision and mission

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

We differentiate ourselves from our competitors in the way in which we service and look after our customers. Our brand mantra of 'let's get it done' provides us with a purpose – for us, it is all about getting things done, in a unique manner that is constructed upon our culture and values.

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

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

Service standards: C²ARES

Our service standards are aligned to our Company values. We are committed to serve our customer through the C²ARES service standards across all customer touchpoints.

Our values

The moral compass that drives our behaviour.

Listen

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

Respect

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

Energy

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

Honesty

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

Quality

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

Innovate

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

Our history

1998
The Bidvest Group **acquires 100% of the Rennies Group**, which includes the Rennies Foreign Exchange business.

2000
The Bidvest Group is granted a banking licence as Rennies Bank, including the Rennies Foreign Exchange business. Rennies Foreign Exchange **launches international money transfers via MoneyGram**.

2007
The Bidvest Group leverages the equity of the Bidvest brand and **rebrands Rennies Bank as Bidvest Bank. Focused drive** to attract and retain talent with **banking expertise**.

2008
Flagship Foreign Exchange product, **World Currency Card™**, launched. **Global Payments Online™ international trading platform** launched.

2009
Savings and Investment accounts launched to market. Bidvest Bank acquires McCarthy Fleet Solutions from the McCarthy Group and offers **Fleet Finance and Management Services**.

2010
Credit and lending expertise join the Bank.

2011
Personal Transactional Banking launched.

2015
Business Transactional Banking launched.

2016
Business philosophy **'let's get it done'** communicated to market.

2017
Bidvest Bank launches **Business Merchant Services**.

2018
Bidvest Bank Grow Account™ launched.

South Africa's leading niche bank

Our products and services

Business Banking

- Business Bank Account
- Business Payment Card
- Savings and Investments
- Asset-based Finance
- Foreign Exchange
- International Payments
- Trade Services
- Merchant Services
- Treasury Services

Money Transfer

- MoneyGram
- Western Union

Personal Banking

- Bidvest Bank Grow Account™
- Savings and Investments
- Foreign Exchange
- International Payments
- Financial Emigration Services
- Offshore Investments

Fleet Solutions

- Finance
- Maintenance
- Value-added Services

How we provided value in 2019

As a proudly South African bank, we aim to deliver consistently on our promises and be accessible, approachable and responsive in everything we do. We aspire to put our customers first by innovating and delivering services and solutions that serve their needs.

R469 557 500
Salaries and benefits paid

R3 911 439
Contributed to skills development levies

1 124
Employees of which

25%
are black, Asian and coloured males and

46%
are black, Asian and coloured females

R898 604
Provided to employees for external bursaries

R2 492 112
Contributed to SED

R157 500 000
Dividends were paid to the Bank's sole shareholder

R621 231
Contribution to CSI

R1 677 891 729
Paid to suppliers

R329 394 000
Contribution to government in taxes

Our business model

Our entrepreneurial DNA, corporate structure and choice of markets generate consistent healthy returns.

Our inputs

Human Capital comprises the diverse employees we attract and retain through a competitive employee value proposition

The communities in which we operate, our suppliers, regulators and the general public form the core of our **Social and Relationship Capital**

Natural Capital – as an organisation we have a low environmental impact. Our facilities and assets reflect our efforts to minimise this impact further

Manufactured Capital – our infrastructure, branches and technology utilised in delivering our products and services to customers

Financial Capital – our equity and reserves are maintained to provide a well-capitalised base to support our business activities and aspirations

Intellectual Capital – our brand, specialised skills and expertise, as well as institutionalised knowledge and knowhow

Values, principles, robust governance and prudent risk management

Our business activities

- Global payment expertise
- Externalisation of funds
- Credit
- Savings and Investments options
- Fleet Solutions
- Transactional Banking facilities
- Strategic acquisitions
- New product and solution development
- Partnerships to diversify product offerings
- Treasury Services

Our outputs

- Foreign Exchange
- Savings and Investments products
- Transactional Banking
- Business Banking
- Merchant Acquiring
- Loans
- Fleet and Asset Finance
- Structured Trade Finance
- Personal Banking

Innovation, management and technology

Our outcomes

- Strengthened customer relationships and a growing customer base
- Strong strategic partnerships
- Engaged, skilled and motivated employees and a high-performance culture
- Advanced technology, designed to serve our customers' changing needs
- An established branch network
- Strong risk management, compliance and governance frameworks
- Mutual trust and respect from customers, suppliers, regulators and society

Offers the biggest selection of prepaid foreign currency cards

Provides the country's widest range of foreign banknotes

South Africa's third largest vehicle leasing business

Operating context

Over the past financial year, Bidvest Bank – and other industry players – have operated within volatile economic and political conditions.

In a year characterised by no real gross domestic product (GDP) growth, tightened consumer spending, reduction in foreign direct investment (FDI) and political instability, Bidvest Bank has managed to navigate the macroenvironment and deliver value to customers and key stakeholders. There are several medium to long-term trends in our sphere of business that are presenting risks and opportunities for the Bank, and which continue to influence our strategy going forward.

Technology

Technology continues to play a central role in shaping modern banking. Developments in technology and innovation have accelerated accessibility considerations – banks need to align to how and when customers want to bank.

Artificial intelligence (AI) and cognitive technology are enabling banks around the world to improve customer experience and streamline processes in order to improve efficiencies. Big data has provided invaluable insight into customer behaviour that has allowed banks to developed tailormade customer-focused outcomes, improve credit scoring and reduce fraud.

By adding automation to traditionally human-driven processes we have developed apps to facilitate accessibility and on-demand banking and a growing array of cardless payment options.

Competition

We remain the leading niche bank in South Africa. Together with other challenger banks, we are creating an environment where people are more likely to switch service providers, and which we believe will work in our favour in the long term. A number of new banks entered the industry over the past year, which has increased competition for customer numbers. It has also stimulated the market and made it more competitive and more exciting than it has been for several years. These virtual banks, in comparison to those founded on bricks and mortar, are forcing the industry into a positive new direction and stimulating people to think about other banking options.

Regulation

The potential impacts of combining 'twin peaks' of the South African Reserve Bank (SARB) and the Financial Sector Conduct Authority (FSCA) into one central prudential authority had many industry players unsettled. However, we are pleased that there have been no significant effects and for all intents, it is business as usual.

IFRS 9 was introduced as the new accounting standard to account for impairments and bad debts. This resulted in a nominal R6 million adjustment on our balance sheet. Aside from this, it did not have much impact and has been readily adopted as the new base from which we operate.

General economic overview

While load-shedding had a significant impact on growth during the first half of 2019, South Africa's leading indicators suggest that underlying growth momentum has remained sluggish, and even more so during the second half of the year. Factors such as persistently subdued consumer and business confidence and the absence of meaningful progress on the policy reform continue to feature prominently, underscoring the fragile state of the economy. Economic growth forecasts for South Africa have been consistently revised lower through the course of the year as the structural impediments to growth remain entrenched while the global economy experiences a slowdown.

The chronically weak economic growth environment in South Africa has crippled revenue intake while the government remains on the hook for bailing out South Africa's state-owned enterprises, such as Eskom. This has put a tremendous amount of pressure on South Africa's fiscal position and increased the risk of the country slipping into a debt trap. Against this backdrop, the pressure on the government to implement growth enhancing reforms has ramped up, and it has become clear that bold steps are required to put the economy on a more sustainable path.

Trade

Up until August 2019, South Africa had recorded a trade shortfall of just under R1 billion for the year. This compares with a surplus of around R5 billion in the corresponding period of 2018, indicating that South Africa's trade dynamics have weakened. As a commodity exporter, South Africa's terms of trade have deteriorated as weaker external demand from the likes of China and the ongoing US-Sino trade war have weighed on commodity prices.

On the one hand, downside risks to the oil price due to the weakening global growth outlook should help alleviate pressure on imports, which is supported by the soft domestic demand environment and sluggish domestic capital expenditure. However, external demand and concerns over systemic risk from China remain pervasive headwinds, particularly at this late stage of the global business cycle, suggesting that downside risks exist to South Africa's trade outlook.

South African rand outlook

It has been a challenging trading environment for the rand on a year to date basis as domestic fiscal risks and fundamental pressures have left the local unit particularly vulnerable to the deterioration in risk appetite that has materialised amid global trade tensions and growth fears. For the year through September 2019, the rand had depreciated 2,3% against the US dollar.

While the overvalued nature of the US dollar and a shift toward more accommodative global monetary policy could support a rand recovery in the short to medium term, recent international developments have pointed to a looming downturn in economic activity across the developed world, which will in turn spill over into the emerging market space. Investors are expected to become increasingly judicious over where they allocate their capital, which could test the resilience of many high-risk currencies. Against this backdrop, the rand may turn susceptible to bouts of depreciation, unless South Africa's fiscal and fundamental metrics improve drastically.

Strategic objectives and performance

As a wholly owned subsidiary of The Bidvest Group Limited, Bidvest Bank is proud of our association with Bidvest. We are well positioned as South Africa's leading second tier bank, and we are driven by an entrepreneurial spirit to change the way people and businesses view financial solutions, turning every opportunity into a success.

We consider ourselves a challenger bank – we have an agile and unusual approach to banking and problem-solving, buffered by a cautious outlook on risk. We pride ourselves in offering our customers the latest Foreign Exchange, Fleet, Business and Personal financial solutions and services.

Our long-term strategy remains focused on the diversification of our income streams while at the same time maintaining our cautious approach to risk. This combined with our brand ethos of 'let's get it done', has once again proved a successful journey for us over the past 12 months.

In line with our vision to offer a broader range of services to our customers, we continue to focus on our key competencies within Fleet and Foreign Exchange. In addition, the Bank has progressed a number of strategic initiatives to improve customer experience and enhance our growth prospects.

Our products

- Business Banking – growth via Lending, Acquiring, Deposits and Transactional Banking.
- Personal Banking – Grow Account™ launched in 2018, and we have secured non-exclusive agreements with both MoneyGram and Western Union for Bidvest Bank customers; a first for South African money transfer providers.
- Treasury – shift beyond being just a service provider to the business, to become a revenue generator and to retain and improve our yield on cash.
- Fleet – our offer to purchase the Eqstra Fleet business is pending regulatory approval, and the Transnet heavy commercial contract kicks off in the new financial year.
- Foreign Exchange – the globalised World Currency Card™ programme launched in Lebanon, Mauritius and Namibia.

Financial performance

- Deposits were 15,4% higher with the Business and Personal Banking offerings delivering an increase in profits and showing pleasing signs of growth.
- Our cash is up from R3 614 million in 2018 to R4 126 million in 2019.

Operational review

The Bank's focus on diversification has seen us grow both our leasing and non-leasing assets, and we are now taking that strategy a few steps further. Our leasing activities are spread across the public and corporate sectors and our funding book features retail and commercial products – with both term and non-term deposits on the balance sheet. The benefits of our strategy can be seen in our net interest income growing by 17,78% and through maintaining a strong focus on cost management.

Stakeholders

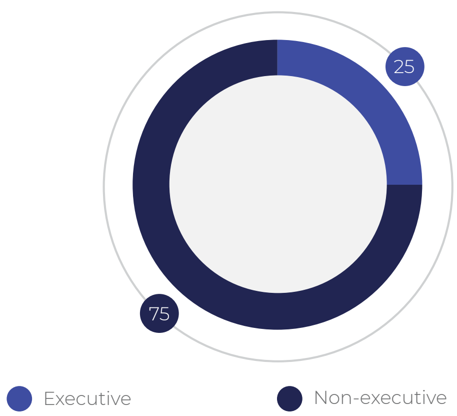
- New external alliances have been established including for complex formal emigration applications, with a range of account options, payment methods and safe custody services.
- New travel solutions have been implemented by integrating with travel partners' processes and developing a common understanding of customers/offerings and defining points of customer interaction. Competitive payment solutions have been developed, including Foreign Exchange online ordering with delivery to our customers' doors.
- Trade solutions have been further developed during the period, including structured trade finance.
- Continued focus on the information technology (IT) strategies of the Bank to harness competitive advances in technology.

This approach has been recognised by Moody's – our rating remains as Aa2 – a rating well in excess of the other niche banks in South Africa and one that has seen us grow our secured lending books. Another credit to our strategy was being ranked third in the Forbes Banking Satisfaction Survey.

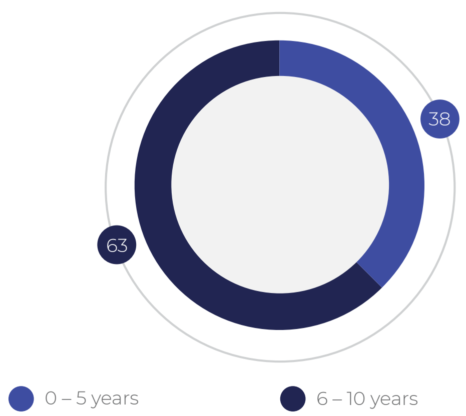
As we move into 2020, we maintain this vision and will continue to invest in our people, products and IT solutions.

Board composition analysis

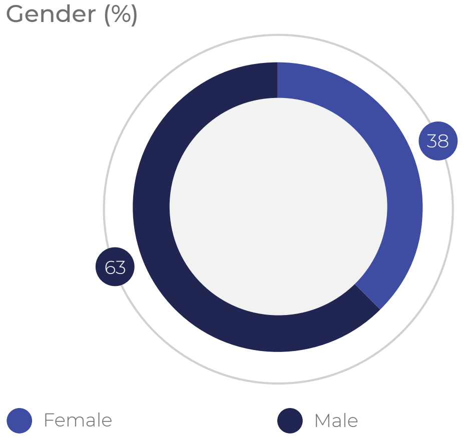
Structure (%)



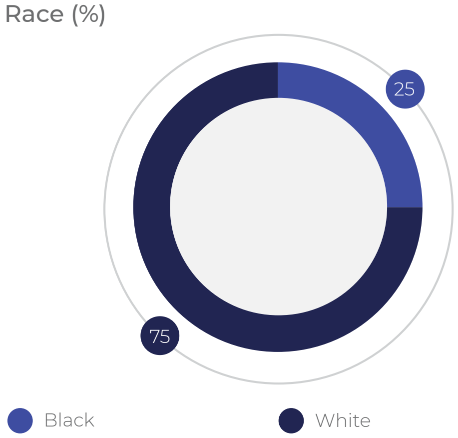
Length of tenure (%)



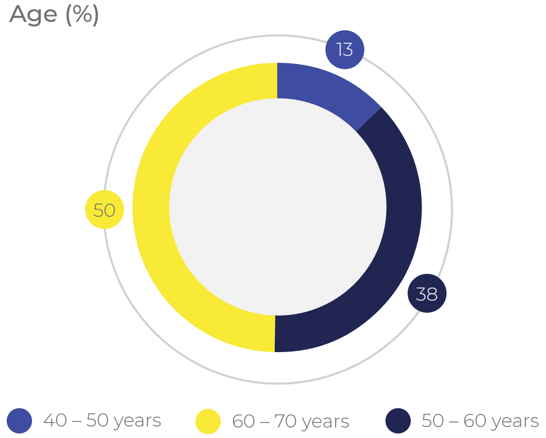
Gender (%)



Race (%)



Age (%)



Skills

The Board's combined experience covers corporate finance and banking, auditing and accounting, business management and corporate governance, business administration and leadership of large listed and unlisted organisations.

Name	Position	Structure	Age	Appointment date	Tenure	Gender	Race
Nigel George Payne	Chairman	Non-executive	59	1 August 2009	10	Male	White
Alastair Dunmore Cunningham		Non-executive	63	1 June 2015	4	Male	White
Eric Kevin Diack		Non-executive	62	23 May 2011	8	Male	White
Nompumelelo Thembekile Madisa		Non-executive	40	8 December 2016	3	Female	Black
Renosi Denise Mokate	Lead independent	Non-executive	61	1 July 2013	6	Female	Black
Lindsay Peter Ralphs		Non-executive	64	8 December 2016	3	Male	White
Jacob Jozua van Niekerk	Managing Director	Executive	56	1 October 2013	6	Male	White
Marthinus Johannes Liebenberg	Financial Director	Executive	54	1 January 2013	6	Male	White

Chairman's report

Bidvest Bank remains Proudly Bidvest, and maintains our commitment to contribute to an improved South African economy and society.

Nigel George Payne
Chairman

I am privileged on behalf of our Board to report to our shareholder, our regulators, our clients, our people and all our other stakeholders that Bidvest Bank has produced an acceptable performance this year, notwithstanding a difficult economy characterised by low business and consumer confidence.

In line with our vision to offer a broader range of services to our clients, and our mission 'let's get it done', while continuing to focus on our key competencies within Fleet and Foreign Exchange, the Bank has progressed a number of strategic initiatives to improve customer experience and enhance our growth prospects. The Bank and our employees have received awards acknowledging our excellent customer service, which positions us well to compete with a number of new entrants in the digital banking space.

Executive Committee

Back row
Thinus Liebenberg
Mkhuseli Setuse
Japie van Niekerk
Neil Capazorio

Front row
Alexia Shuenyane
Frikkie Hanekom
Di Crawley
Russell Fogg
Jodi Raviv
Jill Murtagh

We have further strengthened our balance sheet and deposit base, and are well set for growth, including as a result of our offer to purchase the Eqstra Fleet business, subject to regulatory approval. On behalf of the Board, our executives and all our employees, we look forward to welcoming you and your clients to the Bidvest Bank family. We will have an exciting future together.

This has been a tumultuous year for South Africa, with rising uncertainty in the local and global economies. Exchange rate volatility, a slowing economy, reduced availability of credit insurance and the increased risk of impaired loans have required robust discipline in credit granting, thus inhibiting some anticipated growth initiatives. Notwithstanding the difficulties in growing our revenue, the Bank has continued to invest in technology and in our regulatory and compliance teams, ultimately to ensure we meet the needs of our customers. Further detail is provided in the reports by our Managing Director and Financial Director, and in this integrated annual report.

We are pleased that the Bank has been afforded a credit rating well in excess of the other niche banks in South Africa. We believe this recognises our cautious tolerance of credit risk, matched with an entrepreneurial approach to opportunities, particularly in secured lending. We are proud of the Bidvest brand and the opportunities it presents us with. We have a seasoned executive team that is aligned to the Bank's strategic vision. A number of large depositors have taken the opportunity to entrust some of their funds to us.

Our governance report details various aspects of the performance of the Board, all of which I believe were appropriately executed. The Board committees carry a significant workload in ensuring that we continue to bolster our Human Capital and reward our people appropriately, mitigate risk, comply with laws and regulations, while still pursuing our strategic objectives.

Thank you to my fellow Board members for your wise counsel and ongoing commitment. The Board comprises a majority of independent non-executives, with an appropriate mix of skills and banking experience. Board meetings are strategically focused, with robust discussion and effective decision-making. In line with regulatory requirements, the Board has embarked on a significant refresh, which will include the retirement of three directors and the appointment of suitable replacements. As part of this process, Alastair Cunningham replaced Eric Diack as Chairman of the Audit Committee.

We are grateful to our shareholder for your ongoing support, and to our regulator for an appropriately robust but arm's length relationship. Bidvest Bank remains Proudly Bidvest, and maintains our commitment to contribute to an improved South African economy and society.

Nigel George Payne
Chairman

Managing Director's report

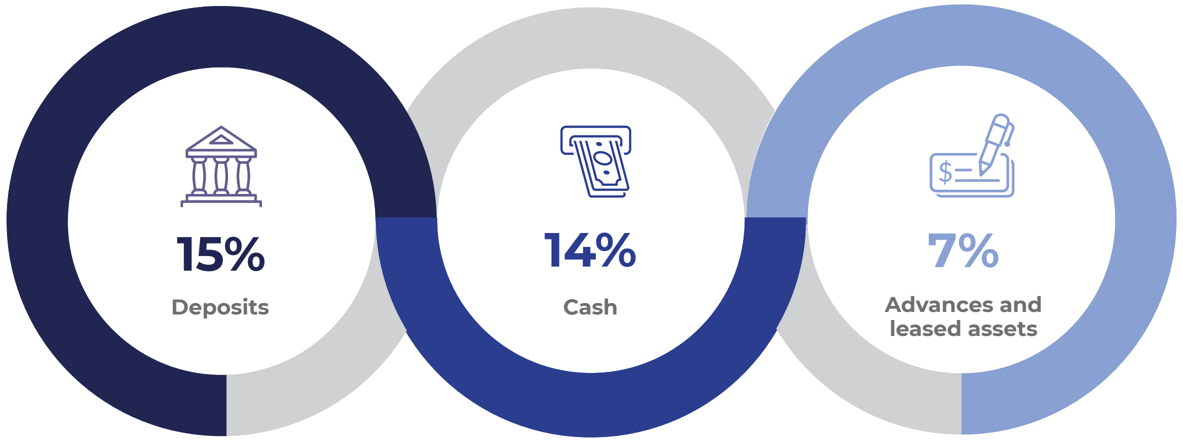
Bidvest Bank demonstrated a satisfactory operational performance in the period under review. Bidvest Bank increased trading profit, despite receiving no contribution from any large Fleet contracts and with certain contracts running down, specifically Transnet and Telkom.

Japie van Niekerk
Managing Director

Our defaults and provisions were kept to a reasonable level, and we maintained our focus on credit processes to ensure risks we take on board are judicious. Our deposits continue to grow, and our cash is up from R3 614 479 in 2018 to R4 126 987 in 2019.

Deposits were 15,4% higher with the Business and Personal Banking offerings delivering an increase in profits and showing pleasing signs of growth.

Continued solid balance sheet growth



Key highlights and challenges

Operating in the context of some of the toughest economic conditions South Africa has faced in a long time, at Bidvest Bank we continue to punch above our weight.

- The highlight for 2019 was undeniably the move into our brand new Sandton head office. After more than three decades in our Braamfontein building, the move was, in many ways, invigorating and imparted a sense of a renewed lease on life. Our arrival in Sandton's central business district (CBD) has reaffirmed our position as the leading second tier bank in South Africa – one which challenges the current industry leaders.
- We once again retained our Moody's rating as Aa2. Our strategy remains focused on diversification and acquisition, and our appetite for risk is prudent. We are always on the lookout for new opportunities but remain cautious that we do not take on unreasonable risks amid challenging market conditions.
- In 2018, we launched some of our most innovative Business and Personal Banking products, and we are delighted that both areas of the business have made the growth budgets that were set for the past financial year and continue to demonstrate good traction.
- We launched an integrated customer banking app that we are very proud of.
- Bidvest Bank was ranked third in the Forbes Banking Satisfaction Survey.

Operational performance

Business Banking

Our new operating model is beginning to show results, and this is evident in the 3,36% growth in profit. This new model segments our stakeholders and ensures we deliver the correct level of service and support to our Business Banking customers. Bidvest Merchant Services had a very good year increasing acquiring turnover by 68%. The business is now profitable and on a strong growth trajectory – it has a particularly strong presence in ecommerce with card-not-present transactions.

Personal Banking

Our strategic alliances continue to bear fruit, in particular our partnership with Old Mutual, which has resulted in increased customer numbers and profit. The launch of Grow Account™ was successful, and we have grown adequately. We are transitioning and re-engineering our Money Transfer business to set it up for growth in the future and to ensure it remains competitive. As such, we have secured non-exclusive agreements with both MoneyGram and Western Union for Bidvest Bank customers; a first for South African money transfer providers.

Treasury

Treasury had a very good year and continued to provide a good yield on cash by managing the operating environment tightly and successfully. The team signed up a number of clients for its Treasury Outsourced Company offering and is now providing services to several outsourced treasuries. We see this as a potential growth area.

Fleet

Fleet continues to be impacted by slow decision-making within the public sector. Although we did not take any new fleet contracts on board during the past financial year, we were delighted to win the Transnet heavy commercial vehicle tender. Implementation of this will take place during FY20 to ensure benefits flow through in the years to come.

The agreement to acquire 100% of Eqstra Fleet Management and Logistics remains subject to various approvals. Eqstra is a comprehensive fleet leasing and management solutions business, mainly servicing the corporate sector, with some 12 300 vehicles under lease and 120 000 fleet products under management. The effective date of the transaction is expected towards the end of calendar 2019. This acquisition will enhance Bidvest Bank's focus on its Fleet Management niche and result in funding, scale and operational efficiencies and a more balanced fleet exposure.

Foreign Exchange

The globalised World Currency Card™ programme launched in Botswana, Lebanon, Mauritius and Namibia. We have also taken our Foreign Exchange ordering out of the branch network and moved it online.

People

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

We have a strong focus on education and job creation projects as part of our overall CSI strategy, and we also invest significantly in the development of our own people by funding several internal courses, leadership bursaries and operating our graduate programme.

In the current socioeconomic environment, we believe it is vitally important to look after our employees and provide them with compelling reasons to remain with us. Wherever possible, we promote people from within and develop talent to feed our growth pipeline.

The Bank's B-BBEE rating under the financial sector rating code is 4. Areas of activity in which the Bank can improve its rating have been identified and a programme to achieve improvements is under way.

Looking ahead

I look forward to the new financial year, as we have several positive initiatives lined up.

The new Transnet heavy commercial contract, which was recently awarded to the Bank, is expected to make an important contribution and vehicle deliveries have started. Management is intensely focused on marketing and efficiency campaigns, and cost control throughout the business is a key imperative.

An increase in transactional and lending activities in Business Banking is being planned, as well as continued growth in individual and business deposits.

Transformation remains central to our journey, and we aim to achieve level 3 B-BBEE status by June of our next financial year.

We are also embracing technology and innovation in the Bank. Our website is being revamped with a brand refresh and we will be introducing a new online platform for Business Banking. Next in line is an online money transfer option and an enhanced Bidvest Bank app to provide an integrated approach to our product offering.

The Bank is well positioned to capitalise on all these opportunities as we journey into 2020 with renewed purpose.

Financial Director's report

Thinus Liebenberg
Financial Director

The Bank managed to end profit before tax up 3% year on year. A lot of good work has been done to ensure that we build a sustainable base that will enable us to continue growing our four pillars (Fleet, Business Banking, Retail Banking and Treasury).

Business and Retail Banking profits are showing some pleasing results with revenue up on the prior year. Business Banking sales are encouraging, as we are focusing and attracting more high-value deals. We are in the process of revising our Retail Banking model with a revised look at our branches and our new remittance strategy. Our issuing business including the Old Mutual Money Account is showing some pleasing growth. Fleet business profits are flat on the prior year. Our diversification strategy is to focus on growing our corporate fleets (while continuing to grow our public sector business) and continue growing our annuity income from Banking and Treasury Services.

Cost management and our negative JAWS remains one of our biggest focus areas. The year-on-year cost growth of 18% includes once-off costs relating to the bank and master currency branch closures during the first quarter.

Our balance sheet continues to grow. Corporate advances have increased by 17,3% year on year. Deposits have increased by 15,4% year on year and investment securities increased 49,7% on the prior year. Capital has increased by 6,6% year on year. The Bank remains adequately capitalised with our qualifying capital adequacy ratio (CAR) of 22,9% being well above the SARB minimum

requirements. Cash and cash equivalent balances increased by R513 million on the prior year mainly due to deposits increasing by more than advances and leased asset balances combined. The Bank remains adequately liquid during the year with a liquidity coverage ratio (LCR) of 177%.

We increased our yield on cash and continuously focus on increasing our yield on surplus cash.

So far, we have avoided any significant defaults despite an economy under pressure. We are monitoring this through strong credit application and monitoring disciplines and an increased focus on collections.

We are busy finalising the Eqstra acquisition opportunity which, if approved, will enhance our diversification of our Fleet business.

Salient features

Profit before tax **R432 million** **▲ 3,04%**	Tightened cost management with costs only increasing by **18,02%*** * *Operating expenses and indirect taxes.*
Strong balance sheet maintained and well capitalised	Total assets increased to **R10,2 billion** **▲ 11,32%**
Deposits increased to **R6,5 billion** **▲ 15,41%**	Cash balances increased to **R4,1 billion** **▲ 14,18%**
Diversification of income streams continued across the Bank with new products launched to support our strategy	Maintained a **Level 4** B-BBEE rating (new codes)
CAR **▲ 22,85%**	Return on equity **▼ 3%**

> Accomplishments will prove to be a journey, not a destination.
> – Dwight D Eisenhower

Stakeholder review

Stakeholder engagement

Our people

Key highlights

- Competitive employee value proposition
- International award for elearning journey
- Invested R12,4 million in learning initiatives
- Improved on our employment equity score on our scorecard

Challenges

- Talent retention
- Strengthening capabilities at leadership levels

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

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

The four key areas that contribute to this:

1. Talent attraction, development and retention

The Bank actively seeks to attract talent that embodies entrepreneurial and innovative thinking. Our talent review sessions enable proactive measures to be taken in managing the talent across the Bank and ensures our valuable people are rewarded, developed and retained.

2. Diversity and transformation

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

3. Strengthening capabilities

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

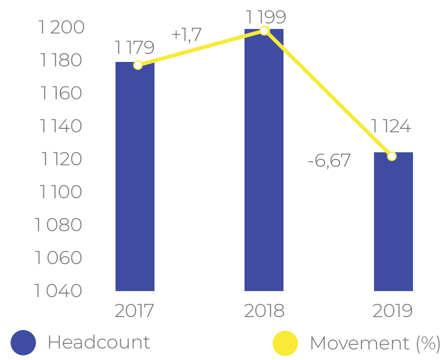
4. Inspirational leadership

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

Building our people

The Bank strives to be an employer of choice by fully optimising talent capacity and setting them up for success. Over the past year, our team has decreased by 6,67% from 1 199 to 1 124.

Headcount movement

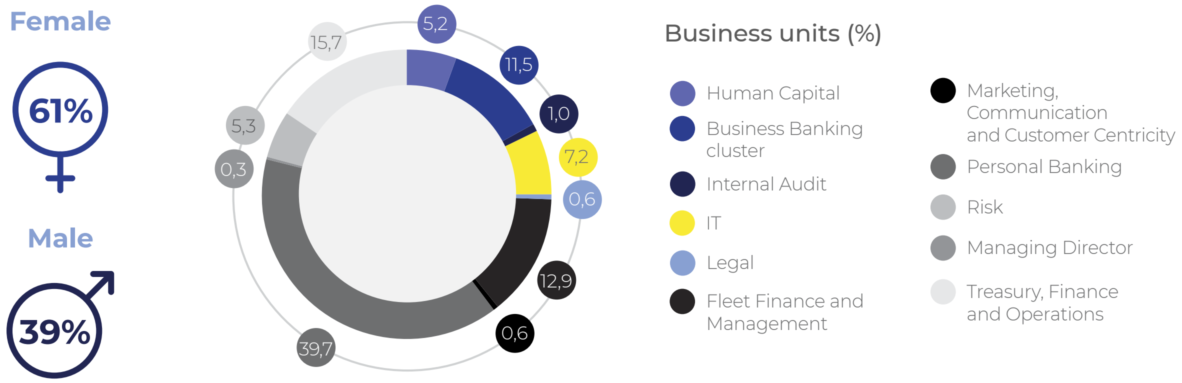


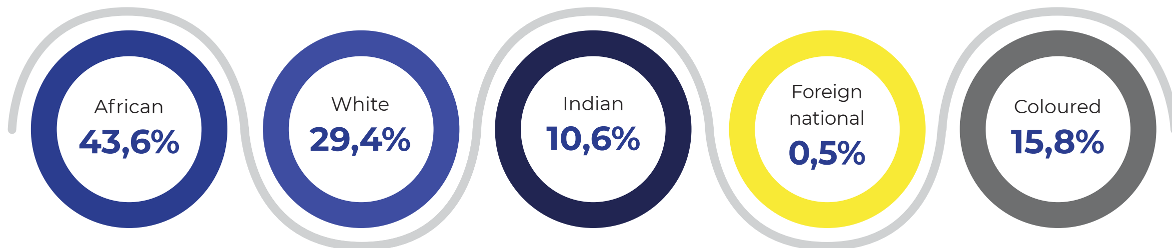
Talent attraction, development and retention

Driven by the Human Capital team, our employee value proposition provides our employees with a variety of benefits and rewards. The various components contribute to creating a strong employer brand, engaging and motivating employees, and positioning the Bank as an attractive option for key talent.

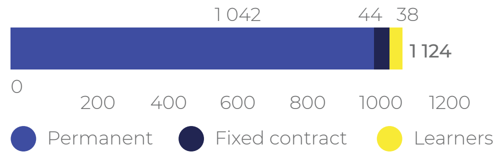
Diversity and transformation

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

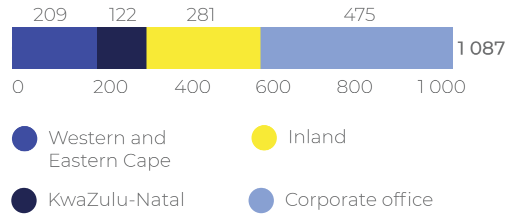




Headcount



Region



Remuneration

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

Employee wellbeing

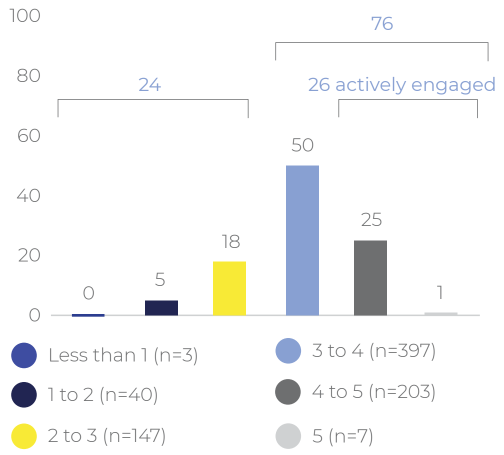
The Bank provides a 24-hour confidential support service through Kaelo (AskNelson) to employees and their immediate families to assist them to deal with personal problems impacting their personal and work lives. In addition, the Bank subscribes to online health and wellness programmes for employees and their families. The Bank hosts a wellness day for its employees every year nationally which assesses employees' health.

Employee climate survey

The Bank conducts an annual employee climate survey. This year we had a great response rate of nearly 76% of employees. The survey measured employee engagement in the workplace and the questions were asked on a six-point scale.

Bidvest Bank is currently performing relatively well as an organisation with the majority of employees (76%) being positively engaged with the organisation, which is a 1% increase from 2018 (75%).

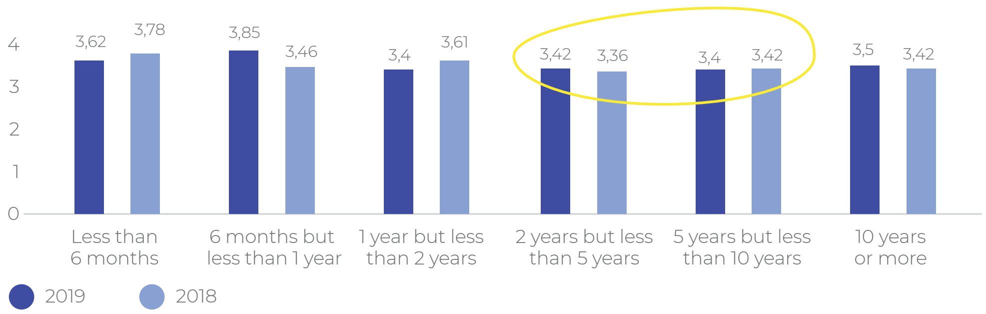
Employee climate survey (%)
Overall score: 3,46 (2018: 3,44)



The above graph shows that 76% of the Bank's employees are engaged and 26% are actively engaged, whereby employees feel a strong connection to the Bank and generally drive innovation to move the Bank forward. 24% of our employees are not engaged – this means that these employees have essentially 'checked out' and only do what is expected of them. Lastly, 5% of the Bank's employees are actively disengaged. These employees are not just unhappy, but they tend to act it out and spread their unhappiness to the engaged employees.

As seen in previous years, employees who have been in the organisation for longer periods seem to be less engaged than those that have just begun. This is a concern.

Overall score: 3,46



The graph at the bottom of page 28 concentrates on employees' tenure at the Bank. It is evident above that employees who have been here for their first year feel that they have had huge opportunity to learn and develop whereas employees who have been here for more than 10 years have started seeing a decrease in the opportunities. This could be for a number of reasons but it would appear that it is mainly due to the fact that they have been in the same role for a number of years or they are coming to up to their retirement, and therefore feel that it is no longer necessary to look for opportunities for personal growth and development.

One of the key focus areas in the employee climate survey was learning and development. The Human Capital team hosted a Go4Growth day across the regions, aimed at encouraging Bank employees to grow, develop, learn and to explore their career paths. This was also an opportunity for the different divisions to showcase their respective areas of the business.

The Human Capital team has also been working on a mentorship programme, which is aimed at encouraging employees to develop new skills and support employees to take control of their own development and work.

Building skills and capabilities

The Bank prides itself on providing a practical application of learning in the workplace. This allows us to raise the skill levels of all employees, improve work performance and contribute towards education in our country. The learning and development department promotes skills development which enables service excellence and innovation. Personal development opportunities assist in talent retention.

During 2019, 2 643 employees participated in training initiatives (includes employees attending multiple courses). External bursary funding was offered to 53 permanent employees.

Our people are fundamental to the Bank's growth and long-term value creation. Our learnership and graduate programmes, established in 2015, have resulted in the majority of candidates being placed within the Bank.

- 30 unemployed learners – national certificate in banking level 4 (1 November 2018 to 31 October 2019) – 25 completed the qualification.
- Eight unemployed graduates – advanced certificate in banking level 6 (1 November 2018 to 31 October 2019) – all graduates completed the qualification and were placed at the Bank.
- 30 employed learners – national certificate in banking level 5 (1 November 2018 to 31 October 2019) – 30 completed the qualification.
- 30 employed learners – IT agile practitioner (September 2018 to February 2019) – 29 completed qualification.

The Bidvest Bank Academy has been accredited as a service provider for assessment and delivery by the Bankseta for the national certificate in banking (National Qualifications Framework (NQF) levels 5 and 4) and advanced certificate in banking level 6.

Our Academy offers various training programmes:

- **Disability learnership – business administration level 3**

  The Bank has embarked on funding a disability learnership in partnership with LFP training consultants. The programme provides disabled learners with a business administration level 3 qualification, which creates opportunities for the learners to gain employment.

- **National certificate in banking level 4 learnership**

  The national certificate in banking level 4 2018/2019 learnership commenced on 1 November 2018 and ended on 31 October 2019. It provided a launch pad for further learning and gave learners an opportunity to gain a qualification through a structured learning programme, which is registered on the NQF.

- **National certificate in banking level 5**

  This is a one-year programme for Bidvest Bank employees from various business units and branches. This programme contributes to the upskilling of our bankers making them more competent in dealing with our customers. As part of individual career development, this programme positions each individual for future career development and growth.

- **Graduate development programme**

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

- **Leadership development programme**

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

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

Building systems

At Bidvest Bank we 'get things done' for our customers irrespective of whether they are external or internal. Our talent is supported by skills development opportunities and by the necessary systems in order to flourish.

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

- **Service standards: C²ARES**

  Our service standards are aligned to our Company values. We are committed to serve our customers through the C²ARES service standards across all customer touchpoints. The Bidvest Bank Academy has implemented training modules on customer service management, where our management and supervisors have to actively develop innovative solutions to customer problems and unpack their role in this.

- **Let's get customer service excellence done**

  The Academy offers a core skills programme for all non-management employees and it is tied in with our brand philosophy of 'getting things done' for our customers. The overall outcome of this course is to create exceptional service experiences for internal and external customers. This is achieved by incorporating Bidvest Bank's strategy with service and integrate C²ARES with all customer procedures.

- **Bidlearn product knowledge tests**

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

- **Emotional intelligence management training**

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

- **Supervisory development programme**

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

- **Learning and development plans**

  In consultation with the Heads of Departments, the learning and development (L&D) team has developed curricula for all departments in the Bank. The L&D team analysed the needs of the Bank by assessing the personal development plans aligned to the business strategy. It identified skills gaps, learning interventions and considered budgets prior to implementation.

- **Business Bankers Forum (BBF)**

  The Academy has initiated a BBF. This is an essential monthly session for all business bankers, internal bankers, corporate administration employees and support department teams. This networking and learning forum is designed to:

  - professionally develop individual skill-sets;
  - improve communications on key initiatives;
  - share best practices;
  - create a learning culture;
  - present sales figures; and
  - coaching for success.

Building knowledge

We believe that investment in education builds knowledge in our team and stronger communities. For the financial year ended June 2019, our total training spend was R12,4 million (including bursaries).

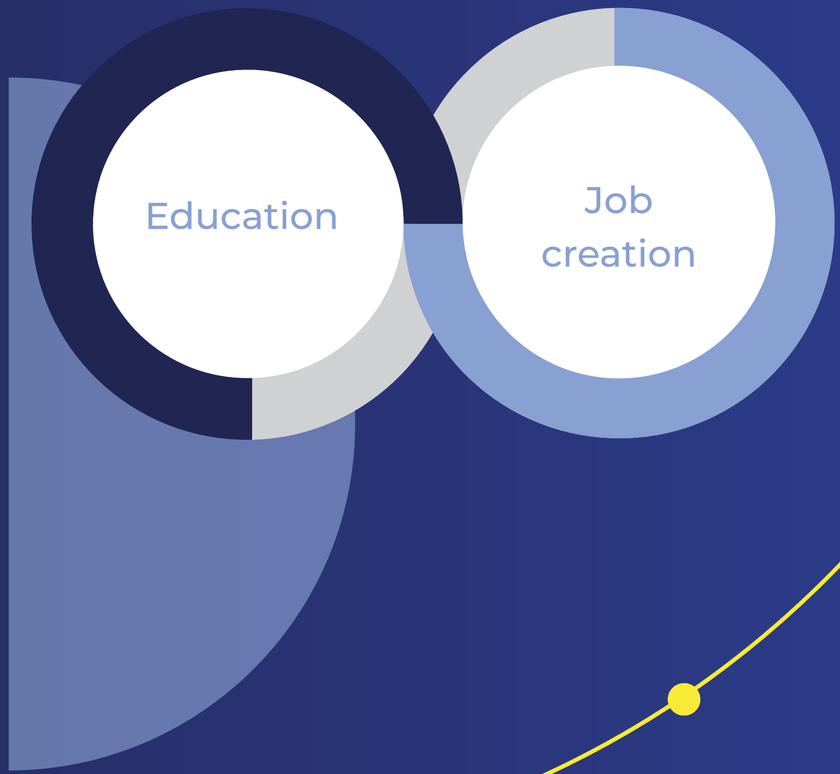
- **Bursaries**

  Our spend on bursaries for FY18/19 was R898 604,00 (FY17/18: R1 518 020,92). Self-study learning, supplemented with internal courses, has afforded our employees the opportunity to take ownership of their own development. To support this, the Bank has an internal study assistance programme for employees who wish to obtain a tertiary qualification. The aim is to enhance the supply of internal candidates for career opportunities within the Bank.

- **Employee child bursary scheme**

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

Socioeconomic development



The Bank is committed to the development and wellbeing of the communities that we serve through our CSI strategy. Our socioeconomic investments remain focused on education, business development and job creation in the small to medium-sized enterprise (SME) space.

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

During the past year, the Bank supported several key interventions, some of which will continue into the next financial year.

Columba Leadership

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

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

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

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

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

Bathebile

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

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

The Bank assists with:

- **Crèche:** the Nomthandazo Children's Care Centre cares for 120 children between the ages of 1 and 6. Twenty percent of these children are orphaned due to the HIV/Aids epidemic. The Bank works to maintain and improve the facilities, support the 13 full-time teachers, assist in the education and graduation of the children, upgrading the crèche premises, and the installation of shade netting for the play areas and walkways.
- **Feeding scheme:** the feeding scheme not only caters for the crèche's children but also 200 elderly beneficiaries from the Zenzele informal settlement. The Bank has assisted with installation of shade netting for the feeding scheme area by providing shade and fitting a kitchen area for serving food.
- **Education learning centre:** the Bank has created a mathematics, science and computer learning centre for grade 11 and 12 learners from the Daveyton and Etwatwa communities who cannot afford extra lessons. Free exams and assessments are also provided to grade 12 learners who have failed certain subjects the previous year.
- **Free basic computer training** is offered to a number of disadvantaged learners and school leavers.
- **Community vegetable garden:** the Bank has worked with the community to establish and maintain vegetable gardens and fruit trees. The community is being taught how to grow their own vegetables, and an independent energy and watering system has been installed. Not only do the trees provide shade for better vegetable growth, but also protection from the weather. The garden now provides food to the community, including children and the elderly. The garden also serves to deliver a deep understanding of children's experience of deprivation, exclusion and vulnerability of our disadvantage communities. It also provides a Christmas meal to the elderly in the Zanele community.

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

Simamisa orphans care

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

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

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

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

The Roedean Academy

Launched in 2009, Roedean School (SA) spearheads a world-class training programme that is having a significant influence on South Africa's English, mathematics, physical science and accounting education among girls from underresourced communities. The school has partnered with neighbouring Barnato High School to provide tuition in these core subjects to girls from grades 8 to 12.

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

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

Simamisa orphans care

The Roedean Academy

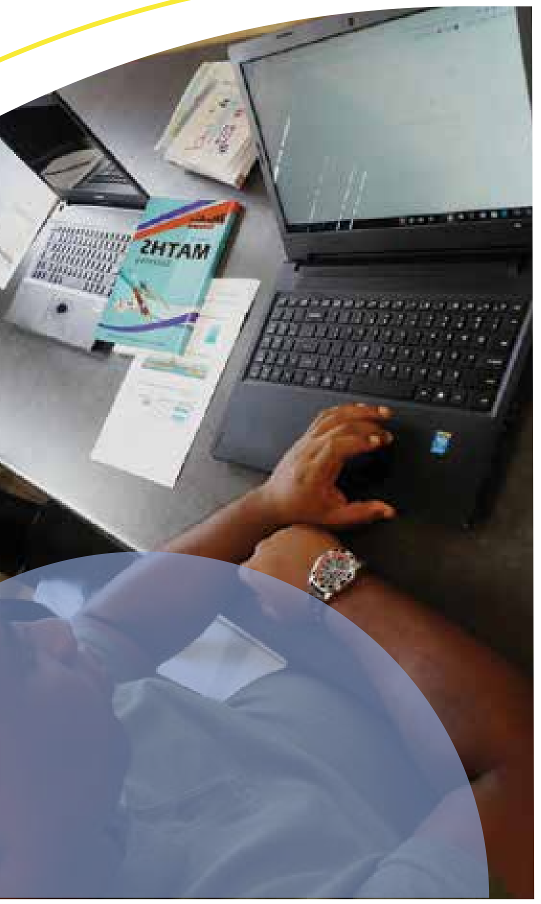
An elearning programme has also been introduced, so that the girls can practise their mathematics on computers and on tablets. In addition, transport and a hot meal are provided for all the learners. The grade 12 learners also attend a five-day study camp and the grade 11 learners attend a careers evening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

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

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

This programme has been life changing for many, and its success can be seen in the measured improvement in English, mathematics, physical science and accounting. Individual care and interest ensure that each pupil's motivation and dedication increase enormously.

Since 2012, Bidvest Bank has offered bursaries to the top student of each year. The first recipient, Sibongile Zwane, has now completed her BSc honours and is employed. Angella Themba has completed her degree in actuarial science and is working at SARB. Chiezda Mudima is in her fourth year, studying industrial engineering and Mbahlenhle Motsweni is in her second year studying a bachelor of accounting. Without the sponsorship from Bidvest Bank, who has contributed to the success of this programme and to changing the lives of these pupils, this would not have been possible.



eGAMA

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

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

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

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

- Olievenhoutbosch Secondary School, Gauteng: additional mathematics tutelage to the learners in grades 10 and 11
- Groenvlei Secondary School, Western Cape: adaptive learning application implemented, and strong results achieved
- Ndunkuhle Secondary School, KwaZulu-Natal: provided and implemented question banks and dictionaries along with user training on behalf of Bidvest Bank
- These projects and the partnerships with these and other schools will continue into 2020

Corporate governance review

The Bank's corporate governance practices and processes are informed by the Bank's statutes, the Banks Act and particularly Regulation 39, the Companies Act, King IV, the Basel Committee on Banking Supervision Guidelines on corporate governance principles for banks, and the Bank's Code of Conduct.

Introduction

The Board is required annually to assess and document whether the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy implemented by the Bank achieve the objectives specified by the Board. This assessment of the processes relating to corporate governance and internal controls has been undertaken by the Governance, Social and Ethics Committee, using the framework of the King IV principles.

The assessment of the efficacy of risk management, capital management and capital adequacy processes are undertaken by the Risk and Capital Management Committee on behalf of the Board and reported separately.

Principles 1 and 2 – ethical, effective and responsible leadership

Values and ethics

The Board of Directors (the Board) endorses the Bank's commitment to the conduct of the business in accordance with the highest ethical standards, as expressed in the Code of Conduct, and to responsibility, accountability, fairness and transparency. Bank employees receive training on and are required to acknowledge and accept the Code of Conduct at induction. During the year, employees were required to participate in an online survey to confirm their adherence to the Code of Conduct and policies including the conflicts of interest policy. The Bank's commitment to ethical conduct in its business is expressed in policies addressing procurement, fraud, criminal activity, zero tolerance, money laundering, proceeds of crime, discrimination and sexual harassment. The responsibility for implementing and executing the Code of Conduct and ethics policies lies with management, and disciplinary action is taken against employees who contravene the policies.

Related parties

The conflicts of interest policy regulates the conduct of dealings with related parties, to ensure that potential conflicts of interest are avoided, and all related party transactions are fully disclosed. Declarations of related party transactions are required to be made at least quarterly and are reported to the Audit Committee. The directors are required to make declarations of interest at each directors' meeting in accordance with the provisions of the Companies Act, the corporate governance policy and the Board Charter and Code of Conduct.

Whistleblowing

The Bank participates in The Bidvest Group confidential anti-fraud tip-off line. All reports are investigated, and disciplinary or other appropriate action taken. The protected disclosure policy, to which all employees are subject, specifies the protection of whistleblowers and their recourse for any occupational detriment they may suffer. In appropriate cases, rewards may be given.

Principle 3 – the Bank as a responsible corporate citizen

Transformation

The Bank's B-BBEE rating under the financial sector rating code is 4. Areas of activity in which the Bank can improve its rating have been identified, and a programme to achieve such improvement is being developed.

Corporate citizenship

The Bank is committed to the development and wellbeing of the communities it serves: its socioeconomic investments focus on community-based initiatives, youth and education. The Bank seeks to build robust relationships and it works with organisations that make a measurable difference to lives and communities. In addition to providing financial support at an organisational level, the Bank also encourages employees to participate in community affairs and programmes. R2 492 112 was allocated to these beneficiaries in 2019 (2018: R2 217 791).

Please refer to page 32 for more detail on these programmes.

Environment

The Bank is conscious of its environmental responsibilities. The business has a low direct environmental impact which has been further reduced by relocating its primary offices to a Green Building Council four-star certified building. The Bank encourages responsible use of energy, water and public transport wherever possible and it participates in paper recycling initiatives to ensure that wastepaper is disposed of in an environmentally acceptable manner.

Principle 4 – strategy: core purpose, risks, opportunities, business model, performance and sustainability are all elements of value creation

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

For further information on our strategies and implementation, please refer to page 26.

The financial performance is reported in the financial statements audited by the external auditors, PricewaterhouseCoopers Inc, who were appointed with effect from 1 December 2018.

	Year ended June 2019	Year ended June 2018
Operating income (R000)	**1 349 640**	1 186 838
Profit before direct taxation (R000)	**432 024**	419 278
B-BBEE procurement (R000)	**1 568 663**	2 465 671
Training spend per employee (Rand)	**11 082**	8 204
Number of employees trained	**1 124**	1 199

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

Principle 5 – reporting for informed assessment of performance and prospects

The Board is responsible for the integrity of reports issued by the Bank, including financial statements, the integrated annual report and the Pillar III Public Disclosure. The Board reviews and approves their contents, based on recommendations from the Audit Committee, the Governance, Social and Ethics Committee and the Remuneration Committee. The materiality level for disclosure in the financial reports is determined by the external auditors, but a significantly lower level is set by the Board for purposes of reporting to the directors. The Board regards as material any issue which could significantly affect the achievement of strategic, financial, operational or regulatory objectives. The list of top 10 risks is developed by the risk department in discussion with business and is reviewed and refined and monitored by the Risk and Capital Management Committee.

Principle 6 – the Board as the focal point and custodian of corporate governance

The Board Charter and Code of Conduct set its role, responsibilities, membership and processes, and include the responsibilities of the Board Chairman. The Board has unrestricted access to management and documentation, and a relationship with executive management is created by management's attendance at Board and committee meetings to ensure appropriate oversight and involvement. A method exists for directors to obtain independent professional advice. The corporate governance policy was amended during the year in line with Banks Act Directive 4 of 2018 on corporate governance.

Banks Act Directive 4 of 2018 (the Directive)

The Bank has assessed its compliance with the corporate governance requirements of the Directive.

The assessment identified the following areas of non-compliance:

- Corporate governance policy (the policy) – the policy has been revised to comply with the Directive and was approved by the Board in February 2019.
- Assessment of independence of non-executive directors – the criteria have been revised to exclude as an independent non-executive director any person who serves as a director of the ultimate shareholder; The Bidvest Group Limited; and any non-executive director who has served in that capacity for more than nine years.
- Director nomination and selection – the criteria for appointment of non-executive directors; director training; Board effectiveness assessments; and cooling off periods have been included in the revised policy.
- Limits on director appointments and independence declarations – the policy provides for a limit on the number and type of appointments and annual independence declarations by non-executive directors.
- Conflicts of interest – the policy aligns the requirements for managing conflicts of interest with the provisions of the Board Charter and Code of Conduct.
- Period for compliance – the necessary appointments (Chairman; Audit Committee Chairman; Governance, Social and Ethics Committee Chairman; Remuneration Committee Chairman and lead independent director) are required to be finalised by 5 April 2020.

Principle 7 – Board composition: a balance of knowledge, skills, experience and independence

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

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

At 30 June 2019, the Board was composed of two executive and six non-executive directors. The roles of the Chairman and Managing Director are separate, and Board composition aims to ensure unfettered decision-making without domination by any group or individual. The varied experience and expertise of the directors contribute to the Board's effectiveness and the achievement of its responsibilities. While the Chairman does not meet the criteria in the Directive to be considered independent, being a director of the ultimate shareholder and having served as Chairman for more than nine years, he remains bound by the provisions of the Board Charter and Code of Conduct, sections 75 and 76 of the Companies Act and their requirements for the avoidance of conflicts of interest and standards of directors' conduct. The composition of the Board and Board subcommittees is under review in order to meet the specifications for independence in the Directive. It is intended that changes to the Board will be implemented before April 2020.

Dr RD Mokate is the lead independent director.

The directors are as follows:

Non-executive directors		Executive directors
Nigel George Payne CA(SA) 59 years *Chairman* Appointed 1 August 2009 Nigel is a director of various listed and unlisted companies, including Bidcorp Limited, The Bidvest Group Limited, Mr Price Group Limited, Strate Proprietary Limited, BSI Steel Limited, Alexander Forbes Holdings Limited, Tower Trade Group Limited and Vukile Property Fund Limited.	**Nompumelelo Thembekile Madisa** BSc; BCom Hons; MMFI 40 years Appointed 8 December 2016 Mpumi is an executive director and Chief Executive Officer designate of The Bidvest Group Limited, and a director of Bidvest Group companies.	**Jacob Jozua van Niekerk** BA; MBA 56 years Managing Director Appointed 1 October 2013 Japie is a director of companies in The Bidvest Group Limited financial services division.
Alastair Dunmore Cunningham BCom; CA(SA); AMP 63 years Appointed 1 June 2015 Alastair is a director of Bidvest Bank Holdings Limited, Bidvest Insurance Limited, Bidvest Insurance Group Proprietary Limited, Bidvest Insurance Brokers Proprietary Limited and McCarthy Limited.	**Renosi Denise Mokate** BA; MA; PhD 61 years *Lead independent director* Appointed 1 July 2013 Renosi is a director of companies including Vukile Property Fund Limited, African Rainbow Capital Investment, Concentric Alliance Proprietary Limited, V&A Waterfront Holdings Proprietary Limited, The Bidvest Group Limited and is the Chairperson of the Government Employees Pension Fund.	**Marthinus Johannes Liebenberg** BComp; BCompt Hons; CA(SA) 54 years Financial Director Appointed 1 January 2013 Thinus is a director of companies in The Bidvest Group Limited financial services division.
Eric Kevin Diack BAcc; CA(SA); AMP 62 years Appointed 23 May 2011 Eric is a director of companies including Aveng Limited, McConnell Dowell Corporation Limited, The Bidvest Group Limited, Bidvest Bank Holdings Limited, Fortis Capital Proprietary Limited and Vast Resources PLC.	**Lindsay Peter Ralphs** BCom; BAcc; CA(SA) 64 years Appointed 8 December 2016 Lindsay is the Chief Executive of The Bidvest Group Limited, and is a director of Bidvest Group companies, including McCarthy Limited and Adcock Ingram Limited.	

The Board's combined experience covers corporate finance and banking, auditing and accounting, business management and corporate governance, business administration and leadership of large listed and unlisted organisations.

Board appointments and succession planning

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

Director induction, training and development programmes

In accordance with the induction policy, new directors receive induction information and materials, access to background information about the Bank, its business and environment, and interaction with senior management. Ongoing director training is provided by external subject experts on topical issues. During the year, training was provided on the Financial Sector Regulation Act (twin peaks), risk data aggregation and risk reporting, recovery and resolution, and the Competition Amendment Act. Updates are provided at quarterly directors' meetings on changes in the regulatory environment applicable to the Bank's operations.

Independence

Directors are required annually to provide written acknowledgement of their compliance with section 75 of the Companies Act in respect of the avoidance of any conflict between their personal interests and those of the Bank. Declarations of interests are a standard agenda item at every Board meeting, and any transaction with a director is required to be concluded on an arm's length basis, under terms that are no more favourable than those with third parties. Directors and employees are required to declare their personal interests in accordance with the Companies Act and Code of Conduct. Independent non-executive directors are required at the first directors' meeting after appointment and annually thereafter to confirm that they meet the independence requirements of the Directive.

The roles and responsibilities of the Chairman, Managing Director and lead independent director are separate and governed by the corporate governance policy and Board Charter and Code of Conduct.

The Board is satisfied that it has fulfilled its obligations as specified in the Board Charter and Code of Conduct.

Principle 8 – delegation to Board committees: promoting independent judgement, and the effective discharge of the Board's duties

The Board delegates its supervisory obligations to Board committees, which operate in accordance with the Companies Act and Board-approved terms of reference. Board subcommittees assist the Board in the identification, measurement, mitigation and reporting of the risks applicable to the Bank's business in accordance with Regulation 39.

The committees are:

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

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

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

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

Meeting attendance July 2018 to June 2019

Details of the attendance by directors at Board and Board subcommittee meetings are set out in the following schedule:

Board and committee attendance 2018/2019

Number of meetings and attendance

Name	Attendance
Board	**6**
NG Payne (Chair)	6
AD Cunningham	6
EK Diack	3
MJ Liebenberg	6
NT Madisa	6
RD Mokate	5
LP Ralphs	6
JJ van Niekerk	6
Audit Committee	**4**
AD Cunningham (Chair)	4
EK Diack	1
RD Mokate	4
NG Payne (by invitation)	4
Risk and Capital Management	**4**
AD Cunningham (Chair)	4
EK Diack	–
NG Payne	3
RD Mokate (by invitation)	1
Governance, Social and Ethics	**2**
NG Payne (Chair)	2
NT Madisa	1
RD Mokate	2
Remuneration	**2**
RD Mokate (Chair)	2
NT Madisa	1
NG Payne	2

Mr Cunningham chairs the Asset and Liability Committee (ALCO) and Senior Credit Committee and attended 10 meetings of each committee. The executive directors attend all Board subcommittee meetings by invitation.

The **Audit Committee** is composed of three non-executive directors, Messrs Cunningham (Chairman), Diack and Dr Mokate. The committee monitors the financial, operational and management reporting processes, and evaluates the adequacy and effectiveness of internal controls, accounting practices and processes. The committee reviews the work of internal audit, and the Head: internal audit has unrestricted access to the committee and its Chairman. Representatives of the external auditors, PricewaterhouseCoopers Inc, attend all committee meetings. In addition, the Heads: Internal Audit, Risk, Financial Control and Bidvest Group internal audit attend meetings as invitees. The Credit Committee reports to the Audit Committee.

The **Risk and Capital Management Committee** is composed of three non-executive directors, Messrs Cunningham (Chairman), Diack and Payne. The committee's function is principally to review and monitor the risk management strategy and policy, and to coordinate risk and capital management assurance activities. The committee reviews the work of risk management functions including compliance, anti-money laundering, risk and IT. The Head: Compliance and Head: Risk have unrestricted access to the committee, its Chairman and the Bank Chairman. The Executive Committee members and a representative of Bidvest Group internal audit attend meetings by invitation. The ALCO reports to the Risk and Capital Management Committee.

The **Governance, Social and Ethics Committee** is composed of three non-executive directors, Mr Payne, Dr Mokate and is Mrs Madisa, and is chaired by the Board Chairman. The Heads: Human Capital and Risk attend meetings by invitation. The committee assists the Board to maintain and enhance the process of corporate governance in the Bank and undertakes the functions of the Nominations Committee, including the appointment, induction and training of directors, and succession planning of senior management. The nominations policy guides the committee in its identification and nomination of candidates to the Board and to senior management positions. The committee undertakes the responsibilities of a Social and Ethics Committee, as prescribed by the Companies Act.

Social and ethics

The requirements of Regulation 43 to the Companies Act are addressed by Bank policies and practices, including:

- social and economic development – the promotion of diversity in the workplace and the elimination of discrimination in recruitment, remuneration and advancement; improvement of the B-BBEE rating; and implementation of and compliance with the Employment Equity Policy;
- good corporate citizenship – the Code of Conduct; whistleblowing policy; investigation of whistleblower tip-offs and disciplinary action where necessary; and donations to education, training and enterprise development in previously disadvantaged communities;
- environment, health and safety – support for initiatives including recycling and responsible use of water, power and other resources;
- consumer relations – adhering to consumer protection legislation; and initiation of a formal project to review and amend systems and processes to ensure protection of personal information; and
- labour and employment – compliance with labour legislation; ensuring decent working conditions and fair terms of employment; and contributing to the educational development of employees and a bursary scheme for employees' children.

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

The **Remuneration Committee** is composed of three non-executive directors, namely Mr Payne, Mrs Madisa and Dr Mokate, who is the Chairman. The Head: Human Capital attends meetings by invitation. The committee oversees the development of the remuneration philosophy and practices; reviews incentive schemes and bonus allocations for senior management; approves employee salary increases and the remuneration of non-executive directors; and the compliance of remuneration practices with the requirements of Regulation 39(16).

The Board has satisfied itself that Board subcommittees have performed their activities in accordance with their terms of reference.

Principle 9 – performance evaluation to support continued improvement

The director performance assessment process is determined by the Governance, Social and Ethics Committee, and an individual director assessment was conducted in 2019, in accordance with the policy approved by the committee. The results of the assessments were reviewed by the Board at its meeting in May 2019. The Board views the evaluation process as helpful in improving Board and individual director performance and effectiveness.

Principle 10 – management effectiveness: delegation and the effective exercise of authority and responsibilities

The Board is supported by the Company Secretary and by the secretarial department of The Bidvest Group in its corporate governance and legal responsibilities. The appointment of the Company Secretary is subject to the approval of the Board and the regulator, and the performance of the Company Secretary is evaluated annually by the Managing Director and Board Chairman. The Company Secretary is required to fulfil the responsibilities set out in sections 75, 76 and 88 of the Companies Act; section 60B and Regulations 39 and 40 to the Banks Act; Principle 10 of King IV; Basel Committee on Banking Supervision Principles for Effective Risk Data Aggregation and Risk Reporting 3013 (RDARR); and the Bank's corporate governance policy, version 8. The Board is satisfied that it has effective access to professional corporate governance services.

The Managing Director is appointed by and accountable to the Board and is responsible for the implementation of Board-approved strategy, and for the performance of the Executive Committee in managing and directing the Bank's operations. The Board Chairman, with the shareholder, evaluates the performance of the Managing Director. A successor to the Managing Director will be identified when the need arises.

The **Executive Committee** is chaired by the Managing Director and is composed of the Financial Director, and the heads of the Bank's major revenue generating divisions, and support functions. The committee is responsible for the implementation of Board-approved strategy and the identification, management and mitigation of risk in the business. The committee terms of reference specify limits on the committee's authority and those areas reserved to the Board.

During the year, the succession plan was reviewed to identify successors to the senior managers and heads of business units, and any skills, knowledge and experience shortcomings.

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

The Board is satisfied that the delegation of authority is appropriately controlled.

Principle 11 – risk management: governance of risk to support achievement of strategic objectives

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

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

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

As part of the second line of defence, the risk function identifies and analyses risks and recommends appropriate risk limits, controls and policies. The function is staffed by qualified professionals and the Chief Risk Officer has unrestricted access to the Risk and Capital Management Committee and its Chairman.

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

The 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.

The risk function has the necessary status and independence: the Chief Risk Officer is a member of the Executive Committee and reports to the Managing Director.

A comprehensive risk management report is included on page 50.

Principle 12 – IT and information: supporting achievement of strategic objectives

The Bank's IT and information requirements are informed by the Board-approved business strategy, and management is responsible for the effective use of IT and information under the review of the Risk and Capital Management Committee, which receives regular reports on the governance of IT and IT risks, including cyber security. IT forms part of the enterprise-wide risk framework, and IT legislation is included in the Bank's regulatory universe. Compliance with regulatory requirements is subject to ongoing monitoring.

Formal documented disaster recovery and business continuity plans are in place for all business units. Disaster recovery testing takes place bi-annually; a small component of business continuity is tested (due to practical considerations) and has been identified as an area of required improvement.

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

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

Projects completed during the year included mobile account application, integration and onboarding; internet banking; credit application enhancements; a new voice platform; call centre platform implementation; optical character recognition (OCR) implementation in the finsurv department; digital mobile onboarding; implementation of the Financial Intelligence Centre Amendment Act (FIC Amendment Act) and the DebiCheck incoming migration.

2019/2020 project focus will be Protection of Personal Information Act (POPIA) Phase II; mobile money transfer; investments, deposits and foreign currency account (FCA) hosting; IFRS 9; risk data aggregation and Risk Reporting; Activity-based Costing; general ledger (GL) restructure; implementation of the FIC Amendment Act Phase II and continuous enhancements to the point of sale system EVO and Global platform. The approach to the Modernisation of Payments Programme is currently under review.

Infrastructure initiatives completed during 2019 included relocating the corporate office to Sandton; deploying new network technologies to improve network security; moving the call centre platform to the cloud for improved functionality and redundancy; migrating the legacy voice network to the cloud; migrating from legacy network equipment; and implementing new on-premises firewalls.

2019/2020 infrastructure focus will be high availability of banking platforms and the journey to cloud for infrastructure and platforms.

Cyber security initiatives completed during 2019 included all security-related policies and procedures, including a cyber incident response plan; payment card industry (PCI) certification; threat sharing with SARB; deploying security information and event management (SIEM) solution and integrated active directory (AD), the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and Remote Desktop Protocol (RDP) logs; SWIFT Customer Security Programme (CSP); improved cloud security for Office365; distributed denial-of-service (DDOS) protection and malware/virus analysis.

2019/2020 cyber security focus will be ensuring that the latest operating systems are deployed; enhancing mail security; and further enhancement of SIEM solution and of online platform protection.

A new technology and innovation division has been deployed outside traditional IT operations to focus on building fintech partnerships and the deployment of products and services on newer technology platforms.

Principle 13 – compliance: supporting the Bank as an ethical good corporate citizen

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

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

The requirements of the Companies Act for assessment of the Bank's adherence to legislation and codes of good practice in the areas of good corporate citizenship, social and economic development, the environment, labour and consumer relations are the responsibility of the Governance, Social and Ethics Committee.

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

The Head: Compliance reports to the Chief Risk Officer and to the Risk and Capital Management Committee, with unfettered access to the Chairman of that committee, and corresponds with the regulators for the financial services industry, including the Prudential Authority, SARB and FSCA.

Other compliance function initiatives include:

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

Regulatory compliance

The Bank is governed by the Banks Act and the Regulations relating to banks, which are based on the requirements of the Basel III framework. Within this regulatory environment, the Bank is required to hold adequate capital against its assets to safeguard its solvency and overall economic stability. The Bank maintains a strong relationship with the Prudential Authority of SARB, and communication and transparency are regarded as key factors in this relationship. The objectives of the regulators are considered in the preparation of policies and 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 adequate, high-quality capital. It also requires leverage and liquidity standards to strengthen regulation to improve the banking sector's ability to absorb shocks arising from financial and economic stress. The Bank complies with the net stable funding ratio (NSFR) and LCR of 100%. The Bank views these requirements as an improvement in the financial regulatory environment as they promote a more resilient banking sector.

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

There have been no significant areas on non-compliance and/or regulatory sanction during the period.

Principle 14 – remuneration: fair, responsible and transparent, promoting strategic objectives and positive outcomes

Remuneration philosophy

The Bank strives to be an employer of choice in its chosen market by creating an environment where people deliver great results and share in the value they create. Remuneration and reward policies and practices are structured to attract, motivate and retain high-performance individuals, and those with scarce and critical skills. The philosophy is underpinned by the following principles:

Support for strategic objectives

The Compensation Management Policy supports and reinforces the achievement of Bank vision and strategy.

Transparent communication

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

Non-discriminatory practices

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

Internal equity

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

External equity

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

Affordability and sustainability

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

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

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

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

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

Performance incentive (bonus scheme)

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

- A zero base each year with no carry-through effect
- Quantum in any year is a direct function of the availability of funds
- Achievement of annual strategic goals

Governance

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

2019 achievements

All roles in the Bank have been profiled and graded in terms of their content, complexity, requirements and expected outputs. The Bank has adopted the Paterson Grading model. The job grades are also linked to employee benefits such as additional leave entitlements. The change management process has been completed with all line managers, including the executive team, attending the remuneration 101 workshops. All job grades have been approved and communicated to employees and are visible on payslips for transparency. Remuneration of critical roles is constantly monitored and benchmarked against those in the financial services market. Scarce skills have been reviewed this year to ensure risk is managed.

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

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

2020 focus areas

The implementation of job grades has contributed to further transparency of remuneration. All employees have been informed of the grades for their jobs. The focus area for 2020 is the implementation of a pay scale in which salary ranges are applicable to a grade or role. The transparent communication and explanation of employee grades will allow the Bank to add job grades on the job advertisements internally. The Bank will maintain current pay scales using the market median (50th percentile) approach for the industry as a key anchor point. All roles will be allocated to a remuneration scale based on the grading results as well as an assessment of their internal and external value to the Bank. Remuneration levels will be firmly linked to grade, complexity of role and the market in which we operate.

Principle 15 – internal and external assurance: enabling an effective control environment and the integrity of information

Internal audit is the third line of defence, providing independent assurance to the Board of the effectiveness of the other lines of defence in the achievement of the objectives of sound risk management and corporate governance. The department is staffed by professionals in the auditing and internal auditing disciplines.

Internal audit uses a risk-based methodology and the annual audit plan is approved by the Audit Committee. Quarterly changes to the plan are presented to the committee. The internal audit charter specifies adherence to international best practice methods, and the department is subject to independent review on a regular basis. The Head: Internal Audit reports to the Managing Director and has unrestricted access to the Chairman of the Audit Committee. The King IV guidelines on independence, status and recognition of the internal audit function are applied.

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

PricewaterhouseCoopers Inc was appointed external auditors with effect from 1 December 2018.

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

Principle 16 – a stakeholder-inclusive approach: balancing the needs, interests and expectations of material stakeholders in the Bank's best interests

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

Employees: The Bank paid salaries and benefits of R469 557 500 during the year and contributed R3 911 439, in terms of the Skills Development Levies Act.

The transformation of the workforce continues. At June 2019 black, Asian and coloured males composed 25% and black, Asian and coloured females 46% of the total Bidvest Bank workforce of 1 082 and Bidvest Merchant Services of 42.

Regulators and government: The following taxes were paid during the year:

Income tax	R98 158 220
Value added tax	R139 444 603
Employees tax	R88 189 150

Shareholder: Dividends totalling R157 500 000 were paid to the Bank's sole shareholder.

Community: The Bank contributed R3 113 343 to its CSI and SED, focusing on training and education.

Risk management

The Board recognises the importance of ongoing identification and management of risk in order to build and maintain the Bank's sound financial and reputational condition.

The Board has adopted a risk management policy to reinforce the need to establish a programme for enterprise risk management (ERM). The Board further commits to providing enough personnel and other resources to ensure full implementation of the ERM programme. The Board also acknowledges that each of the Bank's activities has an element of risk. Due to the diverse nature of the Bank's business units, products and services, and the fact that not all risk can be transferred to third parties through insurance policies, contracts or waivers, the management of residual risk at all levels of the Bank is imperative. The Board has delegated responsibility for risk management policy matters to the Risk and Capital Management Committee which is a subcommittee of the Board.

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

The Board expects executive management of the Bank to be committed to building a risk culture and to have increased awareness and a shared responsibility for risk management at all levels of the Bank. A clearly defined risk management policy including a risk appetite statement support this.

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

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

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

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

Risk governance

Board of Directors

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

Risk and Capital Management Committee

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

Audit Committee

The committee is a Board level committee responsible for providing assistance to the Board in fulfilling its responsibility to the shareholders and investment community related to corporate accounting, reporting practices, the quality and integrity of financial reports, and the quality and effective administration of the controls and procedures of all the systems and work processes.

Asset and Liability Committee

The committee is chaired by an independent non-executive director to oversee liquidity and interest rate risk programmes and shock tests; monitor key risk indicators; develop and agree policies and procedures; set limits; prioritise activities and investments; and provide input to senior management and the Board.

Credit Committee

The committee is chaired by an independent non-executive director and oversees credit risk activities, assessments and stress tests; develops and agrees on policies and procedures; sets limits; monitors key risk indicators; provides input to senior management and the Board regarding the direction of credit risks.

Risk Executive Committee

The Risk and Governance Executive Committee (Risk EXCO) is constituted in accordance with terms of reference, to assist the Executive Committee in monitoring and managing of risk in the business of the Bank, in accordance with the approved risk appetite and risk tolerances, and risk management policies.

Operational Risk Committee

The committee's objective is to manage operational risk arising from a wide variety of causes associated with the Bank's processes, personnel, projects, technology and Infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

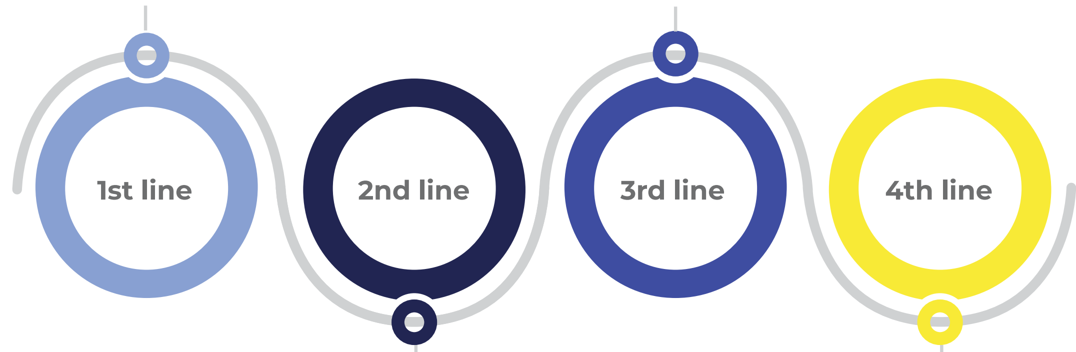
Interrelationship of risk management functions – four lines of defence

The Bank adopts the four lines of defence model.

Board and governing bodies

Business units: Responsible and accountable for ongoing management of risks

Independent assurance: Internal audit independent review and objective assurance on the quality and effectiveness of the Bank's internal control system



Risk and compliance oversight: Complements business line risk activities through monitoring and reporting

External auditors and regulatory bodies

Risk universe

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

Reputational risk

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

Business risk

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

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

Risk appetite

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

- achieve its stated strategic business objectives;
- provide a return that meets or exceeds expectations;
- comply with all applicable laws and regulations; and
- conduct its business in a safe and sound manner.

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

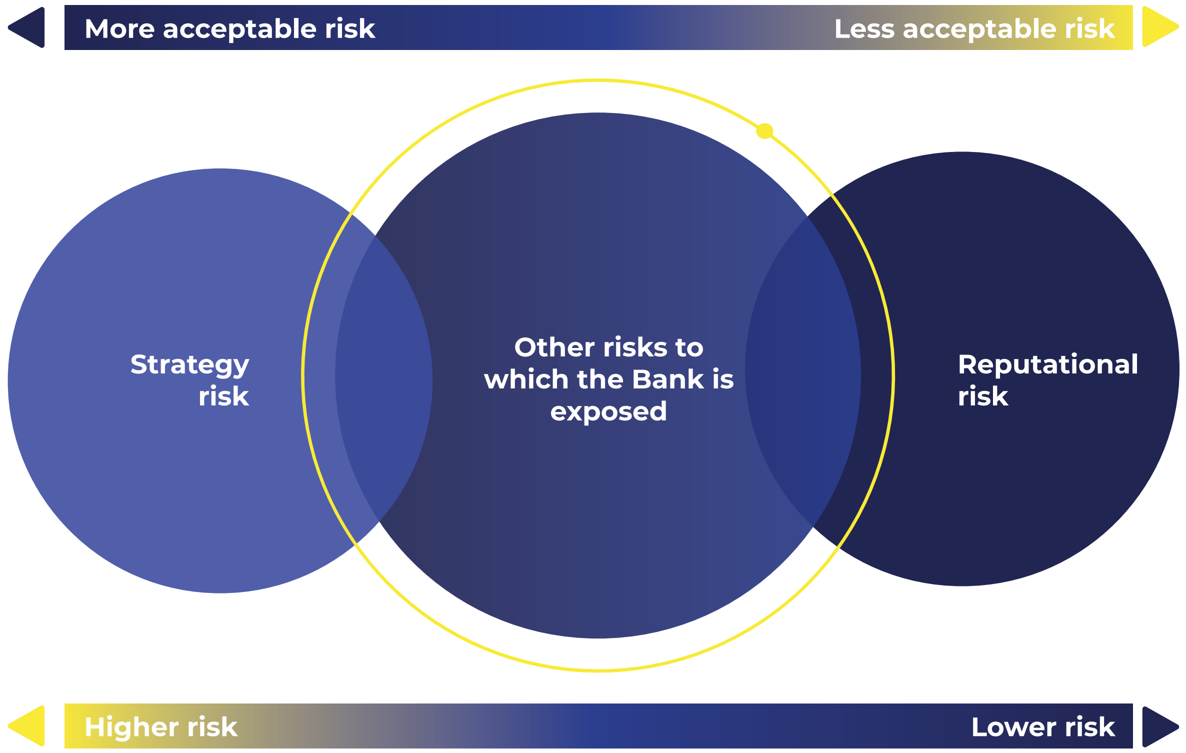
- The overall internal and external risk environments are considered in conjunction with the strategic planning process.
- Key strategic business objectives and their financial and non-financial risk appetite levels are set annually and expressed in the strategic plan and policies. Within the scope of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

Risk appetite statement

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

Capital management

The Bank is willing to accept more risk in its strategy in order to chase opportunities but is less amenable to accept risk that might damage the Bank's reputation. Between these outlying risks, various other risks exist.



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

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

- Tier I capital: which includes ordinary share capital, share premium and appropriated retained earnings
- Tier II capital: which includes collective impairment allowances

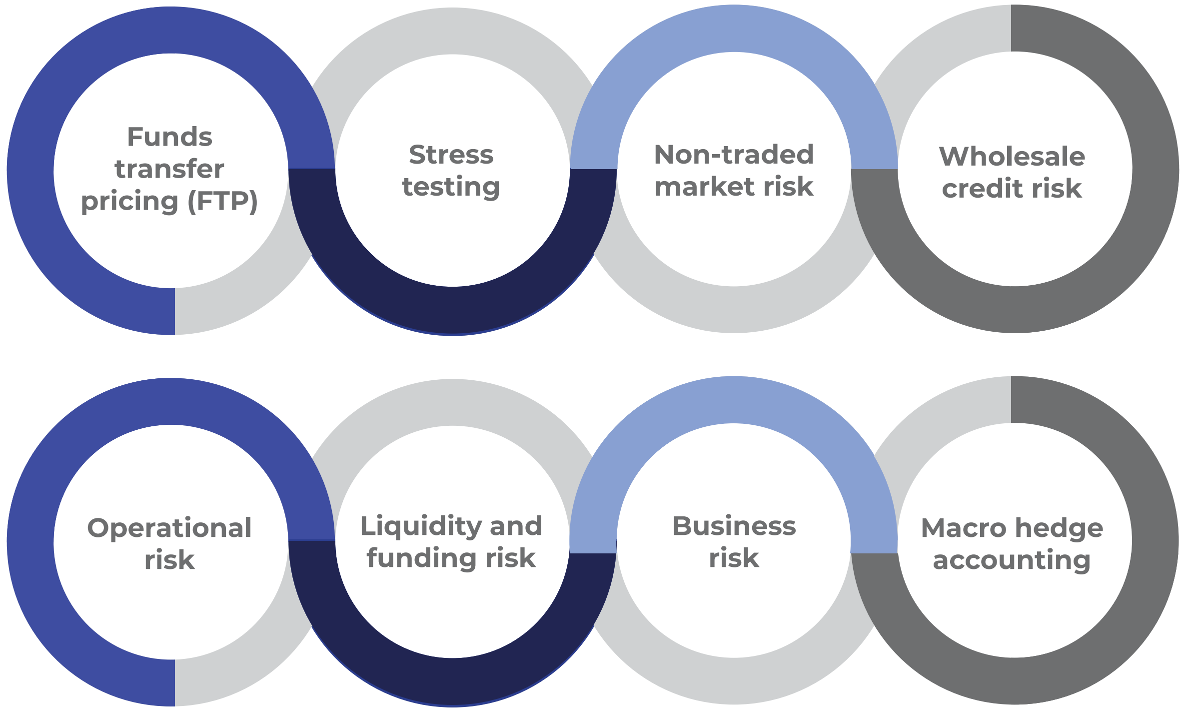
Banking operations are categorised as either trading book or banking book, and risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

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

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

The final economic capital level determined through ICAAP reflects the capital to be held for 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.

Focus areas during the financial year



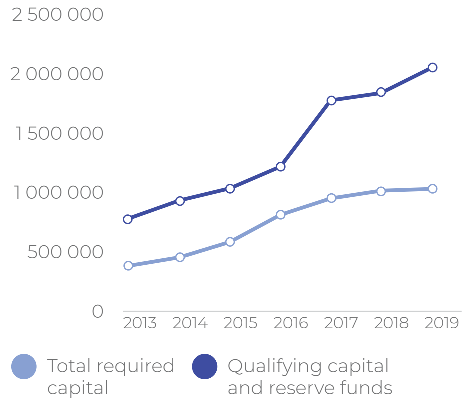
Capital composition

As at 30 June 2019 the Bank was adequately capitalised, and the below capital-related items are highlighted:

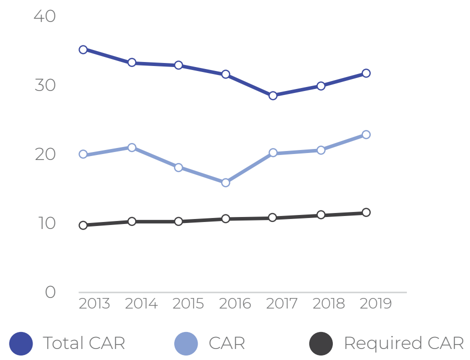
	R000
Total capital and reserves	**2 845 888**
Qualifying capital and reserves	**2 051 182**
Of which: Tier I	**2 046 373**
Of which: Tier II	**4 809**
Total amount of qualifying capital required (excluding idiosyncratic requirement)	**1 032 184**
Total risk weighted assets	**8 975 515**
CAR (qualifying capital and reserves)	**22,85%**
CAR (total capital and reserves)	**31,70%**
Regulatory minimum CAR (excluding idiosyncratic requirement)	**11,50%**
Internal Board-approved CAR	**15,00%**

Capital growth (R000)

Total required capital versus actual qualifying capital and reserve funds (R000)



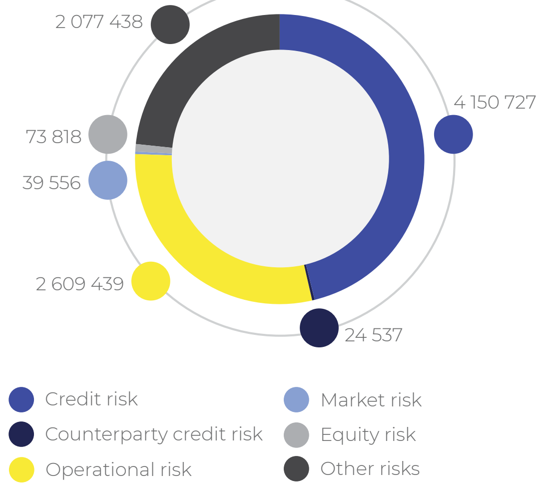
Required CAR versus actual CAR (%)



Breakdown of capital requirement

The risk weighted exposure for each of the Bank's risk categories is indicated below:

Breakdown of risk weighted exposure (R000)



Credit risk

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

Board responsibility

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

The Board has delegated responsibility for the management of credit risk to its Credit Committee, which is chaired by a non-executive director. The role and responsibilities of the Credit Committee, as specified in the Credit Committee Charter, is to support the Board in fulfilling its duties and responsibilities regarding the management of credit risk.

Credit risk approach

The Bank adopted the standardised approach for the measurement of its exposure to credit risk and applies the requirements of Regulation 23 and 24 of the Regulations relating to banks to its credit exposures.

External ratings

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

Impairment policy

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

Restructured exposure

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

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

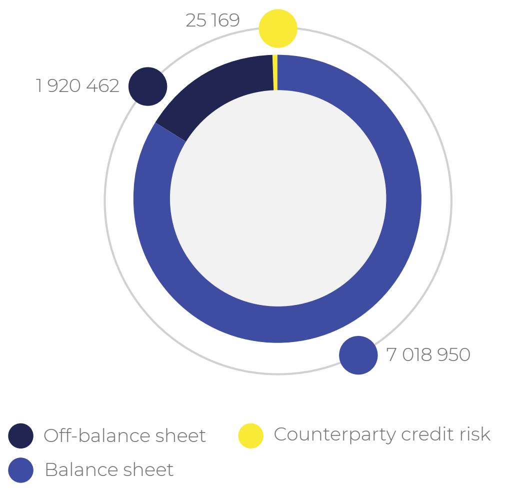
Credit grating process

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

Security held

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

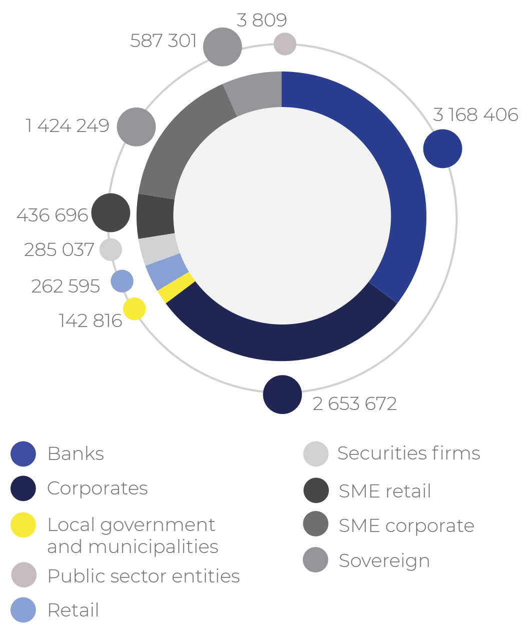
Credit risk – asset types – June 2019 (R000)



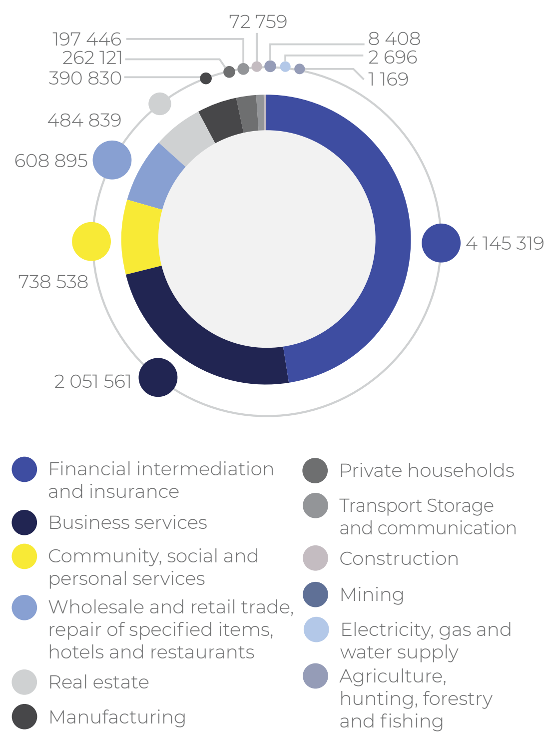
Credit risk asset classes

Based on gross average balances prior to CRM and credit conversion factor and impairment

Credit risk exposure – asset classes – June 2019 (R000)



Credit concentration risk – sectorial distribution – June 2019 (R000)



Operational risk

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

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

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

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

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

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

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

Market risk

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

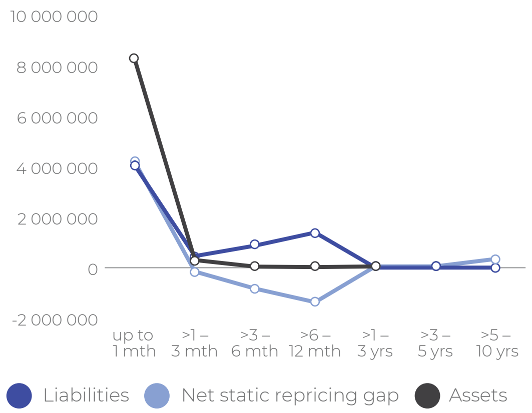
Interest rate risk

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

Management of interest rate risk

The Bank measures interest rate risk by establishing the repricing gap of assets and liabilities. The impact of changes in interest rates on the Bank's net interest income (NII) and economic value of equity (EVE) are addressed at the Bank's ALCO monthly.

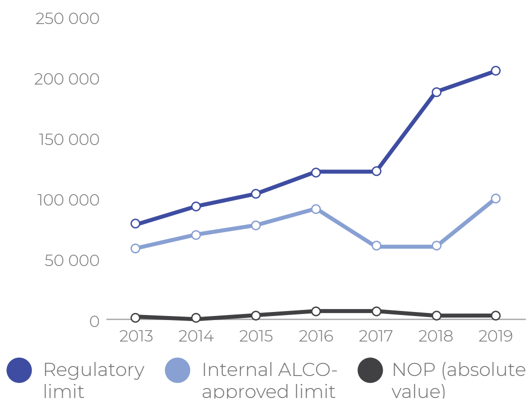
Repricing gap – June 2019 (R000)



Currency risk

This is the risk that the Bank's profitability will be negatively affected by changes in exchange rates between the rand and other foreign currencies in which assets and liabilities are denominated. The net open position (NOP) in foreign currency is a limit imposed by the regulator and is equal to 10% of the Bank's qualifying capital and reserve funds.

NOP (R000)



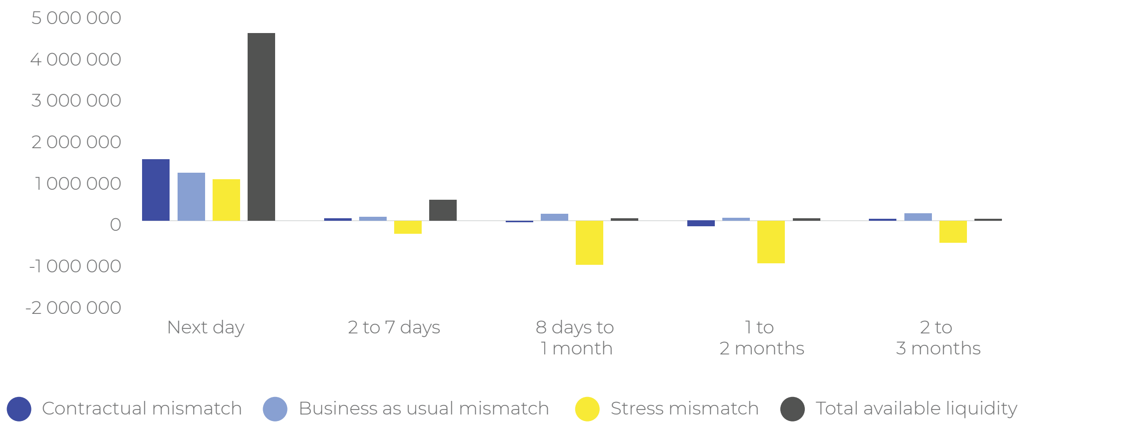
Liquidity risk

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

Contractual and behavioural liquidity

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

Liquidity mismatch – June 2019 (R000)



LCR

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

	2019	2018
LCR (%)	**177**	163
HQLA (R000)	**803 909**	663 771
Net outflow (R000)	**454 717**	407 428

NSFR

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

	2019	2018
NSFR (%)	**159**	153
RSF (R000)	**5 175 522**	4 601 375
ASF (R000)	**8 246 342**	7 076 143

Annual financial statements

Bidvest Bank Limited

(Registration number 2000/006478/06)

Consolidated and separate annual financial statements for the year ended 30 June 2019

The preparation of these consolidated and separate annual financial statements was supervised by Gareth Oxford CA(SA), Head: Financial Control.

These consolidated and separate annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

Contents

The reports and statements set out below comprise the consolidated and separate annual financial statements presented to the shareholders:

Six-year review
Adjusted consolidated statement of financial performance

for the year ended 30 June 2019

	2019 R000	2018 R000	2017 R000	2016 R000	2015 R000	2014 R000
Interest income	**507 496**	444 542	342 905	231 845	222 354	188 806
Imputed interest from rental income*	**120 422**	137 124	133 495	125 939	51 719	61 974
Interest expense	**(314 195)**	(280 417)	(210 793)	(146 456)	(91 198)	(79 714)
Net interest income	**313 723**	301 249	265 607	211 328	182 875	171 066
Fee and commission income	**661 696**	472 105	323 084	289 108	264 142	248 489
Fee and commission expense	**(442 779)**	(295 080)	(156 073)	(130 863)	(80 201)	(74 781)
Net fee and commission income	**218 917**	177 025	167 011	158 245	183 941	173 708
Leasing income	**595 962**	567 107	608 826	572 060	324 459	312 239
Imputed interest reflected under net interest income*	**(120 422)**	(137 124)	(133 495)	(125 939)	(51 719)	(61 974)
Net income from leasing	**475 540**	429 983	475 331	446 121	272 740	250 265
Net trading income	**277 739**	277 768	324 488	327 357	267 734	263 557
Other income / (loss)	**63 721**	813	1 685	1 530	(9 737)	4 007
Operating income	**1 349 640**	1 186 838	1 234 122	1 144 581	897 553	862 603
Net credit impairment charges	**(4 495)**	6 137	(4 960)	(25 984)	(562)	(4 111)
Operating income after credit impairment charges	**1 345 145**	1 192 975	1 229 162	1 118 597	896 991	858 492
Employment costs	**(469 558)**	(442 251)	(405 432)	(361 031)	(295 541)	(271 500)
Operating leases	**(90 494)**	(86 934)	(91 796)	(87 154)	(76 453)	(73 818)
Risk control	**(15 749)**	(18 606)	(25 649)	(21 865)	(23 646)	(23 656)
Information technology costs	**(68 728)**	(53 015)	(47 945)	(32 457)	(24 716)	(21 310)
Depreciation and amortisation	**(65 542)**	(54 561)	(43 572)	(39 454)	(30 151)	(30 000)
Other operating expenditure#	**(186 519)**	(121 812)	(128 937)	(116 156)	(80 655)	(73 335)
Operating expenditure	**(896 590)**	(777 179)	(743 331)	(658 117)	(531 162)	(493 619)
Profit before indirect taxation	**448 555**	415 796	485 831	460 480	365 829	364 873
Indirect taxation	**(16 531)**	3 482	(19 269)	(19 816)	(11 472)	(18 324)
Profit before direct taxation	**432 024**	419 278	466 562	440 664	354 357	346 549
Direct taxation	**(119 528)**	(116 949)	(130 606)	(117 179)	(91 345)	(95 751)
Profit for the year	**312 496**	302 329	335 956	323 485	263 012	250 798

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

\# *Includes marketing, communication and other administration expenses.*

Six-year review
Adjusted consolidated statement of financial position

at 30 June 2019

	2019 R000	2018 R000	2017 R000	2016 R000	2015 R000	2014 R000
Assets						
Cash and cash equivalents	**4 126 987**	3 614 479	2 846 484	2 522 371	2 387 550	2 128 203
Derivative financial assets	**13 496**	14 755	26 181	46 047	9 844	8 796
Negotiable securities	**328 317**	391 722	248 284	327 442	239 067	–
Investment securities	**563 990**	376 702	254 868	255 061	116 184	95 286
Other assets	**277 929**	367 222	356 068	297 545	154 008	96 232
Current tax receivable	**18 314**	6 545	–	–	30 885	29 099
Loans and advances	**2 792 067**	2 380 787	2 100 468	1 660 359	1 240 171	1 163 780
Intergroup loans	**189 989**	58 796	–	445	476	–
Equipment	**124 902**	80 720	98 375	109 448	74 545	62 713
Leased assets	**1 569 074**	1 687 128	1 707 427	1 489 961	1 851 857	995 188
Intangible assets	**220 068**	218 526	152 424	112 726	84 914	46 977
Inventories	**38 111**	21 983	21 386	81 285	11 480	16 327
Total assets	**10 263 244**	9 219 365	7 811 965	6 902 690	6 200 981	4 642 601
Equity and liabilities						
Equity						
Share capital	**2 070**	2 070	2 070	2 070	2 070	2 070
Share premium	**525 709**	525 709	525 709	525 709	525 709	525 709
Share-based payment reserve	**(1 807)**	86	12 455	14 436	16 126	12 310
Retained income	**2 319 916**	2 142 517	1 985 796	1 800 351	1 592 936	1 442 556
	2 845 888	2 670 382	2 526 030	2 342 566	2 136 841	1 982 645
Liabilities						
Deposits	**6 576 907**	5 698 945	4 502 591	3 862 609	2 830 773	2 141 298
Derivative financial liabilities	**8 635**	45 513	49 585	47 405	6 996	8 361
Trade and other payables	**493 436**	494 404	416 092	334 258	893 413	190 429
Intergroup loans	**150 101**	150 089	150 035	150 032	150 026	122 504
Deferred tax	**187 758**	159 513	161 727	151 087	182 450	196 882
Current tax payable	**–**	–	5 454	14 282	–	–
Defined benefit liability	**519**	519	451	451	482	482
	7 417 356	6 548 983	5 285 935	4 560 124	4 064 140	2 659 956
Total equity and liabilities	**10 263 244**	9 219 365	7 811 965	6 902 690	6 200 981	4 642 601

Six-year review
Statistics, returns and capital adequacy

for the year ended 30 June 2019

Statistical review	2019	2018	2017	2016	2015	2014
Statement of financial performance						
Net interest income to assets (%)	**3,06**	3,27	3,40	3,06	3,61	3,70
Non-interest income to assets (%)	**10,09**	9,61	12,40	13,52	12,46	14,90
Operating expenses to assets (%)	**8,74**	8,43	9,52	9,53	8,63	10,60
Interest income to interest earning assets (%)	**7,33**	7,41	6,93	5,54	6,13	5,70
Interest expense to funding liabilities (%)	**4,67**	4,79	4,53	3,65	3,06	3,50
Cost to income (%)	**67,88**	64,85	62,04	60,60	60,46	59,60
Non-interest income to total income (%)	**71,80**	74,23	78,79	83,43	85,44	80,20
Credit loss ratio (%)*	**0,20**	0,15	0,13	0,82	0,02	0,40
Effective tax excluding indirect tax (%)	**26,65**	28,13	26,88	25,45	24,97	27,60
Effective tax including indirect tax (%)	**30,33**	27,29	30,85	29,75	28,83	31,30
Statement of financial position						
Return on assets (%)	**3,04**	3,28	4,30	4,69	4,27	5,40
Return on equity (%)	**10,98**	11,32	13,30	13,82	12,31	12,60
Loans and leased assets to deposits (%)	**66,31**	71,38	84,57	81,56	109,23	100,80
Regulatory capital to risk weighted assets (%)	**22,85**	20,57	19,95	16,85	18,18	19,40
Financial leverage (times)	**3,61**	3,45	3,10	2,95	2,90	2,30
Net stable funding ratio (%)	**159,00**	153,19	101,00	87,00	70,75	94,00
Liquidity coverage ratio (%)	**177,00**	162,92	151,00	163,00	104,00	117,00
Statistical information						
Number of employees	**1 124**	1 199	1 179	1 171	1 109	1 022
Number of branches	**80**	76	80	85	85	95
Income per employee (R000)	**1 201**	990	1 048	977	814	1 061
Expense per employee (R000)	**798**	648	631	562	484	627
Profit before taxation per employee (R000)	**384**	350	396	376	330	428
Exchange rates at 30 June						
USD	**14,08**	13,77	13,12	14,70	12,17	10,63
GBP	**17,85**	18,11	17,03	19,71	19,09	18,18
EUR	**15,94**	16,05	14,94	16,32	13,54	14,55
Average exchange rates						
USD	**14,19**	12,85	13,60	15,07	11,45	10,38
GBP	**18,36**	17,29	17,32	21,40	18,01	16,90
EUR	**16,19**	15,32	14,98	16,92	13,72	14,09
Average prime overdraft rate (%)	**10,15**	10,21	10,50	9,94	9,25	8,70

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

Governance report

	Group		Company	
Statistical information	**30 June 2019**	30 June 2018	**30 June 2019**	30 June 2018
Operating income (R000)	**1 349 640**	1 186 838	**1 290 979**	1 167 242
Profit before direct taxation (R000)	**432 024**	419 278	**423 963**	426 154
BEE procurement (R000)	**1 568 663**	2 465 671	**1 568 663**	2 465 671
Training spend (R000)	**12 456**	9 837	**12 456**	9 730
Training spend per employee (rand)	**11 082**	8 204	**11 082**	8 352
Number of employees trained	**1 124**	1 199	**1 124**	1 165

Going concern

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

Reporting for informed assessment of performance and prospects

The Board is responsible for the integrity of reports issued by the Bank, including financial statements, the integrated annual report and the Pillar III Public Disclosure. The Board reviews and approves their contents, based on recommendations from the Audit Committee, the Governance, Social and Ethics Committee and the Remuneration Committee. The materiality level for disclosure in the financial reports is determined by the external auditors, but a significantly lower level is set by the Board for purposes of reporting to the directors. The Board regards as material any issue which could significantly affect the achievement of strategic, financial, operational or regulatory objectives. The list of top 10 risks is developed by the risk department in discussion with business and is reviewed, refined and monitored by the Risk and Capital Management Committee.

The Board as the focal point and custodian of corporate governance

The Board Charter and Code of Conduct set its role, responsibilities, membership and processes, and include the responsibilities of the Board Chairman. The Board has unrestricted access to management and documentation, and a relationship with executive management is created by management's attendance at Board and committee meetings to ensure appropriate oversight and involvement. A method exists for directors to obtain independent professional advice. The corporate governance policy was amended during the year in line with the Banks Act Directive 4 of 2018 on corporate governance.

Skills development

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

The Bank paid salaries and benefits of R413 951 440 during the year and contributed R3 710 636, being 1% of total remuneration, in terms of the Skills Development Levies Act.

The transformation of the workforce continues. At June 2019 black, Asian and coloured males composed 25% and black, Asian and coloured females 46% of the total workforce.

	Group		Company	
Regulators and government	**30 June 2019 R000**	30 June 2018 R000	**30 June 2019 R000**	30 June 2018 R000
Employees' tax	**88 189**	95 057	**83 598**	92 789
Value added tax	**139 445**	52 291	**133 694**	52 291
Rates and taxes	**3 602**	3 213	**3 602**	3 213
Skills development levies	**3 899**	4 022	**3 712**	3 927
Unemployment insurance fund	**3 529**	3 569	**3 401**	3 498
Workman's compensation	**325**	256	**197**	239
Net income taxation paid	**98 158**	131 164	**98 158**	131 164
	337 147	289 572	**326 362**	287 121

Shareholder

Dividends totalling R157 500 000 were paid to the Bank's sole shareholder.

Community

The Bank contributed R3 239 869 in its CSI initiatives, focusing on training, education and small business development.

Conclusion

The Board confirms that nothing has come to its attention to suggest that the structures and processes listed do not adequately and appropriately address the Bank's corporate governance obligations.

Directors' responsibilities and approval statement

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

The consolidated and separate annual financial statements are prepared in accordance with IFRS, and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

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

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

The external auditors are responsible for independently auditing and reporting on the Group's consolidated and separate annual financial statements. The consolidated and separate annual financial statements have been examined by the Group's external auditors and their report is presented on page 71 to 72.

The consolidated and separate annual financial statements set out on pages 76 to 163 which have been prepared on the going concern basis, were approved by the Board on 31 October 2019 and were signed on its behalf by:

Nigel George Payne
Chairman

Jacob Jozua van Niekerk
Managing Director

Audit Committee report

The committee is composed of three independent non-executive directors. The work of the committee is specified by its charter, the provisions of the Banks Act, 1990, and King IV. The committee is specifically tasked with the review of the activities of Bidvest Bank Limited (the Bank). The committee reviewed the Bank's consolidated and separate annual financial statements, assessed their integrity and whether they 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 and separate financial statements.

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

PricewaterhouseCoopers Inc was appointed as external auditors, with Francois Prinsloo as the lead audit partner, with effect from 1 December 2018.

The committee reviewed the work of the external auditors, including the audit plan and budget, and recommended to the Board and shareholders the reappointment of the auditors. The committee is satisfied that the external auditors are independent of the Bank, and of the quality of the audit work. Key audit matters considered by the external auditors at June 2019 were fraud in revenue recognition, management override of controls and credit risk.

Separate meetings are held by the committee with the external auditors or management on matters relevant to the committee's obligations when required.

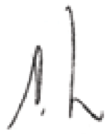
The committee reviewed details of non-audit services provided by the external auditors and satisfied itself that the nature and extent of the work was within the committee's guidelines on auditor independence.

The committee reviewed reports submitted by internal audit and approved the internal audit plan. The committee is satisfied with the internal audit arrangements, the effectiveness of the Head: Internal Audit, and the quality of assurance provided by internal audit and other assurance providers.

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

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

On behalf of the Audit Committee:



Alastair Dunsmore Cunningham
Chairman: Audit Committee

Independent auditor's report

To the Directors of Bidvest Bank Limited

Report on the audit of the consolidated and separate annual financial statements

Our opinion

In our opinion, the consolidated and separate annual financial statements present fairly, in all material respects, the consoldiated and separate financial position of Bidvest Bank Limited (the company) and its subsidiaries (together the Group) as at 30 June 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

We have audited the Bidvest Bank Limited consolidated and separate annual financial statements set out on pages 76 to 163 which comprise:

- the Consolidated and separate statements of financial position as at 30 June 2019;
- the Consolidated and separate statements of comprehensive income for the year then ended;
- the Consolidated and separate statements of cash flows for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Accounting policies related to the consolidated and separate annual financial statements;
- the Notes to the consolidated and separate annual financial statements; and
- Annexure A.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate annual financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa.

We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively.

Other information

The directors are responsible for the other information. The other information comprises the Six-year review, the Governance report, the Directors' responsibilities and approval statement, the Audit committee report, the Directors' Report, as required by the Companies Act of South Africa and the Company Secretary's Certification and Directors' Responsibility Statement which we obtained prior to the date of this auditor's report. Other information does not include the consolidated and separate annual financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate annual financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate annual financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual 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 and separate annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate annual financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities/or the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate annual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated annual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Bidvest Bank Limited for 1 year.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: Francois Prinsloo
Registered Auditor
Johannesburg
31 October 2019

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Private Bag X36, Sunninghill, 2157, South Africa
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800
www.pwc.co.za

Directors' report

The directors have pleasure in submitting their report on the consolidated and separate annual financial statements of Bidvest Bank Limited and its subsidiaries for the year ended 30 June 2019.

General information

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

Nature of business

The Bank is a registered commercial bank.

Financial results

The financial results are set out in the consolidated and separate financial statements and accompanying notes for the year ended 30 June 2019.

Share capital

Details of the authorised and issued share capital appear in note 13 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 affected the business of the Bank. The emoluments and services of executives are determined by the Remuneration Committee. No long-term service contracts exist between executive directors and the Bank. Transactions with directors are entered into in the normal course of business, under terms that are no more favourable than those with third parties.

Directorate

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

Executive directors

Jacob Jozua van Niekerk

BA, MBA (UCT)
Managing Director appointed 1 October 2013.

Marthinus Johannes Liebenberg

BComp, BCompt (Hons), CA(SA)
Financial director appointed 1 January 2013.

Non-executive directors

Eric Kevin Diack

BAcc, CA(SA), AMF
Appointed 23 May 2011.

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

Alastair Dunsmore Cunningham

BCom, CA(SA), AMP
Appointed 1 June 2015.

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

Renosi Denise Mokate (lead independent director)

BA, MA, PhD
Appointed 1 July 2013.

Dr Mokate is a director of companies including Vukile Property Fund Limited and The Bidvest Group Limited and is the Chairperson of the Government Employees Pension Fund.

Nigel George Payne

CA(SA)
Chairman, appointed 1 August 2009.

Mr Payne is a director of various listed and unlisted companies, including Bidcorp Limited, The Bidvest Group Limited, Mr Price Group Limited, Alexander Forbes Limited and Vukile Property Fund Limited. In future, the Chairman's independence will be assessed by the Board in accordance with King IV recommendations.

Lindsay Peter Ralphs

BCom, BAcc, CA(SA)
Appointed 8 December 2016.

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

Nompumelelo Thembekile Madisa

BSc, BCom (Hons), MMFI
Appointed 8 December 2016.

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

Dividend declaration

Dividends declared and paid for the period under review

Cumulative dividend of 76,09 cents per share was declared and paid for the current financial year.

Cumulative dividend of 68,84 cents was declared and paid for the previous financial year.

Group financial performance

Profit after tax increased by 3,4% to R312,5 million (2018: R302,3 million) while net interest income increased to R193,3 million (2018: R164,1 million). Net fee, commission, trading and other income was higher at R560,4 million (2018: R455,6 million) and net income from leasing activities increased to R596 million (2018: R567,1 million).

Deposits grew by 15,4% to R6,6 billion (2018: R5,7 billion). Loans and advances increased by 17,3% to R2,8 billion (2018: R2,4 billion) and leased assets decreased by 7% to R1,6 billion (2018: R1,7 billion). Total loans and advances and leased assets ended on R4,4 billion (2018: R4,1 billion). Negotiable securities decreased by 16,2% to R328,3 million (2018: R391,7 million). The Bank's total assets increased to R10,3 billion (2018: R9,2 billion). Cash generated from operations before dividends and taxation decreased to R1,2 billion (2018: R1,5 billion). A low risk appetite was maintained. Credit quality remained good and impairments were well managed. The credit loss ratio was 0,2% (2018: 0,15%).

The return on assets and return on equity were 3% and 11% respectively. A low financial leverage ratio of 3,6 times was maintained. The Bank's capital adequacy ratio was 22,9%. The Bank's liquidity coverage ratio was 177% and the net stable funding ratio was 159%.

Company Secretary and registered office

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

Corporate office

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1 Park Lane
Wierda Valley
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Telephone

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+27 (0)11 407 3000

Call centre

+27 (0)860 11 11 77

Telefax

+27 (0)11 407 3322

Website

www.bidvestbank.co.za

Auditors

PricewaterhouseCoopers Inc

Events after the reporting date

Dividend of 49,47 cents per share was declared and paid on 16 September 2019.

Certificate from the Company Secretary

In terms of section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that, to the best of my knowledge and belief, the Bank has lodged with the Registrar of Companies, for the financial year ended 30 June 2019, 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.

Diane Crawley
Company Secretary
31 October 2019

Consolidated and separate statement of comprehensive income

for the year ended 30 June 2019

	Notes	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
Interest income		**507 496**	444 542	**506 137**	444 472
Interest expense		**(314 195)**	(280 417)	**(314 196)**	(280 417)
Net interest income	21.1	**193 301**	164 125	**191 941**	164 055
Fee and commission income		**661 696**	472 105	**475 581**	366 346
Fee and commission expense		**(442 779)**	(295 080)	**(309 145)**	(208 857)
Net fee and commission income	21.2	**218 917**	177 025	**166 436**	157 489
Leasing income	21.3	**1 053 973**	1 090 814	**1 053 973**	1 090 814
Depreciation of leased assets		**(175 912)**	(170 242)	**(175 912)**	(170 242)
Other leasing costs	21.3	**(282 099)**	(353 465)	**(282 053)**	(353 455)
Net income from leasing		**595 962**	567 107	**596 008**	567 117
Net trading income		**277 739**	277 768	**272 873**	277 768
Other income / (loss)	21.4	**63 721**	813	**63 721**	813
Operating income		**1 349 640**	1 186 838	**1 290 979**	1 167 242
Net credit impairment income / (charge)		**(4 495)**	6 137	**(4 495)**	6 137
Operating income after credit impairment income / (charge)		**1 345 145**	1 192 975	**1 286 484**	1 173 379
Employment costs	22	**(469 558)**	(442 251)	**(449 955)**	(426 026)
Operating leases	23.1	**(90 494)**	(86 934)	**(89 307)**	(85 960)
Other non-operating losses		**(15 749)**	(18 606)	**(15 512)**	(18 447)
Information technology costs		**(68 728)**	(53 015)	**(66 923)**	(51 929)
Depreciation and amortisation	9, 11	**(65 542)**	(54 561)	**(63 157)**	(51 961)
Other operating expenditure	23.2	**(186 519)**	(121 812)	**(161 323)**	(116 541)
Operating expenditure		**(896 590)**	(777 179)	**(846 177)**	(750 864)
Operating income before indirect taxation		**448 555**	415 796	**440 307**	422 515
Indirect taxation	24.1	**(16 531)**	3 482	**(16 344)**	3 639
Profit before direct taxation		**432 024**	419 278	**423 963**	426 154
Direct taxation	24.2	**(119 528)**	(116 949)	**(132 053)**	(116 949)
Profit for the year		**312 496**	302 329	**291 910**	309 205
Other comprehensive income: net of income tax					
Items that will not be reclassified to profit or loss:					
Fair value reserve for assets measured at Fair value through other comprehensive income		**23 849**	(3 111)	**23 849**	(3 111)
Total comprehensive income for the year		**336 345**	299 218	**315 759**	306 094

Consolidated and separate statement of financial position

as at 30 June 2019

	Notes	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
Assets					
Cash and cash equivalents	2	**4 126 987**	3 614 479	**4 125 984**	3 615 434
Derivative financial assets	3	**13 496**	14 755	**13 496**	14 755
Negotiable securities	4	**328 317**	391 722	**328 317**	391 722
Investment securities	5	**563 990**	376 702	**563 990**	376 702
Other assets	6	**277 929**	367 222	**192 515**	304 221
Current tax receivable	6.1	**18 314**	6 545	**18 008**	6 239
Loans and advances	7	**2 792 067**	2 380 787	**2 842 101**	2 413 799
Intergroup loans	8	**189 989**	58 796	**190 161**	58 968
Equipment	9	**124 902**	80 720	**124 392**	80 074
Leased assets	10	**1 569 074**	1 687 128	**1 569 074**	1 687 128
Intangible assets	11	**220 068**	218 526	**182 195**	179 521
Investment in subsidiaries	12	**–**	–	**94 078**	94 078
Inventories		**38 111**	21 983	**38 111**	21 983
Total assets		**10 263 244**	9 219 365	**10 282 422**	9 244 624
Equity and liabilities					
Equity					
Share capital	13	**2 070**	2 070	**2 070**	2 070
Share premium	14	**525 709**	525 709	**525 709**	525 709
Fair value reserve		**24 373**	524	**24 373**	524
Share-based payment reserve		**(1 807)**	86	**(1 807)**	86
Retained income		**2 295 543**	2 141 993	**2 273 438**	2 140 474
Total equity		**2 845 888**	2 670 382	**2 823 783**	2 668 863
Liabilities					
Deposits	15	**6 576 907**	5 698 945	**6 609 001**	5 721 209
Derivative financial liabilities	3	**8 635**	45 513	**8 635**	45 513
Trade and other payables	16	**493 436**	494 404	**428 985**	437 803
Intergroup loans	8	**150 101**	150 089	**214 752**	214 740
Deferred tax	17	**187 758**	159 513	**196 747**	155 977
Defined benefit liability		**519**	519	**519**	519
Total liabilities		**7 417 356**	6 548 983	**7 458 639**	6 575 761
Total equity and liabilities		**10 263 244**	9 219 365	**10 282 422**	9 244 624

Consolidated and separate statement of cash flows

for the year ended 30 June 2019

		Group		Company	
	Notes	2019 R000	2018 R000	2019 R000	2018 R000
Cash flows from operating activities					
Cash generated from operations	25.1	**1 028 167**	1 276 940	**1 026 638**	1 295 608
Interest income		**488 732**	428 814	**487 373**	428 744
Interest expense		**(295 237)**	(260 882)	**(295 237)**	(260 882)
Cash generated by operations after interest		**1 221 662**	1 444 872	**1 218 774**	1 463 470
Dividends		**(157 500)**	(142 500)	**(157 500)**	(142 500)
Tax paid	6.1	**(98 158)**	(131 164)	**(98 158)**	(131 164)
Proceeds on disposal of leased assets		**102 315**	110 479	**102 315**	110 479
Acquisition of leased assets	10	**(152 211)**	(241 953)	**(152 211)**	(241 953)
Net cash from operating activities		**916 108**	1 039 734	**913 220**	1 058 332
Cash flows from investing activities					
Dividends from investment securities		**5 111**	1 639	**5 111**	1 639
Acquisition of equipment	9	**(82 337)**	(24 846)	**(82 057)**	(23 785)
Acquisition of intangible assets	11	**(31 755)**	(48 929)	**(31 101)**	(47 351)
Acquisition of investment securities	25.2	**(680 971)**	(354 721)	**(680 971)**	(354 721)
Acquisition of subsidiary, net of cash acquired	19	**–**	(17 409)	**–**	(37 691)
Proceeds on sale of investment securities		**517 532**	231 269	**517 532**	231 269
Net cash from investing activities		**(272 420)**	(212 997)	**(271 486)**	(230 640)
Cash flows from financing activities					
(Increase) / decrease in intergroup loans	25.3	**(131 180)**	(58 742)	**(131 184)**	(58 742)
Total cash movement for the year		**512 508**	767 995	**510 550**	768 950
Cash at the beginning of the year		**3 614 479**	2 846 484	**3 615 434**	2 846 484
Total cash at the end of the year	2	**4 126 987**	3 614 479	**4 125 984**	3 615 434

Statement of changes in equity

for the year ended 30 June 2019

	Share capital R000	Share premium R000	Total share capital R000	Fair value reserve* R000	Share-based payment reserve R000	Total reserves R000	Retained income R000	Total equity R000
Group								
Balance at 1 July 2017	2 070	525 709	527 779	3 635	12 452	16 087	1 982 164	2 526 030
Profit for the year	–	–	–	–	–	–	302 329	302 329
Other comprehensive income	–	–	–	(3 111)	–	(3 111)	–	(3 111)
Total comprehensive income for the year	–	–	–	(3 111)	–	(3 111)	302 329	299 218
Share-based payment expense	–	–	–	–	14 674	14 674	–	14 674
Settlement of share options exercised	–	–	–	–	(30 568)	(30 568)	–	(30 568)
Deferred tax on share-based payments recognised directly in equity	–	–	–	–	3 528	3 528	–	3 528
Dividends	–	–	–	–	–	–	(142 500)	(142 500)
			–	–	(12 366)	(12 366)	(142 500)	(154 866)
Opening balance as previously reported	**2 070**	**525 709**	**527 779**	**524**	**86**	**610**	**2 141 993**	**2 670 382**
Adjustments								
Impact of adopting IFRS 9, net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**(1 446)**	**(1 446)**
Balance at 1 July 2018 as restated	**2 070**	**525 709**	**527 779**	**524**	**86**	**610**	**2 140 547**	**2 668 936**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**312 496**	**312 496**
Other comprehensive income	**–**	**–**	**–**	**23 849**	**–**	**23 849**	**–**	**23 849**
Total comprehensive income for the year	**–**	**–**	**–**	**23 849**	**–**	**23 849**	**312 496**	**336 345**
Share-based payment expense	**–**	**–**	**–**	**–**	**15 387**	**15 387**	**–**	**15 387**
Settlement of share-based payments	**–**	**–**	**–**	**–**	**(19 339)**	**(19 339)**	**–**	**(19 339)**
Deferred tax on share-based payments recognised directly in equity	**–**	**–**	**–**	**–**	**2 059**	**2 059**	**–**	**2 059**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(157 500)**	**(157 500)**
	–	**–**	**–**	**–**	**(1 893)**	**(1 893)**	**(157 500)**	**(159 393)**
Balance at 30 June 2019	**2 070**	**525 709**	**527 779**	**24 373**	**(1 807)**	**22 566**	**2 295 543**	**2 845 888**
Note(s)	13	13	13					

* *The fair value reserve comprises fair value adjustments relating to investments in debt instruments and equity investments that are subsequently measured at fair value through other comprehensive income (previously held as available for sale).*

Statement of changes in equity continued

for the year ended 30 June 2019

	Share capital R000	Share premium R000	Total share capital R000	Fair value reserve* R000	Share-based payment reserve R000	Total reserves R000	Retained income R000	Total equity R000
Company								
Balance at 1 July 2017	2 070	525 709	527 779	3 635	12 452	16 087	1 973 769	2 517 635
Profit for the year	–	–	–	–	–	–	309 205	309 205
Other comprehensive income	–	–	–	(3 111)	–	(3 111)	–	(3 111)
Total comprehensive income for the year	–	–	–	(3 111)	–	(3 111)	309 205	306 094
Share-based payment expense	–	–	–	–	14 674	14 674	–	14 674
Settlement of share-based payments	–	–	–	–	(30 568)	(30 568)	–	(30 568)
Deferred tax on share-based payments recognised directly in equity	–	–	–	–	3 528	3 528	–	3 528
Dividends	–	–	–	–	–	–	(142 500)	(142 500)
	–	–	–	–	(12 366)	(12 366)	(142 500)	(154 866)
Opening balance as previously reported	2 070	525 709	527 779	524	86	610	2 140 474	2 668 863
Adjustments								
Impact of adopting IFRS 9, net of tax	–	–	–	–	–	–	(1 446)	(1 446)
Balance at 1 July 2018 as restated	**2 070**	**525 709**	**527 779**	**524**	**86**	**610**	**2 139 028**	**2 667 417**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**291 910**	**291 910**
Other comprehensive income	**–**	**–**	**–**	**23 849**	**–**	**23 849**	**–**	**23 849**
Total comprehensive income for the year	**–**	**–**	**–**	**23 849**	**–**	**23 849**	**291 910**	**315 759**
Share-based payment expense	**–**	**–**	**–**	**–**	**15 387**	**15 387**	**–**	**15 387**
Settlement of share-based payments	**–**	**–**	**–**	**–**	**(19 339)**	**(19 339)**	**–**	**(19 339)**
Deferred tax on share-based payments recognised directly in equity	**–**	**–**	**–**	**–**	**2 059**	**2 059**	**–**	**2 059**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(157 500)**	**(157 500)**
	–	**–**	**–**	**–**	**(1 893)**	**(1 893)**	**(157 500)**	**(159 393)**
Balance at 30 June 2019	**2 070**	**525 709**	**527 779**	**24 373**	**(1 807)**	**22 566**	**2 273 438**	**2 823 783**
Note(s)	13	13	13					

* *The fair value reserve comprises fair value adjustments relating to investments in debt instruments and equity investments that are subsequently measured at fair value through other comprehensive income (previously held as available for sale).*

Accounting policies

Reporting entity

Bidvest Bank Limited and its subsidiaries (the Bank) are domiciled in South Africa. The Bank is indirectly a wholly owned subsidiary of The Bidvest Group Limited.

1. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate consolidated and separate annual financial statements are set out below.

1.1 Basis of preparation

The consolidated and separate annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these consolidated and separate annual financial statements and the Companies Act 71 of 2008 of South Africa, as amended.

The consolidated and separate annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. The consolidated and separate financial statements are presented in South African rand (R) which is the Bank's functional currency. All financial information presented has been rounded to the nearest thousand.

These accounting policies are consistent with the previous period, except for the changes set out in note 32.

1.2 Consolidation

Basis of consolidation

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.

The Group has control of an entity when it is exposed to or has rights to variable returns from involvement with the entity and it has the ability to affect those returns through use of its power over the entity.

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 return (such activities are referred to as the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee
- Ability to exert power over the investee to affect the amount of the investor's returns

All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated in full on consolidation. Unrealised losses are not eliminated to the extent that they provide objective evidence of impairment.

Investments in subsidiaries in the separate financial statements

In the Company's separate financial statements, investments in subsidiaries are carried at cost less any accumulated impairment losses.

Business combinations

The Group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

1. Significant accounting policies continued

1.2 Consolidation continued

Business combinations continued

Any contingent consideration is included in the cost of the business combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration are not affected against goodwill, unless they are valid measurement period adjustments. Otherwise, all subsequent changes to the fair value of contingent consideration that is deemed to be an asset or liability is recognised in either profit or loss or in other comprehensive income, in accordance with relevant IFRS. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3 Business Combinations are recognised at their fair values at acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held For Sale and Discontinued Operations, which are recognised at fair value less costs to sell.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the acquiree's assets and liabilities are reassessed in terms of classification and are reclassified where the classification is inappropriate for Group purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

1.3 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's controlling shareholder's consolidated financial statements. Goodwill and intangible assets that form part of the carrying amount that was recognised previously in the Bank's controlling shareholder's consolidated financial statements are also recognised. Any excess of the purchase consideration over the net asset value obtained is recognised in equity as a notional distribution to owners and presented in the common control reserve. If the net asset value exceeds the consideration, the credit is recognised in equity as a capital contribution and presented in the common control reserve.

1.4 Foreign currency

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

Foreign currency transactions are translated at the ruling official rate of exchange at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the ruling official rates of exchange 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.

1.5 Significant judgements and sources of estimation uncertainty

The preparation of consolidated and separate annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on past experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The 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.

1. Significant accounting policies continued

1.6 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.

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 pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

1.7 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. Rental income is suspended when account exceeds 90 days in arrears.

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

1.8 Equipment

Equipment comprises fixed property, furniture, motor vehicles and other tangible assets and is 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 and losses on disposal of assets are recognised in profit or loss.

Assets with a cost under R7 000 are expensed in the period in which they are acquired.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value. Items of equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their expected residual values. The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

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

Item	Depreciation method	Average useful life
Computer equipment	Straight line	3 – 5years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	1 – 10 years
Furniture and fittings	Straight line	2 – 10 years

1. Significant accounting policies continued

1.8 Equipment continued

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

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

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

1.9 Intangible assets

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Goodwill

Goodwill arises on the acquisition of subsidiaries and is recognised as an asset on the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed.

If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is tested for impairment annually.

Computer software

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

Subsequent expenditure

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

Development costs

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

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

When the product or process is ready for use, the development cost is capitalised and amortised accordingly.

1. Significant accounting policies continued

1.9 Intangible assets continued

Customer contracts

Customer contracts arose on acquisition of Bidvest Merchant Services Proprietary Limited and have a contract period of 10 years.

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. There has been no change to useful lives from those applied in the previous financial year. The estimated useful lives of intangible assets for the current and comparative financial year are as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	2 months – 10 years
Customer contracts	Straight line	2 – 10 years

1.10 Financial instruments

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. In the case of financial assets or liabilities not measured at fair value through profit or loss, transaction costs are directly attributable to the acquisition or issue of the financial asset or liability.

With effect from 1 January 2018, IFRS 9 replaced IAS 39. IFRS 9 introduced new requirements which included an expected credit loss (ECL) impairment model and new requirements for the classification and measurement of financial instruments. As a result of the adoption of IFRS 9, the Group changed from the incurred credit loss model detailed in IAS 39 to the ECL model to calculate impairments of financial instruments. IFRS 9 also resulted in a change in the classification of the measurement categories for financial instruments. In transitioning to IFRS 9, the Group has applied the changes retrospectively but has elected not to restate the comparative information. The new standard outlines a 'three-stage' model (general model) for impairment based on changes in credit quality since initial recognition. Summarised below are the aforementioned changes and additional disclosures.

1.10.1 Financial assets

Classification and measurement

IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting for financial assets differs in various other areas to the IAS 39 requirements such as embedded derivatives and the recognition of fair value adjustments in other comprehensive income. All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk are required to be recognised within other comprehensive income.

The Group classifies its financial assets in the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income
- Fair value through profit or loss

1. Significant accounting policies continued

1.10 Financial instruments continued

1.10.1 Financial assets continued

Classification and measurement continued

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Group are presented below:

Financial assets which are equity instruments

- Mandatorily at fair value through profit or loss; or
- Designated as at fair value through other comprehensive income for equity instruments which are neither held for trading nor for contingent consideration in a business combination.

On initial recognition the Group may irrevocably designate a financial asset otherwise meeting the requirements for measurement at amortised cost or fair value through other comprehensive income, or as fair value through profit or loss, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. The election is made on an investment by investment basis.

Financial assets which are debt instruments

The classification of investments in debt instruments depends on the business model within which the financial assets are held and managed and the contractual cash flow characteristics of the financial assets.

- Financial assets are measured at amortised cost if the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows; or
- Fair value through other comprehensive income when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments; or
- Mandatorily at fair value through profit or loss automatically to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income; or
- Designated at fair value through profit or loss applied when such classification eliminates or significantly reduces an accounting mismatch.

Derivatives which are not part of a hedging relationship

- Mandatorily at fair value through profit or loss.

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.

Impairment

As a result of the adoption of IFRS 9, the Company changed from the incurred credit loss model detailed in IAS 39 to the ECL model to calculate impairments of financial instruments. The new standard outlines a 'three-stage' model (general model) for impairment based on changes in credit quality since initial recognition. The Group applies the general ECL impairment method to all its financial assets that are subject to IFRS 9 impairment requirements.

1. Significant accounting policies continued

1.10 Financial instruments continued

1.10.1 Financial assets continued

Impairment continued

Summarised below are the aforementioned changes and additional disclosures:

ECL impairment requirements

IFRS 9's ECL impairment model's requirements represented the most material IFRS 9 transition impact for the Group. The ECL model applies to financial assets measured at either amortised cost or at fair value through other comprehensive income, loan commitments when there is a present commitment to extend credit (unless these are measured at fair value through profit or loss) and guarantees. ECL is, at a minimum, required to be measured through a loss allowance at an amount equal to the 12-month ECL. However, where the lifetime is less than 12 months, lifetime ECL will be measured for the financial asset. A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.

Measurement of ECL

The Group calculates and recognises ECL on financial instruments while taking into consideration the following factors:

- An unbiased and probability weighted amount that is determined by evaluation a range of possible outcomes
- The time value of money
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

Time value of money

The Group discounts the calculated ECL to the reporting date. Calculated ECL considers the amount and timing of payments, therefore the Group deems a credit loss to arise even if the Group expects to be paid in full but later than when contractually due.

The discount rate for calculating ECL is based on the following:

- For fixed rate assets, the effective interest rate (EIR) determined at initial recognition or an approximation thereof
- For variable interest rate assets, the current EIR

Group assessments

ECLs reflect the Group's own expectations of credit losses. The Group assesses significant increase in credit risk without taking into account any collateral values. For financial instruments that do not contain a significant financing component the loss allowance is measured at initial recognition and throughout the life of the instrument at an amount equal to the lifetime ECL. The Group considers that its cash and cash equivalents have a low credit risk as the cash is deposited with reputable financial institutions and thus no ECL is raised on this balance.

The probability of default (PD) used in the calculation of ECL is a point-in-time probability (that is, PD in current economic conditions) and does not contain any adjustment for prudence. The Group expects that, with all other things staying constant, the PD of a financial instrument should reduce with the passage of time and therefore the Group considers the relative maturities of a financial instrument at inception and at the reporting date when comparing PDs. The Group estimates its PD at a point in time. Point-in-time PD estimates incorporate macroeconomic and the obligor's own credit quality. The Bank computes point-in-time PDs over the expected life of a financial instrument.

Credit loss

Credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all cash flows that the entity expects to receive, discounted at the original effective interest rate or credit adjusted EIR.

1. Significant accounting policies continued

1.10 Financial instruments continued

1.10.1 Financial assets continued

***Impairment** continued*

Credit loss continued

When estimating cash flows for determination of ECL, the Group has taken the following into account:

- Expected life of a financial instrument
- All contractual terms of the financial instrument
- Other credit enhancements integral to the contractual terms

12-month ECL

The Group defines 12-month ECL as a portion of the lifetime ECL and represents the lifetime ECL that will result if a default occurs in the 12 months after the reporting date weighted by the probability of that default occurring. The 12-month ECL is seen as neither the lifetime ECL that the Group will incur on financial instruments that it predicts will default in the next 12 months nor the cash shortfalls that are predicted over the next 12 months. The Company has measured the ECL of all financial instruments in a way that reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes.

Changes in accounting policies

As permitted by the transition provisions of IFRS 9, the Group elected not to restate comparative period results. Accordingly, all comparative period information is presented in accordance with previous accounting policies.

IFRS 9 introduced an ECL impairment model that differs from the incurred loss model under IAS 39. Provision for credit losses (PCL) is recorded to recognise estimated credit losses on all financial assets, except for financial assets classified or designated as fair value through profit or loss and equity securities designated as fair value through other comprehensive income, which are not subject to impairment assessment.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument

Provision for credit losses (PCL)

The amount charged to income necessary to bring the allowance for credit losses to a level determined appropriate by management. Under IFRS 9, this includes provisions on performing and impaired financial instruments.

Expected loss models are used for both regulatory capital and accounting purposes. Under both models, expected losses are calculated as the product of PD, loss given default (LGD) and exposure at default (EAD). However, there are certain key differences under current Basel and IFRS 9 reporting frameworks which could lead to significantly different expected loss estimates, including:

- Basel PDs are based on long-run averages over an entire economic cycle. IFRS 9 PDs are based on current conditions, adjusted for estimates of future conditions that will impact PD under probability weighted macroeconomic scenarios.
- Basel PDs consider the PD over the next 12 months. IFRS 9 PDs consider the PD over the next 12 months only for instruments in stage 1. ECLs for instruments in stage 2 and stage 3 are calculated using lifetime PDs.
- Basel LGDs are based on severe but plausible downturn economic conditions. IFRS 9 LGDs are based on current conditions, adjusted for estimates of future conditions that will impact LGD under probability weighted macroeconomic scenarios.

1. Significant accounting policies continued

1.10 Financial instruments continued

1.10.1 Financial assets continued

***Impairment** continued*

Allowance for credit losses

An allowance for credit losses (ACLs) is established for all financial assets, except for financial assets classified or designated as fair value through profit or loss and equity securities designated as fair value through other comprehensive income, which are not subject to impairment assessment. Assets subject to impairment assessment include certain loans, debt securities, interest-bearing deposits with banks, customers' liability under acceptances, accounts and accrued interest receivable, and finance and operating lease receivables. Off-balance sheet items subject to impairment assessment include financial guarantees and undrawn loan commitments. The Group measures the ACL on each balance sheet date according to a three-stage expected credit loss impairment model.

The three-stage model:

Stage 1 – performing

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month ECLs are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECLs are the ECLs that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months. From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date.

Stage 2 – underperforming

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECLs are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. ECLs are the weighted average credit losses with the PD as the weight. Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset.

Stage 3 – non-performing

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECLs are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance). When a financial asset is considered to be credit impaired, a loss allowance is recognised equal to credit losses expected over the remaining lifetime of the asset. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

The ECL is a discounted probability weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period. For financial guarantees, credit loss estimates are based on the expected payments required under the guarantee contract. For finance lease receivables, credit loss estimates are based on cash flows consistent with the cash flows used in measuring the lease receivable. The ACL represents an unbiased estimate of ECLs on our financial assets as at the balance sheet date. Judgement is required in making assumptions and estimations when calculating the ACL, including movements between the three stages and the application of forward looking information. The underlying assumptions and estimates may result in changes to the provisions from period to period that significantly affects the Company's results of operations.

1. Significant accounting policies continued

1.10 Financial instruments continued

1.10.1 Financial assets continued

***Impairment** continued*

Measurement of ECLs

ECLs are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of ECLs is based primarily on the product of the instrument's PD, LGD, and exposure at default (EAD) discounted to the reporting date. The main difference between stage 1 and stage 2 ECLs for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument. An ECL estimate is produced for each individual exposure. Relevant parameters are modelled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information. To reflect other characteristics that are not already considered through modelling, expert credit judgement is exercised in determining the final ECLs. These approaches have been designed to maximise the available information that is reliable and supportable for each portfolio and may be collective in nature. ECLs are discounted to the reporting period date using the effective interest rate method.

Expected life

For instruments in stage 2 or stage 3, loss allowances reflect ECLs over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

Assessment of significant increase in credit risk

The Group will assess, at each reporting date, whether the credit risk on a financial instrument has increased significantly since initial recognition. The assessment of significant increase in credit risk (SICR) requires significant judgement. Movements between stage 1 and stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognised.

The assessment is generally performed at the instrument level. The assessment of SICR and the calculation of ECL both incorporate forward looking information. The Group has performed historical analyses and identified the key economic variables impacting credit risk and the calculation of an ECL. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Significant judgement and estimates are applied in this process of incorporating forward looking information into the SICR assessment and ECL calculation. The thresholds for movement between stage 1 and stage 2 are symmetrical. After a financial asset has transferred to stage 2, if its credit risk is no longer considered to have significantly increased relative to its initial recognition, the financial asset will move back to stage 1.

For instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default, and the borrower has the ability to fulfil their contractual obligations both in the near term and in the longer term, including periods of adverse changes in the economic or business environment. When assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, management looks at the change in the risk of a default occurring over the expected life of the financial instrument rather than the change in the ECL. The Group compares the risk of a default as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition.

1. Significant accounting policies continued

1.10 Financial instruments continued

1.10.1 Financial assets continued

***Impairment** continued*

Assessment of significant increase in credit risk continued

When making that assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of ECL. To achieve this, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. A SICR is an event that happens before a financial asset becomes credit impaired or an actual default occurs. When making the assessment, the Company uses the change in the risk of a default occurring over the expected life of the financial instrument, instead of the change in the amount of ECLs (ie collateral and security is not considered). The Group will then raise lifetime ECLs on all financial instruments for which there has been SICRs since initial recognition.

Further information is provided in note 29.

Use of forward looking information

The measurement of ECLs for each stage and the assessment of SICR considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation and application of forward looking information requires significant judgement. The PD, LGD and EAD inputs used to estimate stage 1 and stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our ECL calculation includes a projection of all relevant macroeconomic variables used in our models for a five-year period, subsequently reverting to long-run averages. The Company's assessment of SICRs is based on changes in probability weighted forward looking lifetime PD as at the reporting date, using the same macroeconomic inputs as the calculation of ECLs. Further information is provided in note 29.

Definition of default

The definition of default used in the measurement of ECLs is consistent with the definition of default used for our internal credit risk management purposes. Our definition of default may differ across products and consider both quantitative and qualitative factors, such as the terms of financial covenants and days past due. The Group deems a default to occur when the borrower is more than 90 days past due on any material obligation, and/or the Company considers the borrower unlikely to make their payments in full without recourse action, such as taking formal possession of any collateral held.

PD is the risk that the borrower will be unable or unwilling to repay its debt in full or on time. The risk of default is derived by analysing the obligor's capacity to repay debt in accordance with contractual terms. PD is generally associated with characteristics such as inadequate cash flow to service debt, declining revenues or operating margins, high leverage and declining or marginal liquidity. In addition to these quantifiable factors, the borrowers willingness the repay is also evaluated. The PD is an estimate of the likelihood that the default event will occur and it applies to a particular assessment horizon, usually one year.

Key inputs and assumptions

The measurement of ECLs is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in ECLs include the following:

- Changes in the credit quality of the borrower or instrument, primarily reflected in changes in internal risk ratings
- Changes in forward looking macroeconomic conditions, specifically the macroeconomic variables to which the Company's models are calibrated
- Transfers between stages, which can be triggered by changes to any of the above inputs

Further information is provided in note 29.

1. Significant accounting policies continued

1.10 Financial instruments continued

1.10.1 Financial assets continued

***Impairment** continued*

Internal risk ratings

Internal risk ratings are assigned according to the internal risk management framework. Changes in internal risk ratings are primarily reflected in the PD parameters, which are estimated based on our historical loss experience at the relevant risk segment or risk rating level, adjusted for forward looking information.

Forward looking macroeconomic variables

The PD, LGD and EAD inputs used to estimate stage 1 and stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Further information is provided in note 29.

ACLs

The amount deemed adequate by management to absorb ECLs as at the balance sheet date. The allowance is established for all financial assets subject to impairment assessment. The allowance is changed by the amount of provision for credit losses recorded.

ECLs

The difference between the contractual cash flows due to us in accordance with the relevant contractual terms and the cash flows that we expect to receive, discounted to the balance sheet date.

1.10.2 Financial liabilities

The accounting for financial liabilities remains largely unchanged under IFRS 9, except for financial liabilities designated as fair value through profit or loss. All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk are required to be recognised within other comprehensive income. The Group classifies its financial liabilities in the following measurement categories:

- Amortised cost or
- Mandatorily at fair value through profit or loss. In the case of contingent consideration in a business combination or to liabilities which are held for trading or
- Designated at fair value through profit or loss when such classification eliminates or significantly reduces measurement or recognition inconsistency; the liability forms part of a group of financial instruments managed on a fair value basis; or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss

Deposits

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

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.

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.

1. Significant accounting policies continued

1.10 Financial instruments continued

1.10.2 Financial liabilities continued

***Derivative financial instruments** continued*

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.

1.11 Taxation

Direct tax

Income 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

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 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 and skills development levies, are separately disclosed in the statement of comprehensive income.

1. Significant accounting policies continued

1.12 Leases

The 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.

The Bank as lessor

Lease and instalment sale contracts are primarily financing transactions, with rentals and instalments receivable, less unearned finance charges, 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.

1.13 Inventories

The Group, in the course of its ordinary activities, routinely sells items of property, plant and equipment (end-of-term leased assets) that it initially holds for rental to customers. The Group transfers such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets are recognised as revenue in accordance with IFRS 15 Revenue from Contracts with Customers.

Inventories are measured at the lower of cost and net realisable value.

The costs of purchase of inventories comprise the purchase price, transport costs, handling and other costs directly attributable to the acquisition of the goods. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (ie the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value.

Inventory consists of end-of-term leased assets and card stock (card stock consists of physical cards held). The total carrying amount of inventory as at 30 June 2019 was R38,1 million (2018: R21,9 million).

1.14 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.

1. Significant accounting policies continued

1.14 Impairment of non-financial assets continued

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 pretax 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.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.15 Share-based payments

The Bidvest Group Limited share incentive scheme allows the Bank's 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.

1.16 Employee benefits

Employee benefits of the Bank

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 as short-term cash bonus as 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's liability for post-retirement benefits, accruing to past and current employees in terms of defined benefit schemes, is actuarially calculated. Where the plan is funded, the obligation is reduced by the fair value of the plan assets. Unfunded obligations are recognised as a liability in the financial statements.

The Bank's obligation for post-retirement medical aid to past and current employees is actuarially determined and provided for in full.

The projected unit credit method is used to determine the present value of the defined benefit obligations and the related current service cost and, where applicable, past service cost.

1. Significant accounting policies continued

1.17 Provisions and maintenance contracts

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event which 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 pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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.

1.18 Revenue

The Group recognises revenue from the following major sources:

Revenue from contracts with customers recognised under IFRS 15

Fee and commission income

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 July 2018, which resulted in changes in accounting policies. No adjustments were made to the amounts recognised in the financial statements. The adoption of IFRS 15 did not result in any adjustments or changes to how the Group measures revenue income and did not require any adjustment to the statement of financial position, statement of comprehensive income, statement of changes in equity or the statement of cash flows for either the current or previous reporting periods.

Revenue from contracts with customers requires entities to recognise revenue in a manner which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and excludes amounts collected on behalf of third parties. The transaction price is allocated to each identified performance obligation and revenue is recognised once the performance obligation is satisfied, either over time or at a point in time.

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified and determined at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations. When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or over time. The Bank has concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Acquiring income

Acquiring income comprises transactional banking fees such as point of sale acquiring at merchants, online payment processing services and ATM transactions where the Group is the owner of the ATM. Point of sale acquiring and online payment processing revenue is earned when a customer transacts at one of the Company's merchants (either ecommerce or point of sale) and a rate is levied on the transaction. This rate is levied on any transaction that goes through one of the Company's devices (point of sale and ecommerce). ATM revenue is earned when a customer interacts at an ATM.

Acquiring income is earned on the execution of a significant act which takes place at a point in time and for which performance and settlement generally takes place on the same day. Each service provided is priced separately and there is no variable consideration involved. None of the services contain a significant financing component.

1. Significant accounting policies continued

1.18 Revenue continued

Revenue from contracts with customers recognised under IFRS 15 continued

Card issuing income

The Bank is an issuer of travel-related and transactional-based cards through card settlement schemes, where the Bank is entitled to earn fees and commissions based on services provided in relation to such cards. Services provided would include card reloads and processing of card transactions. The Bank also provides its customers with card processing services (ie authorisation and settlement of transactions executed with the Bank's cards) where it is entitled to an interchange fee for each transaction. Most of those services are provided at a point in time for which performance and settlement generally takes place on the same day. The above fees vary based on the number and type of transactions processed and are structured as either a fixed rate per transaction processed or at a fixed percentage of the underlying cardholder transaction.

Income from annual card fees is recognised on an accrual basis as the services are rendered and the Bank's performance obligation is satisfied. Revenue is recognised over time as the performance obligation is satisfied evenly over the period (ie one year) and straight-line recognition over the contract period is deemed to be reasonable. Given that the payment of such fees is deducted at the end of each month for services provided, there is no contract assets/liabilities arising on this performance obligation.

Other fees

Other fees include fees charged on international money transfer services, where the customer is charged a rate based on the value of the amount sent or received, and transactional fees charged on negotiable securities.

The Bank has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract. The fees earned in exchange for these services are recognised at the point in time.

Revenue recognised under IFRS 9

Net interest income

Interest income and expense is to be 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 to the carrying amount of the financial asset or liability. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing financial instrument and its amount at maturity calculated on an effective interest rate basis.

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 on stage 1 or stage 2 financial assets is calculated by multiplying the effective interest rate by the gross carrying amount of such assets, whereas interest income on stage 3 financial assets to be calculated based on the net carrying value of the exposure (the gross carrying value less the ECL allowance).

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

- interest on financial assets and liabilities at amortised cost on an effective interest basis; and
- interest on fair value through other comprehensive income investment securities on an effective interest basis.

Interest income is earned and recognised as interest payments fall due.

Net trading income

In terms of IFRS 9 trading positions are measured at fair value, with fair value gains and losses being recognised within profit or loss.

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

Foreign exchange income includes gains and losses from spot and forward contracts.

1. Significant accounting policies continued

1.18 Revenue continued

Revenue recognised under IAS 17

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.

Revenue related to the maintenance portion of the full maintenance leasing activities is assessed in terms of IFRS 15. Revenue from maintenance contracts has been recognised over time and accounted for as and when they fall due. The Group has performed an assessment of the impact on these financial statements and, as majority of the full maintenance leasing activities book is currently at the middle to end of its life cycle, no contract liabilities or contract assets are raised in terms of IFRS 15 as the amounts were found to be immaterial.

Revenue recognised as other income

Other income comprises dividend income and unclaimed balances written back.

Dividend income (measured under IFRS 9) is recognised in profit or loss on the date that the right to receive payment is established.

1.19 Deposits, intergroup loans and trade payables

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

1.20 Distributions to the shareholder

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

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
2. Cash and cash equivalents				
Cash and cash equivalents include cash on hand and cash in banks. The average interest rate is 5,25% (2018 5,03%).				
Cash on hand	**220 622**	215 865	**220 622**	215 865
Interbank investments:				
Current accounts	**919 844**	653 065	**918 838**	654 020
Money on call	**2 792 411**	2 473 815	**2 792 448**	2 473 815
South African Reserve Bank	**82 994**	94 582	**82 994**	94 582
Money market and preference share portfolio	**7 095**	19 092	**7 061**	19 092
Restricted cash held at South African Reserve Bank	**104 021**	158 060	**104 021**	158 060
	4 126 987	3 614 479	**4 125 984**	3 615 434
Current assets	**4 126 987**	3 614 479	**4 125 984**	3 615 434
Cash is held with Tier 1, A rated banks.				
3. Derivative financial instruments				
Forward exchange contracts				
Derivative financial assets	**13 496**	14 755	**13 496**	14 755
Derivative financial liabilities	**(8 635)**	(45 513)	**(8 635)**	(45 513)
	4 861	(30 758)	**4 861**	(30 758)
Notional amount of derivative financial assets	**636 732**	433 081	**636 732**	433 081
Notional amount of derivative financial liabilities	**429 456**	825 804	**429 456**	825 804
The notional amount is the value of all bought and sold contracts respectively and is presented in rand at the ruling exchange rate at 30 June. 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.				
The Group deems 10% of the carrying amount of the derivative exposure to be the maximum exposure to credit risk.				
Current assets	**13 496**	14 755	**13 496**	14 755
Current liabilities	**(8 635)**	(45 513)	**(8 635)**	(45 513)
	4 861	(30 758)	**4 861**	(30 758)

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
4. Negotiable securities				
Investments carried at amortised cost				
Bills of exchange	**343 082**	402 009	**343 082**	402 009
Less: allowance for impairment	**(14 765)**	(10 287)	**(14 765)**	(10 287)
	328 317	391 722	**328 317**	391 722
Current assets	**328 317**	391 722	**328 317**	391 722

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

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
5. Investment securities				
At fair value through other comprehensive income				
Investment in South African government bonds and Treasury bills	**490 173**	330 706	**490 173**	330 706
Listed preference shares	**72 734**	44 947	**72 734**	44 947
Listed equities	**1 067**	1 033	**1 067**	1 033
Unlisted shares at directors' valuation	**16**	16	**16**	16
	563 990	376 702	**563 990**	376 702

Government bonds, treasury bills, listed preference shares and listed equities are held at fair value and are valued by using the market quoted prices. The movement in the fair value is recognised directly in other comprehensive income.

The South African government bonds carry interest at an available rate. The weighted average rate on these bonds is 8,7% per annum (2018: 8,6%).

The listed preference shares' weighted average rate is 9,05% per annum (2018: 9,92%). Market quoted prices are used only where the instruments are liquid.

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
Non-current assets				
Held at fair value through other comprehensive income	**563 990**	376 702	**563 990**	376 702

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
6. Other assets				
Trade and other receivables	**146 993**	276 940	**173 504**	286 231
Value added tax	**131**	6 075	**2 042**	5 478
Payments in advance	**17 069**	12 512	**16 969**	12 512
Merchant services interchange receivables	**113 736**	71 695	**–**	–
	277 929	367 222	**192 515**	304 221

Leasing debtors and sundry debtors included in trade and other receivables above are the only exposures disclosed under other assets that are subject to an expected credit loss. The Bank has individually assessed these exposures for credit impairment and the resulting amount was found to be immaterial. No allowance for credit loss was raised on these exposures as at 30 June 2019.

All the other assets are current assets with an expected settlement period of less than 12 months after reporting period.

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
6.1 Taxation paid				
Balance at the beginning of the year	**6 545**	(5 454)	**6 239**	(5 757)
Current tax for the year recognised in profit or loss	**(86 389)**	(119 171)	**(86 389)**	(119 171)
Interest receivable	**–**	6	**–**	3
Balance at the end of the year	**(18 314)**	(6 545)	**(18 008)**	(6 239)
	(98 158)	(131 164)	**(98 158)**	(131 164)

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
7. Loans and advances				
Analysis of loans and advances				
Loans and advances to customers				
Call and term loans	**1 197 552**	855 364	**1 247 586**	888 376
Mortgage loans	**584 267**	403 587	**584 267**	403 587
Finance leases and instalment finance	**1 009 074**	1 111 977	**1 009 074**	1 111 977
	2 790 893	2 370 928	**2 840 927**	2 403 940
Less: allowance for impairment	**(8 997)**	(8 276)	**(8 997)**	(8 276)
Loans and advances to banks	**2 781 896**	2 362 652	**2 831 930**	2 395 664
Finance leases	**10 171**	18 135	**10 171**	18 135
	2 792 067	2 380 787	**2 842 101**	2 413 799

	Gross R000	**Unearned finance charges R000**	**Net R000**
7. Loans and advances continued			
Group			
2019			
Maturity of finance leases			
Due within one year	**430 594**	**(89 059)**	**341 535**
Between one and five years	**780 294**	**(104 396)**	**675 898**
More than five years	**2 212**	**(400)**	**1 812**
	1 213 100	**(193 855)**	**1 019 245**
2018			
Maturity of finance leases			
Due within one year	775 755	(74 664)	701 091
Between one and five years	487 875	(64 486)	423 389
More than five years	5 793	(161)	5 632
	1 269 423	(139 311)	1 130 112
Company			
2019			
Maturity of finance leases			
Due within one year	**430 594**	**(89 059)**	**341 535**
Between one and five years	**780 294**	**(104 396)**	**675 898**
More than five years	**2 212**	**(400)**	**1 812**
	1 213 100	**(193 855)**	**1 019 245**
2018			
Maturity of finance leases			
Due within one year	775 755	(74 664)	701 091
Between one and five years	487 875	(64 486)	423 389
More than five years	5 793	(161)	5 632
	1 269 423	(139 311)	1 130 112

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

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
8. Intergroup loans				
Intergroup loans payable				
Bid Industrial Holdings Proprietary Limited	**150 101**	150 089	**150 101**	150 089
Bidvest Leasing Proprietary Limited	**–**	–	**34 106**	34 106
Viamax Fleet Solutions Proprietary Limited	**–**	–	**15 050**	15 050
Viamax Proprietary Limited	**–**	–	**15 495**	15 495
	150 101	150 089	**214 752**	214 740

The Bid Industrial Holdings Proprietary Limited loan bears interest at prime less 2%. The full amount was repaid after year-end, but the facility of R500 million remains available should it be required. The loans from Bidvest Leasing Proprietary Limited, Viamax Fleet Solutions Proprietary Limited and Viamax Proprietary Limited are interest-free with no fixed terms of repayment.

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
Intergroup loans receivable				
Bidvest Bank Holdings Limited	**125 536**	–	**125 536**	–
Bid Finserv Capital Proprietary Limited	**64 453**	58 796	**64 453**	58 796
McCarthy Retail Finance Proprietary Limited	**–**	–	**172**	172
	189 989	58 796	**190 161**	58 968

The Bid Finserv Capital Proprietary Limited loan bears interest at prime and has no repayment terms.

The McCarthy Retail Finance Proprietary Limited loan bears no interest and has no repayment terms.

The Bidvest Holdings Limited loan bears no interest and has no repayment terms.

All intergroup loans, except the loan from Bid Industrial Holdings Proprietary Limited, are non-current.

	2019			2018		
	Cost or re-valuation R000	**Accumu-lated depre-ciation R000**	**Carrying value R000**	Cost or revaluation R000	Accumu-lated depre-ciation R000	Carrying value R000
9. Equipment						
Group						
Office equipment	**25 049**	**(21 961)**	**3 088**	25 049	(20 248)	4 801
Furniture and fixtures	**146 302**	**(76 686)**	**69 616**	120 875	(71 966)	48 909
Computer equipment	**98 419**	**(56 526)**	**41 893**	71 145	(47 235)	23 910
Motor vehicles	**17 836**	**(7 531)**	**10 305**	8 819	(5 719)	3 100
Total	**287 606**	**(162 704)**	**124 902**	225 888	(145 168)	80 720
Company						
Office equipment	**23 832**	**(21 188)**	**2 644**	23 974	(19 743)	4 231
Furniture and fixtures	**146 289**	**(76 670)**	**69 619**	120 534	(71 647)	48 887
Computer equipment	**98 310**	**(56 486)**	**41 824**	69 315	(45 459)	23 856
Motor vehicles	**17 836**	**(7 531)**	**10 305**	8 819	(5 719)	3 100
Total	**286 267**	**(161 875)**	**124 392**	222 642	(142 568)	80 074

	Group				
	Opening balance R000	**Additions R000**	**Disposals R000**	**Depre-ciation R000**	**Total R000**
Reconciliation of equipment – 2019					
Office equipment	**4 801**	**1 308**	**(54)**	**(2 967)**	**3 088**
Furniture and fixtures	**48 909**	**39 915**	**(2 494)**	**(16 714)**	**69 616**
Computer equipment	**23 910**	**31 001**	**(245)**	**(12 773)**	**41 893**
Motor vehicles	**3 100**	**10 113**	**(33)**	**(2 875)**	**10 305**
	80 720	**82 337**	**(2 826)**	**(35 329)**	**124 902**

	Opening balance R000	Additions R000	Additions through business combi-nations R000	Disposals R000	Depre-ciation R000	Total R000
Reconciliation of equipment – 2018						
Office equipment	6 683	2 101	104	(168)	(3 919)	4 801
Furniture and fixtures	48 735	15 077	–	(71)	(14 832)	48 909
Computer equipment	27 498	7 565	–	(135)	(11 018)	23 910
Motor vehicles	15 459	103	–	(10 005)	(2 457)	3 100
	98 375	24 846	104	(10 379)	(32 226)	80 720

	Company				
	Opening balance R000	**Additions R000**	**Disposals R000**	**Depreciation R000**	**Total R000**
9. Equipment continued					
Reconciliation of equipment – 2019					
Office equipment	**4 231**	**1 070**	**(48)**	**(2 609)**	**2 644**
Furniture and fixtures	**48 887**	**39 915**	**(2 476)**	**(16 707)**	**69 619**
Computer equipment	**23 856**	**30 959**	**(452)**	**(12 539)**	**41 824**
Motor vehicles	**3 100**	**10 113**	**(33)**	**(2 875)**	**10 305**
	80 074	**82 057**	**(3 009)**	**(34 730)**	**124 392**
Reconciliation of equipment – 2018					
Office equipment	6 683	1 319	(168)	(3 603)	4 231
Furniture and fixtures	48 735	15 047	(71)	(14 824)	48 887
Computer equipment	27 498	7 316	(135)	(10 823)	23 856
Motor vehicles	15 459	103	(10 005)	(2 457)	3 100
	98 375	23 785	(10 379)	(31 707)	80 074

All the equipment is expected to be recovered more than 12 months after reporting period.

10. Leased assets

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

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
Cost	**2 316 150**	2 270 692	**2 316 150**	2 270 692
Accumulated depreciation	**(629 022)**	(563 265)	**(629 022)**	(563 265)
Carrying value at the beginning of the year	**1 687 128**	1 707 427	**1 687 128**	1 707 427
Movement for the year				
Additions	**81 536**	254 077	**81 536**	254 077
Disposals	**(94 353)**	(92 010)	**(94 353)**	(92 010)
Depreciation	**(175 912)**	(170 242)	**(175 912)**	(170 242)
Capital work in progress	**70 675**	(12 124)	**70 675**	(12 124)
Carrying value at the end of the year	**1 569 074**	1 687 128	**1 569 074**	1 687 128
Cost	**2 253 573**	2 316 150	**2 253 573**	2 316 150
Accumulated depreciation	**(684 499)**	(629 022)	**(684 499)**	(629 022)
Carrying value at the end of the year	**1 569 074**	1 687 128	**1 569 074**	1 687 128

Leased assets have a remaining lease period of between one and six years.

Capital work in progress comprises leased assets in the process of completion, not yet brought into use.

	2019			2018		
	Cost or valuation R000	**Accumulated amortisation R000**	**Carrying value R000**	Cost or valuation R000	Accumulated amortisation R000	Carrying value R000
11. Intangible assets						
Group						
Goodwill at cost	**45 440**	**–**	**45 440**	45 440	–	45 440
Computer software	**224 626**	**(99 253)**	**125 373**	183 822	(69 305)	114 517
Development costs	**44 679**	**–**	**44 679**	53 427	–	53 427
Customer contracts	**5 661**	**(1 085)**	**4 576**	5 661	(519)	5 142
Total	**320 406**	**(100 338)**	**220 068**	288 350	(69 824)	218 526
Company						
Goodwill at cost	**14 831**	**–**	**14 831**	14 831	–	14 831
Computer software	**219 674**	**(96 007)**	**123 667**	179 278	(67 854)	111 424
Development costs	**43 697**	**–**	**43 697**	53 266	–	53 266
Total	**278 202**	**(96 007)**	**182 195**	247 375	(67 854)	179 521

	Group				
	Opening balance R000	**Additions R000**	**Transfers R000**	**Amortisation R000**	**Total R000**
Reconciliation of intangible assets – 2019					
Goodwill at cost	**45 440**	**–**	**–**	**–**	**45 440**
Computer software	**114 517**	**685**	**39 818**	**(29 647)**	**125 373**
Development cost	**53 427**	**31 070**	**(39 818)**	**–**	**44 679**
Customer contracts	**5 142**	**–**	**–**	**(566)**	**4 576**
	218 526	**31 755**	**–**	**(30 213)**	**220 068**

	Opening balance R000	Additions R000	Additions through business combinations R000	Transfers R000	Amortisation R000	Total R000
Reconciliation of intangible assets – 2018						
Goodwill at cost	14 831	–	30 609	–	–	45 440
Computer software	43 773	48 529	3 238	40 793	(21 816)	114 517
Development cost	93 820	400	–	(40 793)	–	53 427
Customer contracts	–	–	5 661	–	(519)	5 142
	152 424	48 929	39 508	–	(22 335)	218 526

	Company				
	Opening balance R000	Additions R000	Transfers R000	Amortisation R000	Total R000
11. Intangible assets continued					
Reconciliation of intangible assets – 2019					
Goodwill at cost	**14 831**	**–**	**–**	**–**	**14 831**
Computer software	**111 424**	**852**	**39 818**	**(28 427)**	**123 667**
Development costs	**53 266**	**30 249**	**(39 818)**	**–**	**43 697**
	179 521	**31 101**	**–**	**(28 427)**	**182 195**
Reconciliation of intangible assets – 2018					
Goodwill at cost	14 831	–	–	–	14 831
Computer software	43 773	47 112	40 793	(20 254)	111 424
Development costs	93 820	239	(40 793)	–	53 266
	152 424	47 351	–	(20 254)	179 521

No impairment of intangible assets was considered necessary during the financial year. All the intangible assets are expected to be recovered more than 12 months after the reporting period. Intangible assets have a remaining amortisation period of one to eight years.

Basis of assessment of carrying value of goodwill

Goodwill is not amortised and is tested for impairment on an annual basis. No impairment was considered necessary during the financial year. For the basis of the impairment assessment refer to note 29.

12. Investment in subsidiaries

The following table lists the entities which are controlled by the Group, either directly or indirectly through subsidiaries:

Name of company	Nature of business	**Ownership of ordinary shares 2019**	Ownership of ordinary shares 2018	**Carrying amount 2019**	Carrying amount 2018
Viamax Proprietary Limited and subsidiaries	Dormant	**10 000 000**	10 000 000	**56 387**	56 387
McCarthy Retail Finance Proprietary Limited	Dormant	**99**	99	**–**	–
Bidvest Merchant Services Proprietary Limited	Merchant services	**133**	133	**37 691**	37 691
				94 078	94 078

All subsidiaries are wholly owned and have the same financial year-end as the Bank. The carrying amount of Viamax and its subsidiaries and McCarthy Retail Finance amount to the net asset value of the companies and as such no impairment is required.

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
13. Share capital				
Authorised				
360 000 000 ordinary shares of 1c each	**3 600**	3 600	**3 600**	3 600
Issued				
207 000 000 (2018: 207 000 000) ordinary shares of 1c each	**2 070**	2 070	**2 070**	2 070

All issued shares are fully paid up. Holders of ordinary share capital hold one vote per ordinary share at the Group's annual general meeting (AGM). The unissued ordinary shares are under the control of the directors who may issue them on such terms and conditions as they deem fit until the Group's next annual general meeting.

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
14. Share premium				
Closing balance	**525 709**	525 709	**525 709**	525 709
15. Deposits				
Deposits from customers				
Fixed and notice	**2 857 694**	2 553 381	**2 865 430**	2 560 881
Call	**3 719 213**	3 145 564	**3 743 571**	3 160 328
	6 576 907	5 698 945	**6 609 001**	5 721 209

The maturity analysis of deposits is based on the contractual period to maturity from the statement of financial position date as reflected in note 18. The average interest rate on deposits is 5,4% (2018: 5,4%).

All the deposits are current liabilities with an expected settlement period of less than 12 months after reporting period.

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
16. Trade and other payables				
Trade payables	**36 806**	39 748	**39 637**	37 077
Nostro creditors	**184 666**	174 934	**184 666**	174 934
Provisions	**78 495**	131 123	**78 495**	131 123
Accruals	**124 461**	98 343	**114 807**	78 377
Merchants payable	**57 628**	33 965	**–**	–
Outstanding bank credits	**6 538**	9 345	**6 538**	9 345
Straight-lining of leases	**4 842**	6 968	**4 842**	6 946
	493 436	494 404	**428 985**	437 803

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

All trade and other payables are current liabilities with an expected settlement period of less than 12 months after the reporting period.

	Profit share provision R000	Maintenance obligation provision R000	Total R000
16. Trade and other payables continued			
Balance at 1 July 2018	113 814	17 311	131 125
Provision raised	1 150	2 374	3 524
Provision utilised	–	(3 251)	(3 251)
Reversal	(52 903)	–	(52 903)
Balance at 30 June 2019	**62 061**	**16 434**	**78 495**

The profit share provision represents a profit sharing arrangement arising throughout the term of the contract on certain leasing contracts whereby the Bank will share a percentage of profits realised on the sale of the assets and also on the maintenance profit earned over the term of the contract.

The maintenance fund provision represents a present obligation for expected economic outflows arising from the full maintenance leasing contracts.

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
17. Deferred tax				
Deferred tax liability				
Equipment and leased assets	**265 437**	239 244	**265 437**	239 244
Accruals	**(54 875)**	(65 808)	**(54 571)**	(65 808)
Straight-lining of leases	**(1 356)**	(1 945)	**(1 356)**	(1 945)
Prepayments	**3 368**	2 053	**3 368**	2 053
Customer contracts acquired	**3 536**	3 536	**–**	–
Tax losses	**(12 221)**	–	**–**	–
Share-based payments	**(16 131)**	(17 567)	**(16 131)**	(17 567)
Total deferred tax liability	**187 758**	159 513	**196 747**	155 977

The Group has estimated tax losses of R131 million that can be set off against future taxable profits. The deferred tax balance includes an amount of R12,2 million which relates to carried forward tax losses of Bidvest Merchant Services Proprietary Limited and Cash Axcess Proprietary Limited.

The Group has concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the current financial year results as well as the approved business plans and budgets for the subsidiaries. The subsidiaries have generated profits in the current year and are expected to continue to generate taxable income into the future. The losses can be carried forward indefinitely and have no expiry date.

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
Reconciliation of deferred tax liability				
At the beginning of the year	**159 513**	161 727	**155 977**	161 727
On acquisition of business	**–**	3 536	**–**	–
Charged to comprehensive income	**33 139**	(230)	**45 664**	(230)
Charged to equity: share-based payments	**(2 059)**	(3 528)	**(2 059)**	(3 528)
Charged to equity: IFRS 9 transition	**(292)**	–	**292**	–
Charged to equity: foreign withholding tax credits not utilised	**(3 127)**	–	**(3 127)**	–
Prior year underprovision	**–**	(1 992)	**–**	(1 992)
	187 758	159 513	**196 747**	155 977

18. Financial risk management

18.1 Introduction and overview

The Bank has exposure to the following major risks financial and non-financial:

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

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

Risk management framework

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

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

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

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

18.2 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.

18. Financial risk management continued

18.2 Credit risk continued

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 reviews it at least bi-annually;
- ensures that the Bank operates within sound and well-defined credit granting criteria;
- ensures that senior management is fully capable of managing credit activities conducted by the Bank;
- ensures, through independent inspection and audit, adherence to the policy, techniques, controls, procedures and information systems;
- reviews all significant credit exposures 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 employees.

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.

18. Financial risk management continued

18.2 Credit risk continued

Exposure to credit risk

The following provides a breakdown of the Group's assets that are exposed to credit risk and are subject to impairment requirements in IFRS 9:

	Group				
	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	**2019 Carrying amount**	2018 Carrying amount R000
Loans and advances					
Exceptional credit quality	511 045	–	–	**511 045**	996 873
Exceptional credit quality (banks)	75 934	–	–	**75 934**	19 621
Good and average credit quality	1 811 391	359 117	–	**2 170 508**	1 361 433
Deteriorated credit quality	–	–	43 577	**43 577**	11 136
Gross carrying amount	2 398 370	359 117	43 577	**2 801 064**	2 389 063
Loss allowance	(4 809)	(179)	(4 009)	**(8 997)**	(8 276)
Net carrying amount	2 393 561	358 938	39 568	**2 792 067**	2 380 787
Negotiable securities					
Exceptional credit quality	129 575	–	–	**129 575**	87 982
Good and average credit quality	175 102	4 439	–	**179 541**	298 671
Deteriorated credit quality	–	–	33 966	**33 966**	15 356
Gross carrying amount	304 677	4 439	33 966	**343 082**	402 009
Loss allowance	(1)	–	(14 764)	**(14 765)**	(10 287)
Net carrying amount	304 676	4 439	19 202	**328 317**	391 722
Investment securities at fair value through other comprehensive income					
Good and average credit quality	563 990	–	–	**563 990**	376 702
Net carrying amount	563 990	–	–	**563 990**	376 702
Cash and cash equivalents					
Exceptional credit quality	221 663	–	–	**221 663**	214 910
Exceptional credit quality (banks)	3 905 324	–	–	**3 905 324**	3 399 569
Net carrying amount	4 126 987	–	–	**4 126 987**	3 614 479
Intergroup loans					
Good and average credit quality	189 989	–	–	**189 989**	58 796
Net carrying amount	189 989	–	–	**189 989**	58 796
Other assets					
Good and average credit quality	260 860	–	–	**260 860**	354 710
Net carrying amount	260 860	–	–	**260 860**	354 710

The Group applies the general ECL impairment method to the financial assets measured at amortised cost and at fair value through other comprehensive income. The Group calculated an ECL allowance on financial assets at fair value through other comprehensive income, intergroup loans and other assets and found the value to be immaterial.

The Group closely monitors collateral held for financial assets that are considered to be credit impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit loss. The Group holds collateral of R46 million on financial assets that are credit impaired.

18. Financial risk management continued

18.2 Credit risk continued

Exposure to credit risk continued

Reconciliation of changes in the gross carrying amount

	Group			
	Stage 1 12-month ECL R000	Stage 2 lifetime ECL R000	Stage 3 lifetime ECL R000	Total R000
Loans and advances				
Gross carrying amount as at 1 July 2018	2 305 667	72 144	11 252	2 389 063
Transfer from stage 1	**(225 518)**	**214 549**	**10 969**	**–**
Transfer from stage 2	**22 045**	**(22 045)**	**–**	**–**
Transfer from stage 3	**1**	**–**	**(1)**	**–**
Increase in exposure	**296 175**	**94 469**	**21 357**	**412 001**
Gross carrying amount as at 30 June 2019	**2 398 370**	**359 117**	**43 577**	**2 801 064**
Negotiable securities				
Gross carrying amount as at 1 July 2018	365 254	26 163	10 592	402 009
Transfer from stage 1	**(27 813)**	**4 439**	**23 374**	**–**
Decrease in exposure	**(32 764)**	**(26 163)**	**–**	**(58 927)**
Gross carrying amount as at 30 June 2019	**304 677**	**4 439**	**33 966**	**343 082**
Reconciliation of changes in impairment provision				
Loans and advances				
Loss allowance as at 1 July 2018	(3 169)	(1 044)	(7 537)	(11 750)
Transfer from stage 1	**1 457**	**(137)**	**(1 320)**	**–**
Transfer from stage 2	**(1 659)**	**1 659**	**–**	**–**
Impairment (raised) / released	**(3 097)**	**(657)**	**6 507**	**2 753**
Loss allowance as at 30 June 2019	**(6 468)**	**(179)**	**(2 350)**	**(8 997)**
Negotiable securities				
Loss allowance as at 1 July 2018	(547)	(91)	(10 592)	(11 230)
Transfer from stage 1	**32**	**–**	**(32)**	**–**
Transfer from stage 2	**(4 122)**	**4 122**	**–**	**–**
Impairment (raised) / released	**514**	**(4 031)**	**(18)**	**(3 535)**
	(4 123)	**–**	**(10 642)**	**(14 765)**

On adoption of IFRS 9, the Bank now includes the collateral values (reflected in the LGD %) in the calculation of expected credit losses. The collateral values were not incorporated in calculating prior year's impairment loss provision under IAS 39. As a result, although the gross exposure increased in stage 3, the impairment loss decreased.

18. Financial risk management continued

18.2 Credit risk continued

Exposure to credit risk continued

The following provides a breakdown of the Bank's assets that are exposed to credit risk and are subject to impairment requirements in IFRS 9:

	Company				
	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	**2019 Carrying amount**	2018 Carrying amount
Loans and advances					
Exceptional credit quality	511 045	–	–	**511 045**	996 873
Exceptional credit quality (banks)	75 934	–	–	**75 934**	19 621
Good and average credit quality	1 861 426	359 117	–	**2 220 543**	1 394 445
Deteriorated credit quality	–	–	43 576	**43 576**	11 136
Gross carrying amount as at 30 June 2019	2 448 405	359 117	43 576	**2 851 098**	2 422 075
Loss allowance	(4 809)	(179)	(4 009)	**(8 997)**	(8 276)
Net carrying amount	2 443 596	358 938	39 567	**2 842 101**	2 413 799
Negotiable securities					
Exceptional credit quality	129 575	–	–	**129 575**	87 982
Good and average credit quality	175 102	4 439	–	**179 541**	298 671
Deteriorated credit quality	–	–	33 966	**33 966**	15 356
Gross carrying amount as at 30 June 2019	304 677	4 439	33 966	**343 082**	402 009
Loss allowance	(1)	–	(14 764)	**(14 765)**	(10 287)
Net carrying amount	304 676	4 439	19 202	**328 317**	391 722
Investment securities at fair value through other comprehensive income					
Good and average credit quality	563 990	–	–	**563 990**	376 702
Net carrying amount	563 990	–	–	**563 990**	376 702
Cash and cash equivalents					
Exceptional credit quality	220 660	–	–	**220 660**	215 865
Exceptional credit quality (banks)	3 905 324	–	–	**3 905 324**	3 399 569
Net carrying amount	4 125 984	–	–	**4 125 984**	3 615 434
Intergroup loans					
Good and average credit quality	190 161	–	–	**190 161**	58 968
Net carrying amount	190 161	–	–	**190 161**	58 968
Other assets					
Good and average credit quality	175 546	–	–	**175 546**	291 709
Net carrying amount	175 546	–	–	**175 546**	291 709

The Group applies the general ECL impairment method to the financial assets measured at amortised cost and at fair value through other comprehensive income. The Group calculated an ECL allowance on financial assets at fair value through other comprehensive income, intergroup loans and other assets and found the value to be immaterial.

The Group closely monitors collateral held for financial assets that are considered to be credit impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit loss. The Group holds collateral of R46 million on financial assets that are credit impaired.

	Company			
	Stage 1 12-month ECL R000	Stage 2 lifetime ECL R000	Stage 3 lifetime ECL R000	Total R000

18. Financial risk management continued

18.2 Credit risk continued

Exposure to credit risk continued

Reconciliation of changes in the gross carrying amount

	Stage 1 12-month ECL R000	Stage 2 lifetime ECL R000	Stage 3 lifetime ECL R000	Total R000
Loans and advances				
Opening balance 1 July 2018	2 338 681	72 144	11 252	2 422 077
Transfer from stage 1	(225 518)	214 549	10 969	–
Transfer from stage 2	22 045	(22 045)	–	–
Transfer from stage 3	1	–	(1)	–
Increase in exposure	313 196	94 469	21 356	429 021
Gross carrying amount as at 30 June 2019	**2 448 405**	**359 117**	**43 576**	**2 851 098**
Negotiable securities				
Opening balance 1 July 2018	365 256	26 163	10 592	402 011
Transfer from stage 1	(27 813)	4 439	23 374	–
Decrease in exposure	(32 766)	(26 163)	–	(58 929)
Gross carrying amount as at 30 June 2019	**304 677**	**4 439**	**33 966**	**343 082**
Reconciliation of changes in impairment provision				
Loss allowance as at 1 July 2018	(3 169)	(1 044)	(7 537)	(11 750)
Transfer from stage 1	1 457	(137)	(1 320)	–
Transfer from stage 2	(1 659)	1 659	–	–
Impairment (raised) / released	(3 097)	(657)	6 507	2 753
Loss allowance as at 30 June 2019	**(6 468)**	**(179)**	**(2 350)**	**(8 997)**
Negotiable securities				
Loss allowance as at 1 July 2018	(547)	(91)	(10 591)	(11 229)
Transfer from stage 1	32	–	(32)	–
Transfer from stage 2	(4 122)	4 122	–	–
Impairment (raised) / released	514	(4 031)	(19)	(3 536)
Loss allowance as at 30 June 2019	**(4 123)**	**–**	**(10 642)**	**(14 765)**

On adoption of IFRS 9, the Bank now includes the collateral values (reflected in the LGD percentage) in the calculation of ECLs. The collateral values were not incorporated in calculating prior year's impairment loss provision under IAS 39. As a result, although the gross exposure increased in stage 3, the impairment loss decreased.

18. Financial risk management continued

18.2 Credit risk continued

Exposure to credit risk continued

Non-financial assets as per statement of financial position

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
Equipment	**124 902**	80 720	**124 392**	80 074
Intangible assets	**220 068**	218 526	**182 195**	179 521
Leased assets	**1 569 074**	1 687 128	**1 569 074**	1 687 128
Current tax receivable	**18 314**	6 545	**18 008**	6 239
Inventory	**38 111**	21 983	**38 111**	21 983
Payments in advance	**17 069**	12 512	**16 969**	12 512
Investment in subsidiaries	**–**	–	**94 078**	94 078
Total of non-financial assets	**1 987 538**	2 027 414	**2 042 827**	2 081 535

Exposure to credit risk

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.

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.

Trade finance

Trade finance includes such activities as lending, issuing letters of credit, factoring, export credit and insurance. Companies involved with trade finance include importers and exporters, banks and financiers, insurers and export credit agencies, as well as other service providers.

The Bank applies the standard credit assessment in line with the credit policy in the granting of trade finance to assist businesses to grow or meet specific contracts.

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 settle the entire exposure. For smaller balance loans, impairment decisions are generally based on a product-specific past due status.

18. Financial risk management continued

18.2 Credit risk continued

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.

Credit insurance on negotiable securities

In determining the provision for impairment, the Bank has recognised the expected recovery on the insurance policy it has in place for negotiable securities.

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
Loans and advances				
Non-performing book: individually impaired				
Secured:				
Moveable assets	**244 439**	96	**244 439**	96
Cash, debtors, stock	**30 516**	–	**30 516**	–
Property	**39 169**	–	**39 169**	–
Guarantees	**23 454**	–	**23 454**	–
Unsecured	**1 399**	6 509	**1 399**	6 509
Total	**338 977**	6 605	**338 977**	6 605
Performing book: collectively impaired				
Secured:				
Moveable assets	**934 640**	714 399	**934 640**	714 398
Cash, debtors, stock	**152 119**	264 915	**152 119**	264 915
Property	**561 402**	405 246	**561 402**	405 246
Guarantees	**489 008**	924 713	**489 008**	924 713
Total secured	**2 137 169**	2 309 273	**2 137 169**	2 309 272
Unsecured	**315 921**	64 909	**365 955**	97 922
Total	**2 453 090**	2 374 182	**2 503 124**	2 407 194
Total carrying amount of loans and advances	**2 792 067**	2 380 787	**2 842 101**	2 413 799

There has been no significant changes in the overall quality of the collateral held and there has been no changes in the Bank's collateral policies.

Notes to the consolidated and separate annual financial statements continued

for the year ended 30 June 2019

18. Financial risk management continued

18.2 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:

	Group					
	Loans and advances		Negotiable securities		Other financial assets	
	2019 R000	2018 R000	**2019 R000**	2018 R000	**2019 R000**	2018 R000
Gross maximum exposure						
Agriculture, hunting, forestry and fishing	**426**	517	**–**	5 450	**555**	544
Community, social and personal services	**190 673**	86 787	**–**	–	**232**	101
Construction	**69 191**	93 030	**382**	4 368	**–**	–
Electricity, gas and water supply	**795**	799	**–**	–	**21**	–
Financial intermediation, insurance and real estate	**1 158 762**	891 071	**–**	31 409	**4 970 628**	4 416 392
Manufacturing	**252 791**	179 836	**76 198**	58 408	**1 854**	192
Mining and quarrying	**4 228**	12 130	**2 153**	3 993	**–**	8
Private households	**260 954**	43 793	**–**	–	**48**	–
Transport, storage and communication	**176 797**	121 922	**3 129**	2 902	**301**	3
Wholesale and retail trade	**224 732**	303 677	**228 019**	264 833	**8 344**	2 121
Business services	**452 718**	647 225	**18 436**	20 359	**509**	81
Total	**2 792 067**	2 380 787	**328 317**	391 722	**4 982 492**	4 419 442
Of which:						
Sovereign	**43 760**	41 856	**–**	–	**490 173**	330 706

18. Financial risk management continued

18.2 Credit risk continued

The Bank 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.

	Company					
	Loans and advances		Negotiable securities		Other financial assets	
	2019 R000	2018 R000	**2019 R000**	2018 R000	**2019 R000**	2018 R000
Gross maximum exposure						
Agriculture, hunting, forestry and fishing	**426**	517	**–**	5 450	**555**	544
Community, social and personal services	**190 673**	86 787	**–**	–	**232**	101
Construction	**69 191**	93 030	**382**	4 368	**–**	–
Electricity, gas and water supply	**795**	799	**–**	–	**21**	–
Financial intermediation, insurance and real estate	**1 158 762**	924 084	**–**	31 409	**5 057 313**	4 367 030
Manufacturing	**252 791**	179 836	**76 198**	58 408	**1 854**	192
Mining and quarrying	**4 228**	12 130	**2 153**	3 993	**–**	8
Transport, storage and communication	**176 797**	121 921	**3 129**	2 902	**301**	3
Private households	**260 954**	43 793	**–**	–	**48**	–
Wholesale and retail trade	**224 732**	303 677	**228 019**	264 833	**8 344**	2 121
Business services	**502 752**	647 225	**18 436**	20 359	**509**	81
Total	**2 842 101**	2 413 799	**328 317**	391 722	**5 069 177**	4 370 080
Of which:						
Sovereign	**43 760**	41 856	**–**	–	**490 173**	330 706

The Bank 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.

18. Financial risk management continued

18.2 Credit risk continued

	Group				
	VaR %	Tangible value %	Loans and advances %	Leased assets %	Trade flow %
Tangible value of acceptable security					
Eligible financial security					
A1 rated bank guarantee	**5**	**95**	**95**	**95**	**95**
Insurance against negotiable securities	**7**	**93**	**0**	**0**	**93**
Rand cash	**10**	**90**	**90**	**90**	**90**
Sovereign securities (eg government bonds)	**10**	**90**	**90**	**90**	**90**
Foreign cash	**15**	**85**	**85**	**85**	**85**
Gold	**50**	**50**	**50**	**50**	**50**
Other security					
Moveable assets (medium commercial vehicle) of cost price	**25**	**75**	**75**	**75**	**75**
Commercial property	**30**	**70**	**70**	**70**	**70**
Moveable assets (heavy commercial vehicle) of cost price	**30**	**70**	**70**	**70**	**70**
Vehicle equipment	**30**	**70**	**70**	**70**	**70**
Industrial and residential property	**35**	**65**	**65**	**65**	**65**
Moveable assets (passenger vehicles) of cost price	**40**	**60**	**60**	**60**	**60**
Moveable assets (light commercial vehicle) of cost price	**40**	**60**	**60**	**60**	**60**
Material handling equipment of cost price	**40**	**60**	**60**	**60**	**60**
Industrial machinery and equipment	**40**	**60**	**60**	**60**	**60**
Commercial equipment	**40**	**60**	**60**	**60**	**60**
Other land transport equipment (rails, trailers, bikes)	**40**	**60**	**60**	**60**	**60**
Pledge of listed shares	**50**	**50**	**50**	**50**	**50**
Cession of collective investment schemes	**50**	**50**	**50**	**50**	**50**
Cession of insurance / policy with a surrender value	**50**	**50**	**50**	**50**	**50**
Cession of book value of debtors (excluding > 90 days)	**75**	**25**	**25**	**25**	**25**
General notarial bond (all moveable assets and stock lists)	**75**	**25**	**25**	**25**	**25**
Computer, information technology and office equipment	**85**	**15**	**15**	**15**	**15**
Cession of insurance / endowment	**100**	**0**	**0**	**0**	**0**
Deed of suretyship (standalone)	**100**	**0**	**0**	**0**	**0**
Deed of suretyship (linked to security)	**100**	**0**	**0**	**0**	**0**
Letter of support / comfort	**100**	**0**	**0**	**0**	**0**

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 Moody’s Investors Services.

18. Financial risk management continued

18.2 Credit risk continued

Counterparty credit risk

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

Carrying amount (gross value less impairment) of loans and advances

	Gross R000	Impair-ment R000	Net R000	Guaran-tees and surety-ships R000	Pledge of assets R000	Total R000	Carrying value for which no collateral is held R000	Net R000
Group								
2019								
Not past due	**2 458 495**	**(5 405)**	**2 453 090**	**489 008**	**1 930 656**	**2 419 664**	**315 922**	**2 735 586**
Past due 0 – 30 days	**80 290**	**(1 582)**	**78 708**	**18 407**	**5 062**	**23 469**	**–**	**23 469**
Past due 31 – 60 days	**227 831**	**(147)**	**227 684**	**–**	**302**	**302**	**–**	**302**
Past due 61 – 90 days	**1 319**	**(23)**	**1 296**	**–**	**55**	**55**	**–**	**55**
Past due 151 – 365 days	**33 129**	**(1 840)**	**31 289**	**5 046**	**26 211**	**31 257**	**1 398**	**32 655**
Total	**2 801 064**	**(8 997)**	**2 792 067**	**512 461**	**1 962 286**	**2 474 747**	**317 320**	**2 792 067**
2018								
Not past due	2 377 928	(3 745)	2 374 183	924 713	1 378 052	2 302 765	64 909	2 367 674
Past due 0 – 30 days	1 890	(883)	1 007	–	1 007	1 007	–	1 007
Past due 31 – 180 days	1 632	(1 166)	466	–	466	466	–	466
Past due 181 – 365 days	7 613	(2 482)	5 131	–	5 131	5 131	6 509	11 640
Total	2 389 063	(8 276)	2 380 787	924 713	1 384 656	2 309 369	71 418	2 380 787
Company								
2019								
Not past due	**2 773 230**	**(4 809)**	**2 768 421**	**489 027**	**1 838 719**	**2 327 746**	**418 907**	**2 746 653**
Past due 0 – 30 days	**43 649**	**(1 582)**	**42 067**	**18 374**	**5 062**	**23 436**	**39 462**	**62 898**
Past due 31 – 60 days	**456**	**(154)**	**302**	**–**	**302**	**302**	**–**	**302**
Past due 61 – 90 days	**70**	**(15)**	**55**	**–**	**55**	**55**	**–**	**55**
Past due 181 – 365 days	**33 097**	**(1 841)**	**31 256**	**5 046**	**26 211**	**31 257**	**936**	**32 193**
Total	**2 850 502**	**(8 401)**	**2 842 101**	**512 447**	**1 870 349**	**2 382 796**	**459 305**	**2 842 101**
2018								
Not past due	2 410 940	(3 745)	2 407 195	924 713	1 378 051	2 302 764	97 922	2 400 686
Past due 0 – 30 days	1 890	(883)	1 007	–	1 007	1 007	–	1 007
Past due 31 – 180 days	1 632	(1 166)	466	–	466	466	–	466
Past due 181 – 365 days	7 613	(2 482)	5 131	–	5 131	5 131	6 509	11 640
Total	2 422 075	(8 276)	2 413 799	924 713	1 384 655	2 309 368	104 431	2 413 799

18. Financial risk management continued

18.2 Credit risk continued

Counterparty credit risk continued

Carrying amount (gross value less impairment) of loans and advances continued

	Gross R000	Impair-ment R000	Net R000	Guaran-tees and surety-ships R000	Pledge of assets R000	Total R000	Carrying value for which no collateral is held R000	Net R000
Group								
2019								
Not past due	**307 990**	**(1)**	**307 989**	**–**	**307 990**	**307 990**	**–**	**307 990**
Past due 61 – 90 days	**3 521**	**–**	**3 521**	**–**	**3 521**	**3 521**	**–**	**3 521**
Past due 91 – 120 days	**652**	**–**	**652**	**–**	**652**	**652**	**–**	**652**
Past due 121 – 150 days	**1 527**	**–**	**1 527**	**–**	**1 527**	**1 527**	**–**	**1 527**
Past due 181 – 365 days	**29 392**	**(14 764)**	**14 628**	**–**	**6 430**	**6 430**	**8 197**	**14 627**
Total	**343 082**	**(14 765)**	**328 317**	**–**	**320 120**	**320 120**	**8 197**	**328 317**
2018								
Not past due	386 652	(1 546)	385 106	–	385 106	385 106	–	385 106
Past due 31 – 180 days	4 765	(458)	4 307	–	4 307	4 307	–	4 307
Past due 181 – 365 days	10 592	(8 283)	2 309	–	2 309	2 309	–	2 309
Total	402 009	(10 287)	391 722	–	391 722	391 722	–	391 722
Company								
2019								
Not past due	**307 990**	**(1)**	**307 989**	**–**	**307 990**	**307 990**	**–**	**307 990**
Past due 61 – 90 days	**3 521**	**–**	**3 521**	**–**	**3 521**	**3 521**	**–**	**3 521**
Past due 91 – 120 days	**652**	**–**	**652**	**–**	**652**	**652**	**–**	**652**
Past due 121 – 150 days	**1 527**	**–**	**1 527**	**–**	**1 527**	**1 527**	**–**	**1 527**
Past due 181 – 365 days	**29 392**	**(14 764)**	**14 628**	**–**	**6 430**	**6 430**	**8 197**	**14 627**
Total	**343 082**	**(14 765)**	**328 317**	**–**	**320 120**	**320 120**	**8 197**	**328 317**
2018								
Not past due	386 652	(1 546)	385 106	–	385 106	385 106	–	385 106
Past due 31 – 180 days	4 765	(458)	4 307	–	4 307	4 307	–	4 307
Past due 181 – 365 days	10 592	(8 283)	2 309	–	2 309	2 309	–	2 309
Total	402 009	(10 287)	391 722	–	391 722	391 722	–	391 722

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.

18. Financial risk management continued

18.3 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 subcategories:

- Market liquidity risk: The ease with which assets can be liquidated
- Funding liquidity risk: The ease with which additional funding can be raised, eg in the interbank or wholesale markets

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

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

Management of liquidity risk

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

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

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

At 30 June 2019, the Bank held a committed borrowing facility of R500 million (2018: R500 million) from The Bidvest Group Limited. The facility is contractually repayable in equal annual instalments of R150 million on 30 June of each year. Any unutilised portion of this committed facility remains available on demand and can be accessed to meet liquidity needs. R350 million of the facility was undrawn as at reporting date.

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 30 June 2019, immediately available funds (comprising central bank, interbank, and intergroup call and current accounts) totalled R4,1 billion (2018: R2,9 million).

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

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

18. Financial risk management continued

18.3 Liquidity risk continued

Contractual maturities of financial liabilities

	Gross value R000	Contractual undiscounted cash flows R000	1 – 12 months R000	1 – 5 years R000	More than 5 years R000
Group					
30 June 2019					
Non-derivative liabilities					
Intergroup loans	**(150 102)**	**(150 102)**	**(150 102)**	**–**	**–**
Deposits	**(6 576 907)**	**(6 576 907)**	**(6 576 907)**	**–**	**–**
Other liabilities*	**(410 099)**	**(410 099)**	**(410 099)**	**–**	**–**
Derivative liabilities					
Trading: outflow (liabilities)	**(8 635)**	**(8 635)**	**(8 635)**	**–**	**–**
	(7 145 743)	**(7 145 743)**	**(7 145 743)**	**–**	**–**
30 June 2018					
Non-derivative liabilities					
Intergroup loans	(150 089)	(150 089)	(150 089)	–	–
Deposits	(5 698 945)	(5 698 945)	(5 698 945)	–	–
Other liabilities*	(356 313)	(356 313)	(356 313)	–	–
Derivative liabilities					
Trading: outflow (liabilities)	(45 513)	(45 513)	(45 513)	–	–
	(6 250 860)	(6 250 860)	(6 250 860)	–	–
Company					
30 June 2019					
Non-derivative liabilities					
Intergroup loans	**(214 752)**	**(214 752)**	**(214 752)**	**–**	**–**
Deposits	**(6 609 001)**	**(6 609 001)**	**(6 609 001)**	**–**	**–**
Other liabilities*	**(345 648)**	**(345 648)**	**(345 648)**	**–**	**–**
Derivative liabilities					
Trading: outflow (liabilities)	**(8 635)**	**(8 635)**	**(8 635)**	**–**	**–**
	(7 178 036)	**(7 178 036)**	**(7 178 036)**	**–**	**–**
30 June 2018					
Non-derivative liabilities					
Intergroup loans	(214 740)	(214 740)	(214 740)	–	–
Deposits	(5 721 209)	(5 721 209)	(5 721 209)	–	–
Other liabilities*	(299 734)	(299 734)	(299 734)	–	–
Derivative liabilities					
Trading: outflow (liabilities)	(45 513)	(45 513)	(45 513)	–	–
	(6 281 196)	(6 281 196)	(6 281 196)	–	–

* *Other liabilities exclude provisions.*

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 Bank may be required to pay.

18. Financial risk management continued

18.3 Liquidity risk continued

Maturity analysis of financial assets held for managing liquidity risk

	Carrying amount R000	1 – 12 months R000	1 – 5 years R000	More than 5 years R000
Group				
30 June 2019				
Loans and advances	**2 792 067**	**938 792**	**1 371 386**	**481 889**
Negotiable securities	**328 317**	**328 317**	**–**	**–**
Derivative financial assets	**13 496**	**13 496**	**–**	**–**
Investment securities	**563 990**	**222 535**	**–**	**341 455**
Intergroup loans	**189 989**	**189 989**	**–**	**–**
Other assets	**260 860**	**260 860**	**–**	**–**
Cash and cash equivalents	**4 126 987**	**4 126 987**	**–**	**–**
	8 275 706	**6 080 976**	**1 371 386**	**823 344**
30 June 2018				
Loans and advances	2 380 787	1 303 487	725 168	352 132
Negotiable securities	391 722	391 722	–	–
Derivative financial assets	14 755	14 755	–	–
Investment securities	376 702	45 996	–	330 706
Intergroup loans	58 796	58 796	–	–
Other assets	354 710	354 710	–	–
Cash and cash equivalents	3 614 479	3 614 479	–	–
	7 191 951	5 783 945	725 168	682 838
Company				
30 June 2019				
Loans and advances	**2 842 101**	**938 792**	**1 371 386**	**531 923**
Negotiable securities	**328 317**	**328 317**	**–**	**–**
Derivative financial assets	**13 496**	**13 496**	**–**	**–**
Investment securities	**563 990**	**222 535**	**–**	**341 455**
Intergroup loans	**190 161**	**190 161**	**–**	**–**
Other assets	**175 546**	**175 546**	**–**	**–**
Cash and cash equivalents	**4 125 984**	**4 125 984**	**–**	**–**
	8 239 595	**5 994 831**	**1 371 386**	**873 378**
30 June 2018				
Loans and advances	2 413 799	1 303 485	725 168	385 146
Negotiable securities	391 722	391 722	–	–
Derivative financial assets	14 755	14 755	–	–
Investment securities	376 702	45 996	–	330 706
Intergroup loans	58 968	58 968	–	–
Other assets	291 709	291 709	–	–
Cash and cash equivalents	3 615 434	3 615 434	–	–
	7 163 089	5 722 069	725 168	715 852

18. Financial risk management continued

18.4 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 implementation.

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 preapproved 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.

The table below shows our non-trading interest rate mismatch at 30 June 2019. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

	Carrying amount R000	Less than 3 months R000	3 – 12 months R000	1 – 5 years R000	More than 5 years R000
Group					
30 June 2019					
Financial assets / (liabilities)*					
Loans and advances	**2 792 067**	**868 401**	**70 391**	**1 371 386**	**481 889**
Negotiable securities	**328 317**	**294 893**	**33 424**	**–**	**–**
Investment securities	**563 990**	**222 535**	**–**	**–**	**341 455**
Intergroup loans receivable	**189 989**	**189 989**	**–**	**–**	**–**
Cash and cash equivalents	**4 126 987**	**4 126 987**	**–**	**–**	**–**
Intergroup loans payable	**(150 102)**	**(150 102)**	**–**	**–**	**–**
Deposits	**(6 576 907)**	**(4 350 640)**	**(2 226 267)**	**–**	**–**
	1 274 341	**1 202 063**	**(2 122 452)**	**1 371 386**	**823 344**
30 June 2018					
Financial assets / (liabilities)*					
Loans and advances	2 380 787	847 583	455 904	725 168	352 132
Negotiable securities	391 722	312 397	79 325	–	–
Investment securities	376 702	45 996	–	–	330 706
Intragroup loans receivable	58 796	58 796	–	–	–
Cash and cash equivalents	3 614 479	3 614 479	–	–	–
Intergroup loans payable	(150 089)	(89)	(150 000)	–	–
Deposits	(5 698 945)	(3 849 806)	(1 849 139)	–	–
	973 452	1 029 356	(1 463 910)	725 168	682 838

* *Interest-bearing assets and liabilities only.*

18. Financial risk management continued

18.4 Market risk continued

	Carrying amount R000	Less than 3 months R000	3 – 12 months R000	1 – 5 years R000	More than 5 years R000
Company					
30 June 2019					
Financial assets / (liabilities)*					
Loans and advances	**2 842 101**	**868 401**	**70 391**	**1 371 386**	**531 923**
Negotiable securities	**328 317**	**294 894**	**33 423**	**–**	**–**
Investment securities	**563 990**	**222 535**	**–**	**–**	**341 455**
Intergroup loans receivable	**190 161**	**190 161**	**–**	**–**	**–**
Cash and cash equivalents	**4 125 984**	**4 125 984**	**–**	**–**	**–**
Intergroup loans payable	**(214 752)**	**(214 752)**	**–**	**–**	**–**
Deposits	**(6 609 001)**	**(4 350 640)**	**(2 258 361)**	**–**	**–**
	1 226 800	**1 136 583**	**(2 154 547)**	**1 371 386**	**873 378**
30 June 2018					
Financial assets / (liabilities)*					
Loans and advances	2 413 799	847 581	455 904	725 168	385 146
Negotiable securities	391 722	312 398	79 324	–	–
Investment securities	376 702	45 996	–	–	330 706
Intergroup loans receivable	58 968	58 968	–	–	–
Cash and cash equivalents	3 615 434	3 615 434	–	–	–
Intergroup loans payable	(214 740)	(214 740)	–	–	–
Deposits	(5 721 209)	(3 864 570)	(1 856 639)	–	–
	920 676	801 067	(1 321 411)	725 168	715 852

* *Interest-bearing assets and liabilities only.*

18. Financial risk management continued

18.4 Market risk continued

Analysis based on interest terms:

	Group and Company			
	2019 %	2018 %	**2019 R000**	2018 R000
Loans and advances				
Loans and advances with floating interest rates*	**10,04**	9,21	**2 679 150**	2 286 220
Loans and advances with fixed interest rates	**12,41**	12,12	**121 914**	135 855
			2 801 064	2 422 075
Less: allowance for impairment provisions			**(8 997)**	(8 276)
			2 792 067	2 413 799
Deposits				
Deposits with floating interest rates*	**3,78**	3,87	**(4 230 943)**	(3 752 986)
Deposits with fixed interest rates	**7,55**	8,96	**(2 345 964)**	(1 968 223)
			(6 576 907)	(5 721 209)

* *Based on the floating interest rate as at 30 June 2019.*

Interest rate sensitivities

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

Average prime lending rate	%	%
For the year ended 30 June 2019 and 30 June 2018	10,15	10,21
For the year ended 30 June 2018 and 30 June 2017	10,21	10,50

Interest rate sensitivity on a lending rate adjustment of 25 basis points (bp)

	Group		Company	
	25 bp increase R000	25 bp decrease R000	25 bp increase R000	25 bp decrease R000
Impact on interest income before tax				
As at 30 June 2019	**1 462**	**(1 462)**	**1 492**	**(1 492)**
As at 30 June 2018	**1 504**	**(1 504)**	**1 521**	**(1 521)**

* *Effect of year on year prime rate changes on a constant statement of financial position.*

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 bp parallel fall or rise. An analysis of the 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:

	Group		Company	
	200 bp parallel increase R000	200 bp parallel decrease R000	200 bp parallel increase R000	200 bp parallel decrease R000
Impact on interest income before tax				
As at 30 June 2019	**3 769**	**(3 769)**	**3 124**	**(3 124)**
As at 30 June 2018	2 852	(2 852)	2 762	(2 762)

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.

18. Financial risk management continued

18.4 Market risk continued

Foreign exchange risk

Currency profile

	Group					
	R000	GBP R000	USD R000	EUR R000	Other R000	Total R000
2019						
Assets						
Equipment	124 902	–	–	–	–	124 902
Intangible assets	220 068	–	–	–	–	220 068
Leased assets	1 569 074	–	–	–	–	1 569 074
Loans and advances	2 791 873	48	127	7	12	2 792 067
Negotiable securities	328 317	–	–	–	–	328 317
Derivative financial assets	13 496	–	–	–	–	13 496
Investment securities	563 990	–	–	–	–	563 990
Intergroup loans	189 989	–	–	–	–	189 989
Current tax receivable	18 314	–	–	–	–	18 314
Other assets	207 138	171	65 597	2 079	2 944	277 929
Inventories	38 111	–	–	–	–	38 111
Cash and cash equivalents	2 523 722	89 536	903 565	509 499	100 665	4 126 987
	8 588 994	89 755	969 289	511 585	103 621	10 263 244
Commitments to purchase foreign currency	–	25 335	508 516	206 213	41 578	781 642
Total assets	8 588 994	115 090	1 477 805	717 798	145 199	11 044 886
2018	7 989 958	66 626	817 526	250 482	94 773	9 219 365
Commitments to purchase foreign currency	–	110 583	232 668	298 999	83 014	725 264
Total assets	7 989 958	177 209	1 050 194	549 481	177 787	9 944 629
2019						
Equity and liabilities						
Share capital	2 070	–	–	–	–	2 070
Share premium	525 709	–	–	–	–	525 709
Reserves	2 318 109	–	–	–	–	2 318 109
Intergroup loans	150 101	–	–	–	–	150 101
Derivative financial liabilities	8 635	–	–	–	–	8 635
Deposits	5 170 719	95 090	766 049	456 003	89 046	6 576 907
Other liabilities	421 636	2 816	57 747	9 795	1 442	493 436
Deferred tax	187 758	–	–	–	–	187 758
Defined benefit liability	519	–	–	–	–	519
	8 785 256	97 906	823 796	465 798	90 488	10 263 244
Commitments to sell foreign currency	–	17 988	674 573	220 626	46 701	959 888
Total equity and liabilities	8 785 256	115 894	1 498 369	686 424	137 189	11 223 132
2018	8 104 333	145 320	624 749	264 793	80 170	9 219 365
Commitments to sell foreign currency	–	28 708	409 565	273 589	87 153	799 015
Total equity and liabilities	8 104 333	174 028	1 034 314	538 382	167 323	10 018 380

18. Financial risk management continued

18.4 Market risk continued

Currency profile

	Company					
	R000	GBP R000	USD R000	EUR R000	Other R000	Total R000
2019						
Assets						
Equipment	124 392	–	–	–	–	124 392
Intangible assets	182 195	–	–	–	–	182 195
Leased assets	1 569 074	–	–	–	–	1 569 074
Loans and advances	2 841 907	48	127	7	12	2 842 101
Negotiable securities	328 317	–	–	–	–	328 317
Derivative financial assets	13 496	–	–	–	–	13 496
Investment securities	563 990	–	–	–	–	563 990
Current tax receivable	18 008	–	–	–	–	18 008
Investment in subsidiaries	94 078	–	–	–	–	94 078
Intergroup loans	190 161	–	–	–	–	190 161
Other assets	121 724	171	65 597	2 079	2 944	192 515
Inventories	38 111	–	–	–	–	38 111
Cash and cash equivalents	2 522 719	89 536	903 565	509 499	100 665	4 125 984
	8 608 172	89 755	969 289	511 585	103 621	10 282 422
Commitments to purchase foreign currency	–	25 335	508 516	206 213	41 578	781 642
Total assets	8 608 172	115 090	1 477 805	717 798	145 199	11 064 064
2018	8 015 217	66 626	817 526	250 482	94 773	9 244 624
Commitments to purchase foreign currency	–	110 583	232 668	298 999	83 014	725 264
Total assets	8 015 217	177 209	1 050 194	549 481	177 787	9 969 888
2019						
Equity and liabilities						
Share capital	2 070	–	–	–	–	2 070
Share premium	525 709	–	–	–	–	525 709
Reserves	2 296 004	–	–	–	–	2 296 004
Intergroup loans	214 752	–	–	–	–	214 752
Derivative financial liabilities	8 635	–	–	–	–	8 635
Deposits	5 202 813	95 090	766 049	456 003	89 046	6 609 001
Other liabilities	357 185	2 816	57 747	9 795	1 442	428 985
Deferred taxation	196 747	–	–	–	–	196 747
Defined benefit liability	519	–	–	–	–	519
	8 804 434	97 906	823 796	465 798	90 488	10 282 422
Commitments to sell foreign currency	–	17 988	674 573	220 626	46 701	959 888
Total equity and liabilities	8 804 434	115 894	1 498 369	686 424	137 189	11 242 310
2018	8 104 333	145 320	624 749	264 793	80 170	9 219 365
Commitments to sell foreign currency	–	28 708	409 565	273 589	87 153	799 015
Total equity and liabilities	8 104 333	174 028	1 034 314	538 382	167 323	10 018 380

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.

18. Financial risk management continued

18.4 Market risk continued

	GBP 000	USD 000	EUR 000	Other 000	Total 000
Net open position					
30 June 2019	(803)	(20 564)	31 373	8 009	18 015
30 June 2018	3 181	15 880	11 099	10 464	40 624
Closing spot exchange rate					
30 June 2019	R17,85	R14,08	R15,94		
30 June 2018	R18,11	R13,77	R16,05		
Average exchange rate					
For the year ended 30 June 2019	R18,36	R14,19	R16,19		
For the year ended 30 June 2018	R17,29	R12,85	R15,32		
For the year ended 30 June 2017	R17,32	R13,60	R14,98		

	Group and Company	
	2019 R000	2018 R000
Foreign currency sensitivity based on movements in exchange rate		
Increase / (decrease) in operating profit before tax for the year*	**664**	(23 947)
Foreign currency net open position sensitivity based on a 10% movement in exchange rates		
GBP	**(80)**	318
USD	**(2 056)**	1 588
EUR	**3 137**	1 110
Other	**801**	1 046
	1 802	4 062

* *Effect of foreign exchange rate fluctuations on a constant statement of financial position.*

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. Investment in various equity securities exposes the Group and Company to equity price risk due to volatility in the share price. The Group and Company have in place appropriate risk management strategies and reporting processes in respect of this risk and its view is that, unlike other types of risk, price risk can be reduced and achieves this through diversification. The decline in the market price of one investment is compensated by the increase in the price of another. To further lessen risk, stocks of various companies within different industries or in different geographical locations are invested in. A 200 bp upward and downward shock is applied to interest rate risk in the banking book, in line with regulatory requirements. In order to apply a consistent risk approach, a similar 2% shock is applied to pricing risks. The table below sets out the current equity price risk stressed with a 2% movement for both the Group and Company:

	2019		2018	
	2% increase R000	**2% decrease R000**	2% increase R000	2% decrease R000
Investment securities	**11 280**	**(11 280)**	7 534	(7 534)

18. Financial risk management continued

18.5 Operational risk

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

18.6 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 issue
- Proactively exploiting good news and having a crisis communication plan to respond in times of bad news
- Transforming potential disasters into opportunities

18. Financial risk management continued

18.7 Capital management

Regulatory capital and economic 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
- 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.

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, ie the capital required to remain solvent under conditions that are extreme in nature. For potential losses arising from risk types that are statistically quantifiable, economic capital reflects the worst case loss, taking risk adjusted returns on capital into account.

The final economic capital level determined through the ICAAP reflects the capital to be held for risks as assessed by management instead of implied 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.

Notes to the consolidated and separate annual financial statements continued

for the year ended 30 June 2019

19. Acquisition of subsidiaries

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

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

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
Property, plant and equipment	–	104	–	104
Intangible assets	–	8 899	–	8 899
Deferred tax	–	(3 536)	–	(3 536)
Trade and other receivables	–	22 389	–	22 389
Cash and cash equivalents	–	20 282	–	20 282
Trade and other payables	–	(41 056)	–	(41 056)
Goodwill	–	30 609	–	30 609
Less: cash acquired	–	(20 282)	–	–
	–	17 409	–	37 691

20. Related parties

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 Bank. No impairment of loans at year-end was considered necessary.

Key management personnel

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

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
20. Related parties continued				
Loan accounts – Owing (to) / by related parties				
Bid Industrial Holdings Proprietary Limited	**(150 102)**	(150 089)	**(150 102)**	(150 089)
Bid Finserv Capital Proprietary Limited – Fellow subsidiary	**64 453**	58 796	**64 453**	58 796
Bidvest Leasing Proprietary Limited – Subsidiary	**–**	–	**(34 106)**	(34 106)
Viamax Fleet Solutions Proprietary Limited – Subsidiary	**–**	–	**(15 050)**	(15 050)
Viamax Proprietary Limited – Subsidiary	**–**	–	**(15 495)**	(15 495)
McCarthy Retail Finance Proprietary Limited – Subsidiary	**–**	–	**172**	172
Bidvest Bank Holdings Limited	**125 536**	–	**125 536**	–
Advances				
Loans to fellow subsidiaries	**518 571**	901 240	**518 571**	901 240
Loans to subsidiaries	**–**	–	**–**	33 012
Derivative financial assets with fellow subsidiaries	**5 487**	980	**5 487**	980
Loans to key management personnel	**4 456**	9 230	**4 456**	9 230
Leased assets				
Assets under operating leases to fellow subsidiaries	**70 857**	76 344	**70 857**	76 344
Deposits				
Deposits from fellow subsidiaries	**(250 638)**	(112 254)	**(250 638)**	(112 254)
Deposits from subsidiaries	**–**	–	**(17 940)**	(22 264)
Deposits from key management personnel	**(4 096)**	(5 424)	**(4 096)**	(5 424)
Derivative financial liabilities with fellow subsidiaries	**(297)**	(15 596)	**(297)**	(15 596)
Accounts receivable from fellow subsidiaries	**11 054**	22 508	**11 054**	22 508
Accounts payable to fellow subsidiaries	**1 490**	(761)	**1 490**	(761)
Related party transactions – fellow subsidiaries				
Income				
Net interest income	**(89 121)**	(97 609)	**(89 121)**	(97 609)
Commission and fees	**(2 846)**	(3 898)	**(2 846)**	(3 898)
Administration fees received	**(16 174)**	(36 477)	**(16 174)**	(36 477)
Leasing income	**(6 255)**	(10 307)	**(6 255)**	(10 307)

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
20. Related parties continued				
Expenses				
Advertising	**181**	55	**181**	55
Administration fees paid	**34 778**	24 827	**34 778**	24 827
Information technology charges	**468**	458	**468**	458
Leasing activities – other costs	**–**	10 733	**–**	10 733
Property rentals	**2 984**	4 525	**2 984**	4 525
Security fees	**10 847**	11 117	**10 847**	11 117
Stationery	**3 552**	2 951	**3 552**	2 951
Office services	**1 201**	5 479	**1 201**	5 479
Travel	**897**	3 703	**897**	3 703
Other	**46 432**	11 533	**46 432**	11 533
Assets purchases				
Equipment	**11 191**	1 717	**11 191**	1 717
Leased assets and financing equipment	**125 294**	202 250	**125 294**	202 250
Related party transactions – key management personnel and senior employees				
Interest paid – deposits	**(112)**	(244)	**(112)**	(244)
Interest received – loans and advances	**979**	676	**979**	676
Net new loans and advances	**9 911**	7 527	**9 911**	7 527

	Salaries and other short-term benefits R000	Post-employment and long-term benefits R000	Benefit arising on exercise of share options R000	Services as directors R000	Total R000
Key management compensation					
2019					
A Cunningham	–	–	–	1 090	1 090
EK Diack*	–	–	–	793	793
MJ Liebenberg	5 409	177	–	–	5 586
R Mokate*	–	–	–	859	859
NG Payne*	–	–	–	1 157	1 157
JJ van Niekerk	7 306	444	–	–	7 750
	12 715	**621**	**–**	**3 899**	**17 235**

* *Directors who serve on the Board of The Bidvest Group Limited.*

	Salaries and other short-term benefits R000	Post-employment and long-term benefits R000	Benefit arising on exercise of share options R000	Services as directors R000	Total R000
20. Related parties continued					
2018					
A Cunningham	–	–	–	821	821
EK Diack*	–	–	–	508	508
MJ Liebenberg	4 983	167	–	–	5 150
R Mokate	–	–	–	597	597
NG Payne*	–	–	–	875	875
JJ van Niekerk	7 115	401	14 444	–	21 960
	12 098	568	14 444	2 801	29 911

* *Directors who serve on the Board of The Bidvest Group Limited.*

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. The full directors' remuneration, including remuneration paid to directors of The Bidvest Group Limited, can be viewed in Annexure A.

Details of executive directors' outstanding replacement rights and share appreciation rights as at 30 June 2019 are as follows:

- JJ van Niekerk: 52 500 replacement rights (average price R252,80) and 240 000 share appreciation rights (average price R164,59)
- MJ Liebenberg: 45 000 replacement rights (average price R249,68) and 110 000 share appreciation rights (average price R164,59)

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
Related party off-balance sheet transactions – fellow subsidiaries				
Letters of credit issued on behalf of Group companies	**(32 928)**	(4 342)	**(32 928)**	(4 342)
Guarantees issued on behalf of Group companies	**(165 972)**	(269 796)	**(165 972)**	(269 796)
Notional value of derivative liabilities with fellow subsidiaries	**(23 726)**	(267 228)	**(23 726)**	(267 228)
Notional value of derivative assets with fellow subsidiaries	**257 072**	29 113	**257 072**	29 113

Director-related transactions

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

Notes to the consolidated and separate annual financial statements continued
for the year ended 30 June 2019

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
21. Income				
21.1 Net interest income				
Interest income				
Cash and cash equivalents	**133 582**	159 046	**132 222**	158 976
Loans and advances to customers	**272 807**	219 423	**272 807**	219 423
Interest on negotiable securities	**31 202**	24 888	**31 202**	24 888
Interest on investment securities	**56 943**	25 774	**56 943**	25 774
Intergroup loan	**5 603**	3 618	**5 603**	3 618
Other interest	**7 359**	11 793	**7 359**	11 793
Interest expense				
Deposits from banks	**(1 851)**	(618)	**(1 851)**	(618)
Deposits from customers	**(312 242)**	(279 710)	**(312 242)**	(279 710)
Intergroup loan	**(102)**	(89)	**(102)**	(89)
	193 301	164 125	**191 941**	164 055
Interest income from financial instruments at amortised cost	**480 166**	427 219	**478 806**	427 149
Interest income from financial instruments at fair value through other comprehensive income	**27 330**	17 323	**27 330**	17 323
Interest expense on financial instruments at amortised cost	**(314 195)**	(280 417)	**(314 195)**	(280 417)
	193 301	164 125	**191 941**	164 055

Interest from investment securities includes R28 million from investments carried at amortised cost that were bought and sold during the financial year.

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
21.2 Net fee and commission income				
Fee and commission income				
Acquiring income	**195 116**	105 786	**–**	–
Card issuing income	**419 012**	327 587	**428 298**	327 603
Other fees	**47 568**	38 743	**47 568**	38 743
Fee and commission expense				
Acquiring expense	**(152 501)**	(86 236)	**–**	–
Card issuing expense	**(274 818)**	(193 673)	**(293 970)**	(193 675)
Other fees	**(15 460)**	(15 182)	**(15 460)**	(15 182)
	218 917	177 025	**166 436**	157 489

The amount of fee and commission income recognised over time amounts to R27 million.

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
21. Income continued				
21.3 Leasing income from leasing				
Leasing income				
Administration fees	**188 264**	150 719	**188 263**	150 719
Operating lease income	**739 441**	775 856	**739 441**	775 856
Other income	**6 306**	17 460	**6 306**	17 460
Short-term operating lease income	**32 785**	43 972	**32 785**	43 972
Vehicle sales	**87 177**	102 807	**87 178**	102 807
	1 053 973	1 090 814	**1 053 973**	1 090 814
Other leasing costs				
Administration fees	**(29 380)**	(13 751)	**(29 380)**	(13 751)
Operating lease expense	**(152 145)**	(232 867)	**(152 145)**	(232 867)
Short-term operating lease expense	**(21 358)**	(22 510)	**(21 313)**	(22 500)
Vehicle cost of sales	**(79 216)**	(84 337)	**(79 215)**	(84 337)
	(282 099)	(353 465)	**(282 053)**	(353 455)
Depreciation of leased assets	**(175 912)**	(170 242)	**(175 912)**	(170 242)
	595 962	567 107	**596 008**	567 117

Contingent rentals relate to variable rental income on full maintenance leasing contracts. Variable factors would include excess kilometres as determined in individual leasing contract parameters. Included in leasing income are contingent rentals of R3,1 million (2018: R1,9 million) for both Group and Company.

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
21.4 Other income / (loss)				
Dividends from investment securities	**5 111**	1 639	**5 111**	1 639
Other investment income / (loss)	**–**	(826)	**–**	(826)
Unclaimed balances written back	**58 610**	–	**58 610**	–
	63 721	813	**63 721**	813
22. Employment costs				
Employee costs				
Basic	**402 566**	376 302	**383 946**	360 912
Performance incentive	**27 533**	27 273	**27 533**	27 221
Contribution to the provident fund	**21 612**	21 786	**20 629**	21 003
Contribution to the defined contribution pension fund	**2 460**	2 216	**2 460**	2 216
Share-based payment	**15 387**	14 674	**15 387**	14 674
	469 558	442 251	**449 955**	426 026

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
23. Operating expenditure				
23.1 Operating leases				
Premises	**92 421**	88 032	**91 237**	87 064
Motor vehicles	**–**	1	**–**	1
Equipment	**177**	195	**174**	189
Straight-lining of leases	**(2 104)**	(1 294)	**(2 104)**	(1 294)
	90 494	86 934	**89 307**	85 960
23.2 Other operating expenditure includes:				
Auditors' remuneration				
Audit fees	**6 180**	7 226	**5 712**	6 875
Fees for other services	**518**	1 235	**518**	1 235
	6 698	8 461	**6 230**	8 110
Consulting and professional fees	**13 644**	5 204	**13 644**	4 799
Directors' emoluments				
For services as non-executive directors	**3 899**	2 801	**2 700**	2 801
For services as executive directors	**13 336**	27 110	**13 336**	27 110
	17 235	29 911	**16 036**	29 911
Administration fees	**22 770**	21 450	**22 770**	21 450
Property-related expenses	**36 814**	31 546	**36 453**	31 287
Marketing expenses	**38 738**	34 378	**37 793**	32 204

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
24. Taxation				
Major components of the tax expense				
24.1 Indirect taxation				
Value added tax expense / (income)	**12 619**	(8 153)	**12 619**	(8 153)
Skills development levy expense	**3 912**	4 671	**3 725**	4 514
	16 531	(3 482)	**16 344**	(3 639)
24.2 Direct taxation				
Current				
Current year	**75 422**	119 235	**75 422**	119 235
Prior year overprovision	**10 967**	(64)	**10 967**	(64)
	86 389	119 171	**86 389**	119 171
Deferred				
Originating and reversing temporary differences	**45 360**	(230)	**45 664**	(230)
Deferred tax asset	**(12 221)**	–	**–**	–
Arising from prior period adjustments	**–**	(1 992)	**–**	(1 992)
	33 139	(2 222)	**45 664**	(2 222)
	119 528	116 949	**132 053**	116 949
Reconciliation of the tax expense				
Reconciliation between standard tax rate and average effective tax rate (%)				
Applicable tax rate	**27,66**	27,89	**31,15**	27,44
Disallowable charges	**1,19**	(0,03)	**1,21**	(0,03)
Non-taxable income	**(1,18)**	0,11	**(1,21)**	0,11
Prior year adjustment	**(2,54)**	0,49	**(2,59)**	0,48
Other share-based payment and tax loss recognised	**2,87**	(0,46)	**(0,56)**	–
Standard tax rate (%)	**28,00**	28,00	**28,00**	28,00

	Group 2019 R000	Group 2018 R000	Company 2019 R000	Company 2018 R000
25. Cash generated from operations				
25.1 Reconciliation of cash generated by operations				
Profit before taxation	**432 024**	419 278	**423 963**	426 154
Adjustments for:				
Depreciation of equipment and leased assets	**211 241**	202 468	**210 640**	201 949
Amortisation of intangible assets	**30 213**	22 335	**28 427**	20 254
Loss on disposal of equipment and intangible assets	**2 826**	10 379	**3 011**	10 379
(Profit) / loss on disposal of investment	**–**	(1 493)	**–**	(1 493)
Dividends from investment securities	**(5 111)**	(1 639)	**(5 111)**	(1 639)
Interest received	**(488 732)**	(428 814)	**(487 373)**	(428 744)
Interest expense	**295 237**	260 882	**295 237**	260 882
Profit on disposal of leased assets	**(7 962)**	(18 469)	**(7 962)**	(18 469)
Share-based payments	**(3 953)**	(15 894)	**(3 953)**	(15 894)
Interest received from SARS	**–**	(6)	**–**	(3)
Impairment charge / (income)	**4 495**	(6 137)	**4 495**	(6 137)
Operating profit before changes in working capital	**470 278**	442 890	**461 374**	447 239
Increase in loans and advances	**(416 929)**	(274 182)	**(433 951)**	(307 194)
(Increase) / decrease in negotiable securities	**63 405**	(143 438)	**63 405**	(143 438)
(Decrease) / in net derivative financial instruments	**(35 619)**	7 354	**(35 619)**	7 354
Decrease in other assets and inventory	**70 038**	10 638	**92 455**	51 250
Increase in deposits	**877 962**	1 196 354	**887 792**	1 218 618
Increase / (decrease) in trade and other payables	**(968)**	37 256	**(8 818)**	21 711
Increase in defined benefit liability	**–**	68	**–**	68
	1 028 167	1 276 940	**1 026 638**	1 295 608
25.2 Net acquisition of investment securities				
Opening balance at fair value	**376 702**	254 868	**376 702**	254 868
(Decrease) / increase in fair value adjustment during the year	**23 849**	(3 111)	**23 849**	(3 111)
Additions during the year	**680 971**	354 721	**680 971**	354 721
Profit / (loss) on disposal of investments	**–**	1 493	**–**	1 493
Closing balance at fair value	**(563 990)**	(376 702)	**(563 990)**	(376 702)
Disposals during the year	**517 532**	231 269	**517 532**	231 269
25.3 Movement in intergroup loans				
Opening balance of net intergroup loans	**91 293**	150 034	**155 772**	214 513
Intergroup loans received	**150 101**	150 089	**150 101**	150 089
Intergroup loans paid	**(281 282)**	(208 830)	**(281 282)**	(208 830)
Closing balance of net intergroup loans	**(39 888)**	91 293	**24 591**	155 772

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
26. Contingent liabilities and commitments				
Capital commitments				
Authorised and contracted for	**148 574**	59 661	**135 255**	59 661

Funds to meet capital expenditure commitments will be provided from the Bank's internal resources.

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
Contingent liabilities				
Undrawn facilities	**1 658 297**	807 243	**1 658 297**	807 243
Guarantees issued on behalf of Group companies	**165 972**	269 796	**165 972**	269 796
Guarantees issued on behalf of third parties	**46 572**	38 170	**46 572**	38 170
Letters of credit issued on behalf of third parties	**6 513**	6 879	**6 513**	6 879
Letters of credit issued on behalf of Group companies	**32 928**	4 342	**32 928**	4 342
	1 910 282	1 126 430	**1 910 282**	1 126 430

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

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

The Bank in the normal course of business enters into transactions that expose it to tax, legal and business risk. Provisions are made known for liabilities that can be reasonably estimated and that are expected to materialise.

	Group		Company	
	2019 R000	2018 R000	**2019 R000**	2018 R000
Future operating lease commitments				
Payable within one year	**93 894**	67 568	**93 894**	67 568
Payable between one and five years	**203 353**	72 156	**203 353**	72 156
Payable between five and 10 years	**197 393**	–	**197 393**	–
	494 640	139 724	**494 640**	139 724

Some property rentals include a turnover clause as additional rental.

Escalations are between 8% and 10% per annum.

27. Share-based payments

The Bidvest Group Limited (The Bidvest Group) has an incentive scheme that grants options and advances loans to employees of The Bidvest 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 Bidvest 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 rewards, a share-based payment reserve has been recognised.

Replacement rights scheme

Following the unbundling of Bid Corporation Limited (Bidcorp), The Bidvest Group option holders exchanged each one of their existing options for one right over one Bidcorp share and one Bidvest share (replacement right). In terms of the amended scheme rules, the original option price was not adjusted, but on exercise of the replacement right, the original option price will be deducted from the combined value of the Bidcorp share and the Bidvest share. The vesting date and lapse dates of the replacement rights will be the same as those of the original options.

The terms and conditions of the options are:

Replacement right holders are only entitled to exercise their rights 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 Bank to the trustees of the Bidvest share incentive scheme.

Replacement right holders may exercise the rights at such times as the right 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 rights must be exercised no later than the 10th anniversary on which they were granted unless approval is obtained from the trustees of the Bidvest share incentive scheme.

The number and weighted average exercise prices of share options issued to employees of the Bank are:

	2019		2018	
	Number	**Average price R**	Number	Average price R
Beginning of the year	**268 145**	**253,22**	376 289	208,29
Exercised / lapsed	**(84 384)**	**253,22**	(108 144)	225,11
	183 761	**232,09**	268 145	253,22

The replacement rights outstanding at 30 June 2019 have an exercise price in the range of R134,56 to R301,54 (2018: R134,56 to R301,54) and a weighted average contractual life of 1,3 to 8,4 (2018: 1,3 to 8,4) years. The average combined value of The Bidvest Group and Bidcorp shares as at 30 June 2019 was R496,34 (2018: R472,34).

27. Share-based payments continued

Replacement rights outstanding at 30 June by year of grant are:

	2019		2018	
	Number	Average price R	Number	Average price R
2012	**7 500**	**134,56**	17 500	134,56
2013	**17 375**	**208,91**	26 625	208,91
2014	**45 000**	**229,47**	68 750	231,91
2015	**45 386**	**260,34**	59 270	271,56
2016	**68 500**	**301,54**	96 000	301,54
	183 761	**232,09**	268 145	253,22

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

The number and weighted average exercise prices of the share appreciation rights issued to employees of the Bank are:

	2019		2018	
	Number	Average price	Number	Average price
Share appreciation rights (SARs)				
Beginning of the year	**683 000**	**152,68**	340 000	146,61
Granted	**346 000**	**188,42**	343 000	158,75
Lapsed	**(23 000)**	**152,68**	–	–
Exercised	**–**	**–**	–	–
	1 006 000	**164,59**	683 000	152,68

The terms and conditions of the SARs are:

SAR holders are only entitled to exercise their rights 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 Bank to the trustees of the Bidvest share incentive scheme.

SAR holders in the scheme may exercise the SARs at such time as the 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 appreciation right. All SARs must be exercised no later than the seventh anniversary on which they were granted unless approval is obtained from the trustees of the Bidvest share incentive scheme.

The fair value of the replacement rights allotted during the current year and the assumptions are:

	2019	2018
Fair value at measurement date (rand)	**209,35**	176,39
Exercise price (rand)	**188,42**	158,75
Expected volatility (%)	**29,16**	24,83
Option life (years)	**4 – 6**	4 – 6
Distribution yield (%)	**2,83**	2,96
Risk-free interest rate (based on national government bonds) (%)	**7,6**	7,93

The volatility is based on the historic volatility.

28. Events after the reporting period

A dividend of 49 cents per share was declared and paid on 16 September 2019.

29. 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.

Allowance for credit losses (ACL) – IFRS 9

An ACL is established for all financial assets, except for financial assets classified or designated as fair value through profit or loss and equity securities designated as fair value through other comprehensive income, which are not subject to impairment assessment. Assets subject to impairment assessment include, but are not limited to, certain loans, debt securities, interest-bearing deposits, accounts and accrued interest receivable, and finance and operating lease receivables.

We measure the ACL on each balance sheet date according to a three-stage ECL impairment model:

- Performing financial assets

  Stage 1 – from initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date.

  Stage 2 – following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset.

- Impaired financial assets

  Stage 3 – when a financial asset is considered to be credit impaired, a loss allowance is recognised equal to credit losses expected over the remaining lifetime of the asset. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

The ACL is a discounted probability weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period.

Application of the effective interest method

Interest is recognised in interest income and interest expense in the consolidated statements of income generally for all interest-bearing financial instruments using the effective interest method. The effective interest rate is the rate that discounts estimated future cash flows over the expected life of the financial asset or liability to the net carrying amount upon initial recognition. Significant judgement is applied in determining the effective interest rate due to uncertainty in the timing and amounts of future cash flows.

29. Key assumptions continued

Measurement of ECLs

ECLs are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of ECLs is based primarily on the product of the client's PD, LGD, and EAD discounted to the reporting date. The main difference between stage 1 and stage 2 ECLs for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument. An ECL estimate is produced for each individual exposure. Relevant parameters are modelled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information. To reflect other characteristics that are not already considered through modelling, expert credit judgement is exercised in determining the final ECLs. For a small percentage of our portfolios which lack detailed historical information and/or loss experience, we apply simplified measurement approaches that may differ from what is described above. These approaches have been designed to maximise the available information that is reliable and supportable for each portfolio and may be collective in nature. ECLs are discounted to the reporting period date using the effective interest rate method.

Use of forward looking information

The measurement of ECLs for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation and application of forward looking information requires significant judgement. The PD, LGD and EAD inputs used to estimate stage 1 and stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our ECL calculation includes a forward looking projection of all relevant macroeconomic variables used in our models. Macroeconomic variables used in our ECL models include, but are not limited to, gross domestic product (GDP) growth rates and the foreign exchange (FX) rate between South Africa and the United States of America (USA). The Company's estimation of ECL in stage 1 and stage 2 is a discounted probability weighted estimate that considers three potential macroeconomic scenarios. Upside and downside scenarios vary relative to the base case scenario, based on reasonably likely alternative macroeconomic conditions. Additional and more severe downside scenarios are designed to capture a broader range of potential credit losses in certain sectors. Scenario design, including the identification of additional downside scenarios, occurs at least on an annual basis and more frequently if conditions warrant. Scenarios are designed to capture a wide range of possible outcomes and weighted according to our best estimate of the relative likelihood of the range of outcomes that each scenario represents. Scenario weights take into account historical frequency, current trends, and forward looking conditions and are updated at least annually. All scenarios considered are applied to all portfolios subject to ECLs with the same probabilities. Our assessment of significant increases in credit risk is based on changes in probability weighted forward looking lifetime PD as at the reporting date, using the same macroeconomic scenarios as the calculation of ECLs.

29. Key assumptions continued

Forward looking information used by the Company

- Probability weighted market scenarios in a base case, bear case and bull case
- GDP growth factors (IMF, World Bank, African Economic outlook, SARB, SA National Treasury) for the following five years (where available)
- Exchange rate growth percentage, 6% based on purchasing power parity (PPP) over the last 27 years

In scenario testing we tested three different scenarios (bull, bear and base) changing only the probability weights in the market scenarios and the resultant impact on the final ECL and ACL was negligible. Many of the factors have a high degree of interdependency and there is no single factor to which impairment allowances as a whole are sensitive.

The book at exposure is highly collateralised and thus the carrying amounts are not extremely sensitive to changes in inputs and methods applied.

Assessment of significant increase in credit risk

The following non-exhaustive disclosure of qualitative factors are considered when assessing a significant increase in credit risk:

- Direct debit cancellation
- Previous arrears within the last 12 months
- Adverse changes in business/financial and/or economic conditions in which the borrower operates
- Actual or expected significant adverse change in operating results of the borrower
- Significant value in collateral value
- Early signs of cash flow/liquidity problems of the borrower
- A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments

Goodwill and other intangible assets

Goodwill is not amortised and is tested for impairment on an annual basis, or more frequently if there are objective indications of impairment. The Group tests for impairment by comparing the recoverable amount with its carrying amount. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

The Group estimates the value in use using the price to earnings (PE) valuation method. Internal forecasts are used to determine future earnings and would include the estimated impact of changes to macroeconomic factors (exchange rates, inflation, etc), as well as future business prospects and risk factors. To determine an appropriate PE ratio, the Group looks to the PE ratios of other banks as well as the industry in order to determine a suitable average ratio to be applied. A 30% decrease on the PE ratio would result in impairment of goodwill.

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.

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.

Deferred tax assets

The Group has estimated tax losses of R131 million that can be set off against future taxable profits. The deferred tax balance includes an amount of R12,2 million which relates to carried forward tax losses of Bidvest Merchant Services Proprietary Limited and Cash Axcess Proprietary Limited.

The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the current financial year results as well as the approved business plans and budgets for the subsidiaries. The subsidiaries have generated profits in the current year and are expected to continue to generate taxable income into the future. The losses can be carried forward indefinitely and have no expiry date.

30. New standards and interpretations

30.1 Standards and interpretations effective and adopted in the current year

In the current year, the Bank has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/interpretation	Effective date: Years beginning on or after	Expected impact
IFRS 9 Financial Instruments	1 January 2018	The impact of the standard is set out in note 32 – changes in accounting policy.
IFRS 15 Revenue from Contracts with Customers	1 January 2018	The impact of the standard is set out in note 32 – changes in accounting policy.

30.2 Standards and interpretations not yet effective

The Bank has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Bank's accounting periods beginning on or after 1 July 2019 or later periods:

Standard/interpretation	Effective date: Years beginning on or after	Expected impact
IFRS 16 Leases	1 January 2019	Expected impact is set out below.

The Bank has elected to apply IFRS 16 retrospectively using the modified approach. In terms of the modified approach, comparative figures under IAS 17, IFRIC 4 and SIC 27 will not be restated. Corresponding transitional adjustments will be made through opening retained earnings including reversals of existing balances under the old lease accounting standards.

The aggregate impact of the initial application of the statements and interpretations on the Group's consolidated and separate annual financial statements is expected to be as follows:

Consolidated statement of financial position as at 1 July 2019	2019 R000
Cumulative increase in right-of-use asset	350 775
Cumulative increase in lease liability	(355 617)
Straight-line accrual reversal	4 842
	–

31. Classification of assets and liabilities

	Group					
	Held for trading R000	Loans at amortised cost R000	At FVOCI R000	Other amortised cost R000	Non-financial assets/ liabilities R000	Total R000
2019						
Cash and cash equivalents	–	4 126 987	–	–	–	4 126 987
Derivative financial assets	13 496	–	–	–	–	13 496
Loans and advances	–	2 792 067	–	–	–	2 792 067
Leased assets	–	–	–	–	1 569 074	1 569 074
Investment securities	–	–	563 990	–	–	563 990
Other assets	–	–	–	260 860	17 069	277 929
Equipment	–	–	–	–	124 902	124 902
Intangible assets	–	–	–	–	220 068	220 068
Current taxation	–	–	–	–	18 314	18 314
Intergroup loans	–	189 989	–	–	–	189 989
Negotiable securities	–	328 317	–	–	–	328 317
Inventories	–	–	–	–	38 111	38 111
	13 496	7 437 360	563 990	260 860	1 987 538	10 263 244
Derivative financial liabilities	8 635	–	–	–	–	8 635
Deposits	–	–	–	6 576 907	–	6 576 907
Other liabilities	–	–	–	410 099	83 337	493 436
Deferred taxation	–	–	–	–	187 758	187 758
Defined benefit liability	–	–	–	–	519	519
Intergroup loans	–	150 101	–	–	–	150 101
	8 635	150 101	–	6 987 006	271 614	7 417 356

31. Classification of assets and liabilities continued

	Group					
	Held for trading R000	Loans at amortised cost R000	Available for sale R000	Other amortised cost R000	Non-financial assets/ liabilities R000	Total R000
2018						
Cash and cash equivalents	–	3 614 479	–	–	–	3 614 479
Derivative financial assets	14 755	–	–	–	–	14 755
Loans and advances	–	2 380 787	–	–	–	2 380 787
Leased assets	–	–	–	–	1 687 128	1 687 128
Investment securities	–	–	376 702	–	–	376 702
Other assets	–	–	–	354 710	12 512	367 222
Equipment	–	–	–	–	80 720	80 720
Intangible assets	–	–	–	–	218 526	218 526
Current tax	–	–	–	–	6 545	6 545
Negotiable securities	–	391 722	–	–	–	391 722
Intergroup loans	–	58 796	–	–	–	58 796
Inventories	–	–	–	–	21 983	21 983
	14 755	6 445 784	376 702	354 710	2 027 414	9 219 365
Intergroup loans	–	–	–	150 089	–	150 089
Derivative financial liabilities	45 513	–	–	–	–	45 513
Deposits	–	–	–	5 698 945	–	5 698 945
Other liabilities	–	–	–	356 313	138 091	494 404
Deferred tax	–	–	–	–	159 513	159 513
Defined benefit liability	–	–	–	–	519	519
	45 513	–	–	6 205 347	298 123	6 548 983

31. Classification of assets and liabilities continued

	Company					
	At FVTPL R000	Loans at amortised cost R000	At FVOCI R000	Other amortised cost R000	Non-financial assets/ liabilities R000	Total R000
2019						
Cash and cash equivalents	–	4 125 984	–	–	–	4 125 984
Derivative financial assets	13 496	–	–	–	–	13 496
Loans and advances	–	2 842 101	–	–	–	2 842 101
Leased assets	–	–	–	–	1 569 074	1 569 074
Investment securities	–	–	563 990	–	–	563 990
Other assets	–	–	–	175 546	16 969	192 515
Equipment	–	–	–	–	124 392	124 392
Intangible assets	–	–	–	–	182 195	182 195
Current taxation	–	–	–	–	18 008	18 008
Intergroup loans	–	190 161	–	–	–	190 161
Negotiable securities	–	328 317	–	–	–	328 317
Inventories	–	–	–	–	38 111	38 111
Investment in subsidiaries	–	–	–	–	94 078	94 078
	13 496	7 486 563	563 990	175 546	2 042 827	10 282 422
Derivative financial liabilities	8 635	–	–	–	–	8 635
Deposits	–	–	–	6 609 001	–	6 609 001
Other liabilities	–	–	–	345 648	83 337	428 985
Deferred taxation	–	–	–	–	196 747	196 747
Defined benefit liability	–	–	–	–	519	519
Intergroup loans	–	214 752	–	–	–	214 752
	8 635	214 752	–	6 954 649	280 603	7 458 639

	Company					
	Held for trading R000	Loans at amortised cost R000	Available for sale R000	Other amortised cost R000	Non-financial assets/ liabilities R000	Total R000
31. Classification of assets and liabilities continued						
2018						
Cash and cash equivalents	–	3 615 434	–	–	–	3 615 434
Derivative financial assets	14 755	–	–	–	–	14 755
Loans and advances	–	2 413 799	–	–	–	2 413 799
Leased assets	–	–	–	–	1 687 128	1 687 128
Investment securities	–	–	376 702	–	–	376 702
Other assets	–	–	–	291 709	12 512	304 221
Equipment	–	–	–	–	80 074	80 074
Intangible assets	–	–	–	–	179 521	179 521
Current taxation	–	–	–	–	6 239	6 239
Intergroup loans	–	58 968	–	–	–	58 968
Negotiable securities	–	391 722	–	–	–	391 722
Inventories	–	–	–	–	21 983	21 983
Investment in subsidiaries	–	–	–	–	94 078	94 078
	14 755	6 479 923	376 702	291 709	2 081 535	9 244 624
Derivative financial liabilities	45 513	–	–	–	–	45 513
Deposits	–	–	–	5 721 209	–	5 721 209
Other liabilities	–	–	–	299 734	138 069	437 803
Deferred taxation	–	–	–	–	155 977	155 977
Defined benefit liability	–	–	–	–	519	519
Intergroup loans	–	–	–	214 740	–	214 740
	45 513	–	–	6 235 683	294 565	6 575 761

31.1 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 1 July 2009 and July 2013 respectively. These statements require disclosure of fair value measurements by using the following fair value measurement hierarchy:

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

Notes to the consolidated and separate annual financial statements continued

for the year ended 30 June 2019

31. Classification of assets and liabilities continued

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

	Level 1 R000	Level 2 R000	Level 3 R000	Total R000
2019				
Assets				
Investment securities	**563 197**	**773**	**20**	**563 990**
Derivative financial assets	**–**	**13 496**	**–**	**13 496**
	563 197	**14 269**	**20**	**577 486**
Liabilities				
Derivative financial liabilities	**–**	**8 635**	**–**	**8 635**
2018				
Assets				
Investment securities	376 686	–	16	376 702
Derivative financial assets	–	14 755	–	14 755
	376 686	14 755	16	391 457
Liabilities				
Derivative financial liabilities	–	45 513	–	45 513

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.

31.3 Fair value of financial instruments

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

	Group		Company	
	Carrying amount R000	Fair value R000	Carrying amount R000	Fair value R000
2019				
Assets				
Loans and advances at amortised cost	**2 792 067**	**2 729 944**	**2 842 101**	**2 778 864**
2018				
Assets				
Loans and advances at amortised cost	2 380 787	2 327 216	2 413 799	2 358 235

32. Changes in accounting policy

The consolidated and separate annual financial statements have been prepared in accordance with IFRS, on a basis consistent with the prior year except for the adoption of the following new or revised standards:

Application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS. IFRS 9 replaces IAS 39 Financial Instruments and introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) impairment for financial assets, and (3) general hedge accounting. Details of these new requirements as well as their impact on the Group's financial statements are described below:

As permitted by the transition provisions of IFRS 9, the Company elected not to restate comparative period results. Accordingly, all comparative period information is presented in accordance with previous accounting policies.

Classification and measurement of financial assets

The date of initial application (ie the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 July 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 July 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018. Comparatives in relation to instruments that have not been derecognised as at 1 July 2018 have not been restated. Instead, cumulative adjustments to retained earnings have been recognised in retained earnings as at 1 July 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The measurement requirements are summarised below:

Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost.

Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income.

All other debt investments and equity investments are subsequently measured at fair value through profit or loss, unless specifically designated otherwise.

The Group may, on initial recognition, irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies in other comprehensive income.

The Group may irrevocably designate a debt investment that meets the amortised cost or fair value through other comprehensive income criteria as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at fair value through other comprehensive income, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to new impairment provisions using an expected loss model. This contrasts the incurred loss model of IAS 39.

32. Changes in accounting policy continued

Classification and measurement of financial assets continued

The directors reviewed and assessed the Group's existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets with regard to their classification and measurement:

Investments in equity instruments

The Group's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under IAS 39 have been designated as at fair value through other comprehensive income. The change in fair value on these equity instruments continues to be accumulated in equity. However, the cumulative amount in equity is no longer reclassified to profit or loss on derecognition of the equity investments.

Debt instruments

Debt instruments classified as held to maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Debt instruments designated as at fair value through profit or loss

In the current year, the Group has not designated any debt investments that meet the amortised cost or fair value through other comprehensive income criteria as measured at fair value through profit or loss. In addition, there were no such instruments which were measured at fair value through profit or loss under IAS 39 which have been dedesignated either voluntarily or because they no longer meet the designation criteria.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on debt investments subsequently measured at amortised cost or at fair value through other comprehensive income, lease receivables, contract assets and loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply. In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12 months expected credit losses. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables in certain circumstances.

32. Changes in accounting policy continued

Classification and measurement of financial assets continued

Impairment of financial assets continued

As at 1 July 2018, the directors reviewed and assessed the Group's existing financial assets, amounts due from customers and financial guarantee contracts for impairment using reasonable and supportable information that was available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at 1 July 2017 and 1 July 2018. The result of the assessment is as follows:

Classification and measurement of financial liabilities

One major change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at fair value through profit or loss attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

Apart from the above, the application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

Reconciliation of the reclassifications and remeasurements of financial assets as a result of adopting IFRS 9

The following table presents a summary of the financial assets as at 1 July 2018. The table reconciles the movement of financial assets from their IAS 39 measurement categories and into their new IFRS 9 measurement categories. 'FVPL' denotes 'fair value through profit or loss' and 'FVOCI' denotes 'fair value through other comprehensive income'.

	Group				
	Measuring category Original (IAS 39)	Measuring category New (IFRS 9)	Carrying amount Original (IAS 39) R000	Carrying amount New (IFRS 9) R000	IFRS 9 adjustment R000
Financial assets					
Loans and advances	Loans receivable	Amortised cost	**2 380 787**	**2 377 961**	**(2 826)**
Negotiable securities	Held to maturity	Amortised cost	**391 722**	**393 394**	**1 672**
Investment securities	Available for sale	FVOCI	**376 702**	**376 702**	**–**
Cash and equivalents	Amortised cost	Amortised cost	**3 614 479**	**3 614 479**	**–**
Derivative financial assets	Held for trading	FVTPL	**14 755**	**14 755**	**–**
Intergroup loans	Loans receivable	Amortised cost	**58 796**	**58 796**	**–**
Other assets	Amortised cost	Amortised cost	**354 710**	**354 710**	**–**
Deposit	Amortised cost	Amortised cost	**(5 698 945)**	**(5 698 945)**	
Derivative financial liabilities	Held for trading	Held for trading	**(45 513)**	**(45 513)**	
Trade and other liabilities	Amortised cost	Amortised cost	**(356 313)**	**(356 313)**	**–**
Intergroup loans	Amortised cost	Amortised cost	**(150 089)**	**(150 089)**	**–**
			941 091	**939 937**	**(1 154)**

32. Changes in accounting policy continued

Reconciliation of the reclassifications and remeasurements of financial assets as a result of adopting IFRS 9 continued

	Company				
	Measuring category Original (IAS 39)	Measuring category New (IFRS 9)	Carrying amount Original (IAS 39)	Carrying amount New (IFRS 9)	IFRS 9 adjustment
Financial assets					
Loans and advances	Loans receivable	Amortised cost	**2 413 799**	**2 410 973**	**(2 826)**
Negotiable securities	Held to maturity	Amortised cost	**391 722**	**393 394**	**1 672**
Investment securities	Available for sale	FVOCI	**376 702**	**376 702**	**–**
Cash and equivalents	Amortised cost	Amortised cost	**3 615 434**	**3 615 434**	**–**
Derivative financial assets	Held for trading	FVTPL	**14 755**	**14 755**	**–**
Intergroup loans	Loans receivable	Amortised cost	**58 968**	**58 968**	**–**
Other assets	Amortised cost	Amortised cost	**291 709**	**291 709**	**–**
Deposit	Amortised cost	Amortised cost	**(5 721 209)**	**(5 721 209)**	**–**
Derivative financial liabilities	Held for trading	Held for trading	**(45 513)**	**(45 513)**	**–**
Trade and other liabilities	Amortised cost	Amortised cost	**(299 734)**	**(299 734)**	**–**
Intergroup loans	Amortised cost	Amortised cost	**(214 740)**	**(214 740)**	**–**
			881 893	**880 739**	**(1 154)**

Application of IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 from 1 July 2018, which resulted in a change in accounting policy. No adjustments were made to the amounts recognised in the financial statements.

The adoption of IFRS 15 did not result in any adjustments or changes to how the Group measures revenue income and did not require any adjustment to the statement of financial position, statement of comprehensive income, statement of changes in equity or the statement of cash flows for either the current or previous reporting periods.

Corporate information

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Company Secretary

DJ Crawley

Auditors

PricewaterhouseCoopers Inc

Consolidated and separate annual financial statements for the year ended 30 June 2019

The preparation of these consolidated and separate annual financial statements was supervised by: G Oxford CA(SA), Head: Financial Control.

These consolidated and separate annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008. These financial statements represent the consolidated and separate annual financial statements for the year ended 30 June 2019. A copy of the full set of consolidated and separate financial statements can be obtained from the Company Secretary Di Crawley, by sending a request to di.crawley@bidvestbank.co.za.

www.bidvestbank.co.za