Annual Report 2008

BIDVest BANK

Contents

Products and services

Corporate Foreign Exchange

fxpaynet™ online foreign exchange solutions
Liquidity management
Payments and receipts for foreign currency
Spot and forward exchange contracts (FEC's)

Travel Foreign Exchange

Foreign Bank Notes
American Express Travellers Cheques
Bidvest Bank Cash Passport Card
Botswana Pula Card
Dubai Dirham Card
Mauritian Rupee Card
Rand Travel Card

Trade Services

Customer Foreign Currency (CFC) Accounts
Foreign Bills
Guarantees
Letters of Credit
Open Account Payments
Trade Finance Loans
Exchange Control Services

Foreign Money Transfers

Bank Drafts
MoneyGram™
Telegraphic Transfers

Deposits and Investments

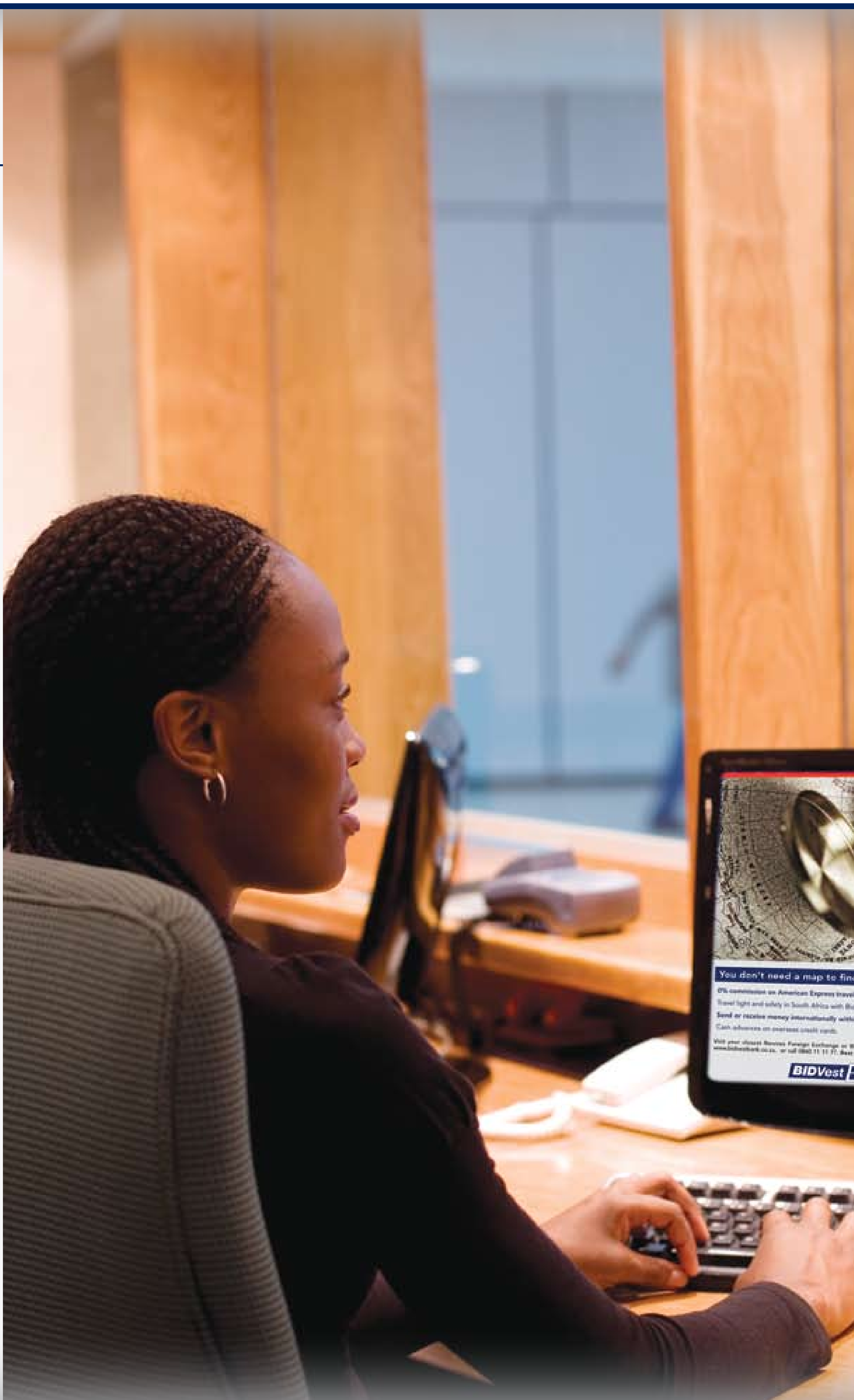
BidSave Savings and Transactional Account
Call Accounts
Fixed Deposit Accounts
Notice Deposit Accounts
Foreign Currency Accounts

Loans

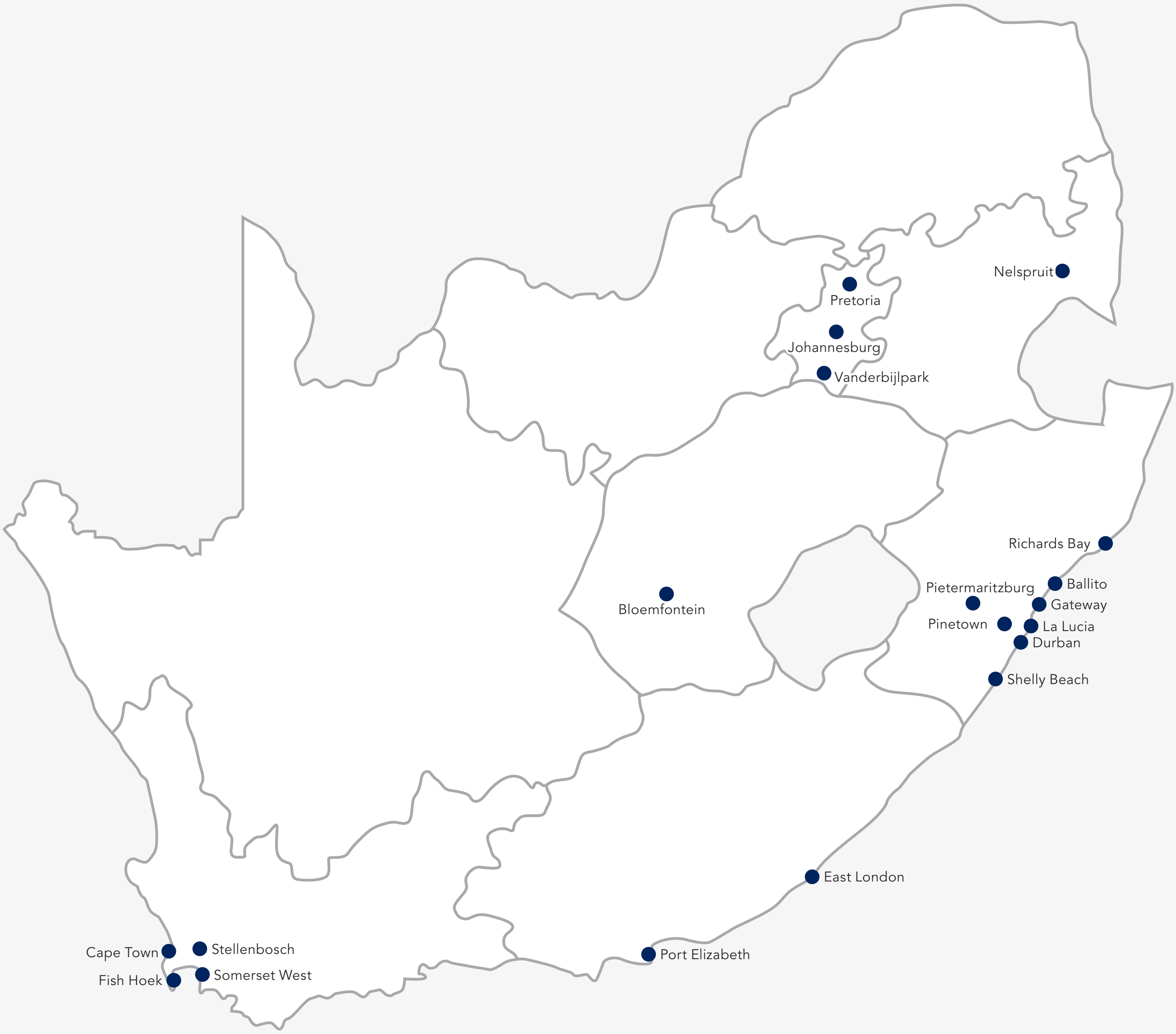
Asset-based Finance
Rental Finance
Debtors Book Financing
General Banking Facilities
Trade Finance

Commercial Card Solutions

Corporate Credit Card
Forex Lodge Card
Garage Card
Travel Lodge Card
Corporate Payment Card


You don't need a map to

Bidvest Bank / Rennies Foreign Exchange branches



GAUTENG - 31

- Alberton - Meyersdal Mall
- Bedfordview - Eastgate Shopping Centre (lower level)
- Benoni - Northmead Square
- Brakpan - Mall at Carnival
- Cresta - Cresta Shopping Centre
- Fourways - Fourways Mall
- Johannesburg - Balfour Park Shopping Centre
- Johannesburg - Killarney Mall
- Johannesburg - Newtown
- Johannesburg - Park Station
- Johannesburg - Rissik Street
- Kempton Park - Festival Mall
- Kensington - Park Meadows
- Midrand - San Ridge Square
- Midrand - The Boulders
- Modderfontein - Greenstone Shopping Centre
- Oakdene - The Glen Shopping Centre
- OR Tambo Central Terminal Building
- Pretoria - Brooklyn - Cherry Lane Shopping Centre
- Pretoria - Centurion Shopping Centre
- Pretoria - Hatfield Square
- Pretoria - Menlyn Park Shopping Centre (upper level)
- Pretoria - Sanlam Centre, Andries Street
- Randburg - Sanlam Centre
- Roodeport - Westgate Shopping Centre
- Rosebank - The Firs
- Sandton City - Fountain Court
- Sandton City - Nelson Mandela Square
- Sandton Regional Office
- Soweto - Jabulani Mall
- Vanderbijlpark - Riverside Boulevard

WESTERN CAPE - 16

- Bellville - Tyger Valley Shopping Centre
- Cape Town CBD - St Georges Mall, Cathedral 101 A
- Cape Town CBD - St Georges Mall, Shop 2
- Cape Town International Airport (luggage arrivals hall)
- Cape Town Regional Office
- Century City - Canal Walk (upper level)
- Claremont - Cavendish Centre (upper level)
- Fish Hoek - The Arcade, Main Road
- Seapoint - Adelphi Centre
- Seapoint - Kloof Street
- Somerset West - Somerset Mall (entrance 2)
- Somerset West - Somerset Mall (entrance 4)
- Stellenbosch - Checkers Centre
- Tableview - Bayside Centre
- V & A Waterfront (main entrance, lower mall)
- Wynburg - Maynard Mall

EASTERN CAPE - 3

- East London - Vincent Park Shopping Centre
- Port Elizabeth - The Bridge Shopping Centre
- Walmer Park Shopping Centre

FREESTATE - 1

- Bloemfontein - Loch Logan Waterfront

MPUMALANGA - 3

- Nelspruit - Riverside Mall
- The Pinnacle
- Witbank - Highveld Mall

KWAZULU NATAL - 13

- Ballito - Ballito Lifestyle Centre
- Berea - Musgrave Centre
- Durban - Durban Bay House
- KZN Regional Office
- La Lucia - La Lucia Mall
- Montclair - Montclair Mall
- Morningside - Windermere Centre
- Pietermaritzburg - Midlands Mall
- Pinetown - Pine Crest Centre
- Richards Bay - Boardwalk
- Shelly Beach - FM Howe Building
- Umhlanga - Gateway Centre
- Westville - Pavillion

OPEN AFTER 30 JUNE 2008 - 14

- Amanzimtoti - Arbour Crossing
- Bedfordview - Eastgate Shopping Centre (upper level)
- Claremont - Cavendish Centre (lower level)
- Constantia - Constantia Village Shopping Centre
- Hillcrest - Hillcrest Corner
- Johannesburg - Norwood Shopping Centre
- Kennilworth - Kenilworth Centre
- Musina - N1 Business Centre
- Pretoria - Brooklyn Mall
- Pretoria - Kolonnade Centre
- Pretoria - Menlyn Park Shopping Centre (lower level)
- Pretoria - Sunny Park Centre
- Rustenburg - Waterfall Mall
- Victoria and Alfred Waterfront - Clock Tower


BIDVest
BANK
STOP!

Managing Director's report

Highlights

- ← 25% increase in net operating income to R339 million
- ← Strong growth in net interest income
- ← 42% increase in profit before tax to R117 million
- ← Improvement of cost to income ratio to 63%
- ← 81% growth in total assets to R1,2 billion. Strong balance sheet.
- ← Further development of infrastructure and divisionalisation of the Bank's activities
- ← Number of employees increased by 72 to 550. Staff turnover reduced to 7%
- ← Credit loss ratio reduced to 1,07%
- ← Successful launch of new, innovative products
- ← Introduction of Graduate Advancement training programme
- ← Improved awareness of Bidvest Bank / Rennies Foreign Exchange branches

Bidvest Bank Limited ("the Bank") produced pleasing results for the year under review. The Bank exceeded its core measurement objectives: improved profitability, cash flow, ratios and returns.

Management and staff performed very well in a highly competitive market and met the challenges of an ever-changing South African and global economic and political climate. The 2008 financial year was characterised by a slow down in the economic growth rate in South Africa, higher inflation, rising interest rates, a volatile Rand and general economic and political events in South Africa, Africa and around the world. The global sub prime credit crisis had no direct effect on the Bank, although it had a strong influence on corporate and consumer sentiment and confidence.

The Bank increased profit for the year by 40% to R81,756 million (2007: R58,453 million). Total net operating income increased by a healthy 25% to R339 million (2007: R272 million), which reflects the benefits from the name change to Bidvest Bank Limited, and the significant increase in advertising and marketing spend.

Net interest income increased by 77% to R45,409 million (2007: R25,646 million). The Bank had strong growth in loans and advances and improved its interest margin spread in a rising interest rate environment. The Bank has a vanilla lending policy. Each client has to have good financial statements, a clear ability to service their debt and in all cases loans have to be supported by quality, realisable underlying assets. The Bank now has a more diversified lending book, both in terms of loan type and industry sector. It is pleasing to report the quality of the loans and advances book, and the continuing improvement of credit granting controls and procedures. There were no credit impairment charges to the income statement for loans and advances granted during the 2008 financial year. The current year credit impairment charge of R5 million relates to R2,3 million of loans granted in the years 2006 and prior and R2,7 million in terms of the Bank's portfolio impairment model which is management's conservative, prudent approach to a deteriorating economic climate.

During the year, the Bank's core activities were divisionalised into 7 focused income producing units, consisting of retail travel foreign exchange, corporate foreign exchange, treasury, exchange control services, deposits and investments, loans and advances, and card. These divisions of the Bank are headed by experienced executives and all delivered much improved results. These key revenue generators were strongly managed and supported by specialist infrastructures in the fields of finance, asset management, risk, compliance and governance, credit, middle and back office, internal audit, forensic investigation and security, marketing, information technology, call centre and human resources. In the final analysis, the good results reflect a cohesive, united team effort.

Non interest income increased by 19% to R293 million (2007: R246 million), through effective margin management, and growth in the Bank's customer base from improved market penetration and benefits accruing from the increased advertising spend.

The Bank maintained its niche banking identity, enhancing its reputation as a specialist foreign exchange provider to the consumer and corporate markets. The Bank is starting to generate more diversified revenue streams without materially changing its core focus and objectives. During the year, the Bank introduced a number of new, innovative banking products and services. In particular, the launch of fxpaynet™, a high tech, on-line corporate foreign exchange trading platform and the BidSave savings and transactional account, augur well for the future revenue growth of corporate foreign exchange and deposits respectively.

The Bank's retail division incorporating Rennies Foreign Exchange had another good year, driven by new redefined service levels, and 8 new branch openings. The Bank has a good, profitable retail model and all 68 branches grew their profits during the year. The Bank's retail division generated real, organic volume, revenue and profit growth, and although difficult to measure, increased its market share. The Bank is planning to introduce ATM machines in all branches and to roll out 14 new branches during the 2009 year, concentrating on strategic locations in anticipation of the increase of foreign visitors culminating with the 2010 FIFA

World Cup.

Operating expenditure was well managed and was below the current inflation rate if you eliminate the effects of the increase of new employees to meet the demands of a growing institution and the substantial increase in advertising and marketing spend. The positive effect of revenue growth and effective expense management resulted in a lower cost to income ratio of 63%, compared to 67% last year. The capital adequacy ratio (CAR) improved to 12,5% (2007: 27,8%), due to improved utilisation of capital.

The Bank's balance sheet and asset management improved measurably throughout the year. The big increase in deposits reflects the growing customer confidence in the Bank. As the Bank continues its controlled growth pattern, management is maintaining, by design, a strong liquid position, notwithstanding lower yields and returns on liquid assets.

Bidvest Bank has applied a low risk formula in its day to day operations, which has held it in good stead during the current difficult economic environment.

Prospects

At year end, the Bank had an excellent strong balance sheet. During the past year, the Bank passed two important milestones: profit before direct taxation exceeded R100 million, and total assets serviced exceeded R1 billion. Management has created the infrastructure and strategies to take the Bank to a new level, which augurs well for sustained equity and earnings growth in the future. Key to these plans is the development and retention of employees and skills. In this regard, the successful launch of the Bank's Graduate Advancement training programme in February 2008 is already beginning to generate positive results.

Staff morale and confidence is high, supported by strong energy levels. Management has budgeted for real, organic earnings growth for the year ahead.

Acknowledgements

Sincere thanks go to our management, staff, non-executive directors, customers and other stakeholders for their confidence and support. We look forward to a new year of creating shareholder value and developing an environment for achieving corporate excellence.

A C SALOMON

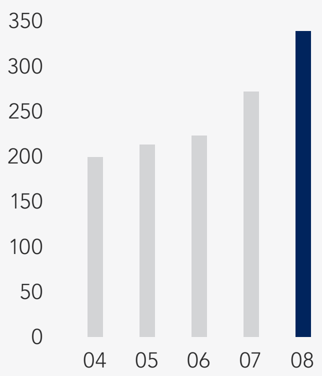
August 20 2008

A firm grasp on forex

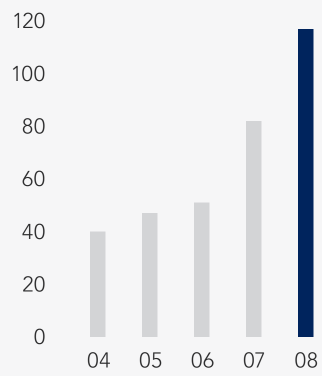
2008 Beijing Olympics

Financial highlights

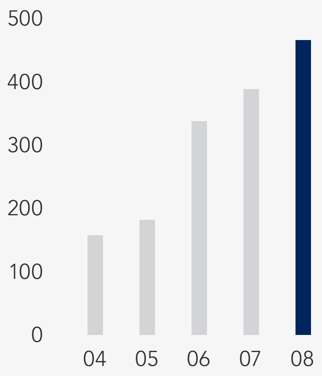
Net operating income R'm



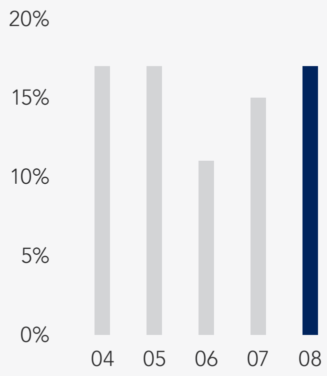
Profit before tax R'm



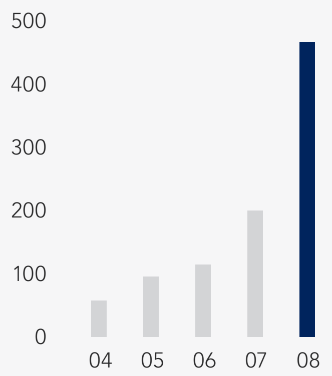
Equity growth R'm



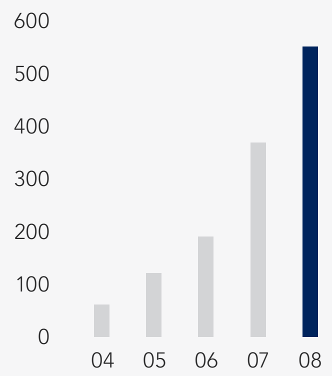
Return on equity



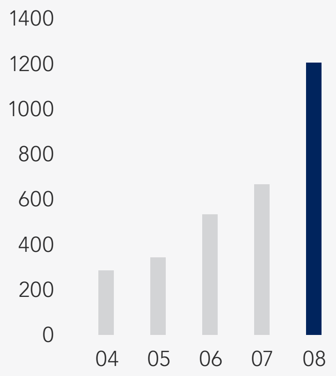
Deposit growth R'm



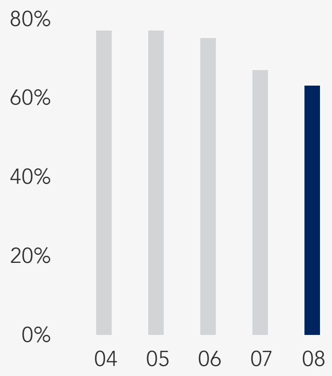
Loans and advances growth R'm



Total Assets R'm



Cost to income ratio



Financial highlights (continued)

Financial highlights	2008	2007	% Change
Income statement (R'000)			
Net operating income before indirect and direct taxation	**124 647**	87 300	42,78%
Profit before taxation	**116 660**	82 195	41,93%
Profit attributable to ordinary shareholders	**81 756**	58 453	39,87%
Balance sheet (R'000)			
Ordinary shareholder's funds	**469 295**	389 553	20,47%
Total assets	**1 204 274**	666 953	80,56%
Loans and advances	**540 261**	384 071	40,67%
Deposits	**466 935**	200 372	133,03%
Financial performance			
Return on equity (%)	**17,42**	15,00	
Cost-to-income ratio (%)	**62,66**	66,67	
Credit loss ratio (%)	**1,07**	2,35	
Capital adequacy			
Total risk-weighted assets (R'000)	**3 163 563**	1 212 661	
Regulatory capital (R'000)	**397 088**	336 333	
Regulatory capital to risk-weighted assets (%)	**12,55**	27,74	

Five year review
Income statement

for the year ended June 30	2008 R'000	2007 R'000	2006 R'000	2005 R'000	2004* R'000
Interest income	**71 978**	36 265	18 032	12 711	14 213
Interest expense	**(26 569)**	(10 619)	(6 364)	(5 543)	(3 524)
Net interest income	**45 409**	25 646	11 668	7 168	10 689
Fee and commission income	**144 465**	118 369	102 897	89 542	82 799
Fee and commission expense	**(28 928)**	(21 370)	(14 250)	(8 479)	(8 586)
Net fee and commission income	**115 537**	96 999	88 647	81 063	74 213
Net trading income	**174 768**	149 181	118 976	118 727	112 443
Change in fair value of investment securities	**-**	(2 324)	-	-	-
Other operating income	**3 073**	2 085	2 472	6 233	1 401
Net operating income	**338 787**	271 587	221 763	213 191	198 746
Credit impairment (charges)	**(5 004)**	(9 687)	(1 189)	(726)	19
Net operating income after credit impairment charges	**333 783**	261 900	220 574	212 465	198 765
Operating expenditure	**(209 136)**	(174 600)	(165 324)	(162 405)	(152 756)
Employment costs	**(84 925)**	(73 322)	(64 326)	(58 344)	(54 976)
Operating leases	**(25 211)**	(22 178)	(20 971)	(18 828)	(16 610)
Depreciation	**(7 151)**	(5 678)	(5 610)	(4 980)	(5 015)
Other operating expenditure	**(91 849)**	(73 422)	(74 417)	(80 253)	(76 155)
Net operating income before indirect taxation	**124 647**	87 300	55 250	50 060	46 009
Indirect taxation	**(7 987)**	(5 105)	(4 201)	(3 274)	(5 571)
Profit before direct taxation	**116 660**	82 195	51 049	46 786	40 438
Direct taxation	**(34 904)**	(23 742)	(14 639)	(14 175)	(11 982)
Profit for the year	**81 756**	58 453	36 410	32 611	28 456

** 2004 not restated for IFRS*

Financial highlights (continued)

Five year review
Balance sheet

at June 30	2008 R'000	2007 R'000	2006 R'000	2005 R'000	2004* R'000
Assets					
Cash and balances with banks	**533 175**	174 675	265 564	134 639	156 350
Derivative financial assets	**9 587**	3 165	11 598	5 987	10 804
Loans and advances	**540 261**	384 071	194 889	118 368	58 421
Investment securities	**52 596**	36 787	16 730	52 866	32 777
Other assets	**37 289**	45 000	24 004	15 852	10 713
Equipment	**26 392**	17 416	16 813	13 206	14 824
Intangible assets	**4 856**	5 114	2 890	192	-
Deferred taxation	**118**	725	1 205	537	866
Current taxation	**-**	-	-	215	-
Total assets	**1 204 274**	666 953	533 693	341 862	284 755
Equity and liabilities					
Equity	**469 295**	389 553	330 896	191 330	166 895
Share capital	**1 800**	1 800	1 800	720	720
Share premium	**165 979**	165 979	165 979	59 059	59 059
Reserves	**301 516**	221 774	163 117	131 551	107 116
Liabilities	**734 979**	277 400	202 797	150 532	117 860
Bank overdrafts	**-**	-	27 416	3 550	2 220
Derivative financial liabilities	**7 813**	433	14 104	8 324	8 295
Deposits	**466 935**	200 372	113 543	94 623	56 556
Other liabilities	**242 348**	65 899	42 750	44 035	40 452
Current taxation	**17 683**	10 522	4 603	-	10 337
Defined benefit liability	**200**	174	381	-	-
Total equity and liabilities	**1 204 274**	666 953	533 693	341 862	284 755

** 2004 not restated for IFRS*

Five year review
Statistics, returns and capital adequacy

	2008	2007	2006	2005	2004
Selected returns and ratios					
Return on equity (%)	**17,42**	15,00	11,00	17,04	17,05
Return on average risk-weighted assets (%)	**3,81**	4,88	13,71	21,18	21,53
Cost-to-income ratio (%)	**62,66**	66,67	74,95	76,44	76,85
Loans to deposit ratio (%)	**115,70**	191,68	171,64	125,09	103,29
Non interest income to total income (%)	**86,60**	90,56	94,74	96,64	94,62
Credit loss ratio (%)	**1,07**	2,35	0,64	0,77	-
Effective tax rate excluding indirect tax (%)	**26,29**	27,46	27,43	26,49	23,01
Effective tax rate (%)	**29,92**	28,88	29,68	28,27	26,18
Income per employee (R'000)	**615,98**	568,17	477,94	465,48	428,33
Expenses per employee (R'000)	**380,25**	365,27	356,30	354,60	329,22
Number of employees	**550**	478	464	458	464
Capital adequacy					
Total assets (R'000)	**1 204 274**	666 953	533 693	341 862	284 755
Risk-weighted assets (R'000)	**3 163 563**	1 212 661	265 475	161 694	132 151
Regulatory capital (R'000)	**397 088**	336 333	304 770	156 904	137 806
Regulatory capital to risk-weighted assets (%)	**12,55**	27,74	114,80	97,04	104,28
Market indicators					
Exchange rates at June 30					
USD	**7,85**	7,04	7,14	6,68	6,24
GBP	**15,66**	14,12	13,17	11,97	11,32
EURO	**12,38**	9,51	9,11	8,07	7,61
Average exchange rates					
USD	**7,30**	7,22	6,43	6,21	6,88
GBP	**14,64**	13,95	11,44	11,53	11,94
EURO	**10,76**	9,41	7,82	7,89	8,19
Prime overdraft rate (%)	**15,50**	13,00	11,00	10,50	11,00

Financial definitions

Cost to income ratio (%)	Operating expenses as a percentage of total income
Credit loss ratio (%)	Total credit impairment charges per the income statement as a percentage of average gross loans and advances
Effective taxation rate (%)	Direct and indirect taxation as a percentage of net income before taxation
Return on equity (ROE) (%)	Headline earnings as a percentage of average ordinary shareholder's funds
Return on risk weighted assets (%)	Headline earnings as a percentage of average risk-weighted assets


Bureau de Change
BIDVest
BANK
MoneyGram
STOP!


Rennies
Foreign Exchange
Bureau de Change

Sustainability report

Highlights

- 2008 business objectives met
- Pleasing improvement in profitability, ratios and returns
- Strong balance sheet
- Good revenue growth, effective expense management resulted in improved cost to income ratio to 63% (2007: 67%)
- Training spend totalled R3 million (2007: R1,7 million)
- Launch of Graduate Advancement training programme
- Strong progress has been made in employment equity
- Branch network has grown to 68 branches (2007: 61 branches)
- Growth in deposits to R467 million (2007: R200 million)
- Loans and advances grew to R540 million (2007: R384 million)
- Staff turnover reduced to 7% (2007: 8%)
- Credit impairment charges 1,07% (2007: 2,35%) of loan book, relate to loans and advances granted in prior financial years. No impairments incurred on loans and advances granted during the year under review
- Continued improvement in internal controls, compliance and regulatory controls
- Successful implementation of Basel II
- Effective internal audit programmes and results
- Growth in co-branded debit cards
- Successful launch of BidSave savings and transactional account
- Successful launch of fxpaynet™
- Significant improvement in Information Technology infrastructure
- Further refinement of security and forensic developments

Key Challenges

- ← Staff turnover and skills shortage
- ← Attracting and retaining senior historically disadvantaged individuals
- ← Meeting Financial Sector Charter targets
- ← Enhancing a culture of ethics and compliance
- ← Meeting or exceeding customer expectations
- ← Improved efficiency, productivity and the elimination of unnecessary expenses
- ← Director and staff training and development
- ← Succession planning
- ← Continued focus on reduction in crime losses

Statistical information	2008	2007
Net operating income (R'000)	**338 787**	271 587
Profit before direct taxation (R'000)	**116 660**	82 195
BEE procurement (R'000)	**93 336**	66 684
Training spend (R'000)	**2 964**	1 708
Training spend per employee (R'000)	**5,39**	3,60
Number of employees	**550**	478

Introduction

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

- the diversification of revenue streams without losing focus on its core product offering, being foreign exchange
- the retention and growth of its extensive customer base
- the management of the risks associated with banking
- the fulfilment of its environmental, health and safety and socio-economic obligations.

Corporate governance

The Board of Directors ("the Board") recognises the importance of the principles of good corporate governance, and conducts itself in accordance with the Bank's statutes, the Banks Act, the Companies Act, the King Code and its own code of conduct. The Board endorses the Bank's code of ethics, and its commitment to integrity, confidentiality, compliance with all applicable legislation, and employment equity.

Board and subcommittees

At June 30 2008 the Board was composed of 2 executive and 6 non-executive directors, unchanged since the prior year. The Board met formally five times. The Executive Committee was enlarged during the year by the appointment of the Head of Internal Audit and the Directors responsible for Deposits and Investments, Card, Lending, Credit and Security as members of the Committee.

The Board is assisted in its work by the following subcommittees of the Board:

- Audit and compliance
- Assets and Liabilities
- Credit
- Directors Affairs
- Remuneration and nominations
- Risk and Capital Management

During the year the Bank's immediate holding company, Bidvest Bank Holdings Limited, established Audit, Risk and Capital Management and Directors Affairs Committees.

Directors' training

Training is provided to the directors as and when required. It is provided by external experts and addresses the banking environment, and those risks relevant to the Bank's activities. The directors receive updates on legislative and regulatory changes applicable to the Bank's operations, and receive, through the proceedings of the Risk and Capital Management Committee, presentations on risk areas in the business, and the management and mitigation of those risks. The non-executive directors were introduced to the practical implications of Basel II.

Directors' effectiveness self assessment

The directors annually assess the effectiveness of the Board, Board subcommittees, their chairmen and the Managing Director. The results of the assessments are presented to the Directors Affairs Committee.

Management is responsible for the implementation of the Board's decisions and for the sustainable development and growth of the business. The Board monitors managements' performance and is satisfied that succession plans for senior management are in place. Director and executive management remuneration is recommended by the Remuneration Committee.

Code of ethics

All employees are required to abide by the Bank's code of ethics, and to confirm in writing annually that they have complied.

Financial Sector Charter and Black Economic Empowerment

The Financial Sector Charter Council (FSC) extended the expiry date for exemptions and the submission date for 2007 reports to July 31 2008. The purpose of the extension was to allow time to align the Charter with the Codes of Good Practice. The Bank is satisfied that the targets set for all categories of the Charter remain achievable and that the progress made to date is adequate. Targets are reviewed annually and progress against targets is monitored monthly by management.

Basel II

Basel II is the revised international convergence of capital measurement and capital standards, and provides a framework for international best practice in risk management and capital requirements. Basel II was developed by the Basel Committee on Banking Supervision and has been adopted in South Africa. The framework serves to strengthen the soundness and stability of the international banking system, and consists of three pillars: minimum capital requirements, supervisory review and market discipline. It differs from the 1988 Basel I accord in the sense that it is significantly more risk-sensitive and incorporates new elements of capital requirements for banks. As such it has introduced a capital requirement for operational risk and places more emphasis on economic capital requirements unique to each bank's risk portfolio. The Banks Act Regulations based on the Basel II capital framework were published in January 2008.

The Bank has adopted the standardised approach to the measurement of its capital requirements and has been applying the Basel II requirements and the new Regulations from January 1 2008.

The Bank has committed itself to the continuous upgrading and improvement of its risk management systems, business models, capital strategies and disclosure standards through compliance with the Basel II framework.

Business operations

Treasury and corporate banking

The year has been marked by increased volatility across all markets. The crisis in the sub-prime market in the USA and Europe, the relentless rise in the price of crude oil which, in turn, has led to rising food prices, rising interest rates in South Africa spurred by the increase in the producer and consumer price inflation rate, and volatile exchange rates have made trading conditions difficult.

Against this backdrop, Treasury produced good results by focusing on its core activities, which are providing the Bank's retail network with competitive exchange rates, managing the Bank's bank note holdings and growing its relationship with its strategic partners in the provision of corporate foreign exchange.

Another key area of focus was the management of the Bank's positions and assets, in accordance with the guidelines laid down by the Bank's Asset and Liability Committee, and this focus will continue in the year ahead.

Retail division

The Retail division produced excellent results, primarily by focusing on client retention and on increasing business with the existing client base. In addition, focus on new business also brought pleasing results. The increased single discretionary annual allowances announced in the March Budget have resulted in increased sales in some sectors.

The money transfer business showed good growth and sales of travellers cheques and Cash Passport cards all met growth expectations. Long term contracts with major suppliers and overseas principals were successfully renegotiated during the year.

The focus leading up to the 2010 FIFA World Cup has been on increasing the number of branches countrywide, and 8 new branches opened during the year, with more branches planned to open during the forthcoming year. It is envisaged that the network will be in the region of 80 branches by June 2009.

The Retail business model continues to be successful and the division will remain a significant profit generator.

Security of customers, staff and assets of the Bank remains a constant challenge, and significant investments continue to be made in ensuring that the network is a secure and safe business environment.

Card division

The Bank offers consumer travel cards to the market as well as savings and transactional debit cards. These cards have shown pleasing growth results and will continue to be a focus area for the card division during the next financial period.

The consumer debit card environment has shown significant growth in the past 12 months. Another key focus area remains the development of new relationships with co-brand partners who wish to offer a debit card to enhance their existing customer value proposition.

The corporate card business has shown pleasing growth and remains one of the key areas for the division.

New product lines will be introduced in the next financial year to enhance the product offerings of the Bank.

Lending division

Loans and advances produced an increase in lending activity through a focused approach and employment of skilled and experienced lending consultants. This division was further influenced by a refocus of the core asset-based secured lending activity. The lending book has a far cleaner and structured profile of deals with a high concentration of strong well known clients, both listed and unlisted companies. The net interest increase is directly influenced by growth of the existing book, rising interest rates in South Africa and a widening interest spread.

Loans and advances played an important and successful role in obtaining maximum value and use of the Bank's liquidity by balancing the risk and rewards of providing funding to gain maximum returns, whilst securing the funding positions. The lending division has dedicated its consultants to service excellence with adding value, experience and best advice to its clients.

The team has specialised consultants focusing on different core business areas, which range from rentals, commercial loans and asset-based finance to secured loans and general banking facilities.

The key driver for 2009 is to continue the growth of the book whilst maintaining the Bank's low risk profile. The Bank will grow its client base and focus on continuous service excellence and adding value.

Deposits and investments

The deposit book comprises call accounts, notice deposit accounts, fixed deposits and retail card accounts. Following the introduction of new deposit strategies and products, including the penetration of the retail market through the branch network, the deposit book has grown from R200 million at June 30 2007 to R467 million at June 30 2008. This is a 133% increase from the prior year.

Deposits are anticipated to grow significantly in the next financial year. This growth is to be achieved partially through the BidSave card, following enhancements during the year and 'above the line' marketing for BidSave rolling out in the early part of the new financial year, as well as targeting the corporate market for deposit taking.

Support services

Call centre

The Call Centre has been expanded to support increased business activity throughout the Bank.

Information technology

The Bank continues to review and enlarge its information technology infrastructure to meet the needs of the growth in the branch retail network. The Bank continually reviews its Information Technology systems and implements upgrades and changes to meet the challenges of a growing institution.

Human resources

Staff development and retention

During the year two Bank employees participated in the Bidvest Graduate Academy, a programme intended to develop management and leadership skills together with sales and marketing skills, for those Group employees who have displayed exceptional leadership and management potential.

Bursaries have been awarded to 13 females and 16 males. Bursaries are only given to existing staff. The staff turnover rate was reduced to 7% (2007: 8%).

The Bank started a Graduate Advancement training programme which is designed to give young aspiring graduates the opportunity to come into a banking environment with no banking knowledge, to learn, grow and identify with the Bank and different areas of the Bank. It is designed to cover all aspects of the Bank from front line sales and product knowledge to back office processes and workflows. A big factor in the design of this programme is that these students are able to meet and converse with existing staff in the business, and they have the opportunity to discuss ideas and knowledge with senior executives of the Bank. This course is designed around the principles of coaching and hands-on interactive teaching. 11 students completed the programme in their 2008 year and have been deployed into the business.

Employee support and HIV / AIDS

32,7% staff utilised Independent Counselling and Advisory Service Organisation. The percentage of employees whose difficulties appear to have a significant impact on their work is 2,7%.

The Bank held the launch of its Wellness Day programme which is to be rolled out countrywide on a half yearly basis, at Head Office on May 16 2008 and 79 employees participated. The programme included testing cholesterol, glucose, and blood pressures as well as HIV.

Employee advancement and skills development

Numerous promotions were made during the year with a focus on promoting internally.

Internal and external training courses offered by the training department included coaching skills, financial planning, customer service, business management, product training, operating procedures and various legislation and regulations.

BEE procurement

The Bank's BEE procurement grew to R93,3 million, from R66,6 million in 2007. The Bank's procurement policy endorses the importance of supporting small and medium-sized suppliers, and in particular those with BEE credentials.

Directors' responsibility for the financial statements

The Bank's directors are responsible for the preparation and fair presentation of the financial statements, comprising the balance sheet at June 30 2008, the directors' report, the income statement, the cash flow statement and the statement of changes in equity for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

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

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

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

The auditor is responsible for reporting that the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements

The financial statements were approved by the Board of directors on August 20 2008 and signed on its behalf by –

A C SALOMON

Managing Director

L T DE WAAL

Financial Director

Independent auditors' report

To the members of Bidvest Bank Limited

We have audited the financial statements of Bidvest Bank Limited, which comprise the balance sheet at June 30 2008, and the income statement, cash flow statement and the statement of changes in equity for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 32 to 83.

Directors' responsibility for the financial statements

The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bidvest Bank Limited at June 30 2008 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.

Registered Auditor

Per JN Isaacs

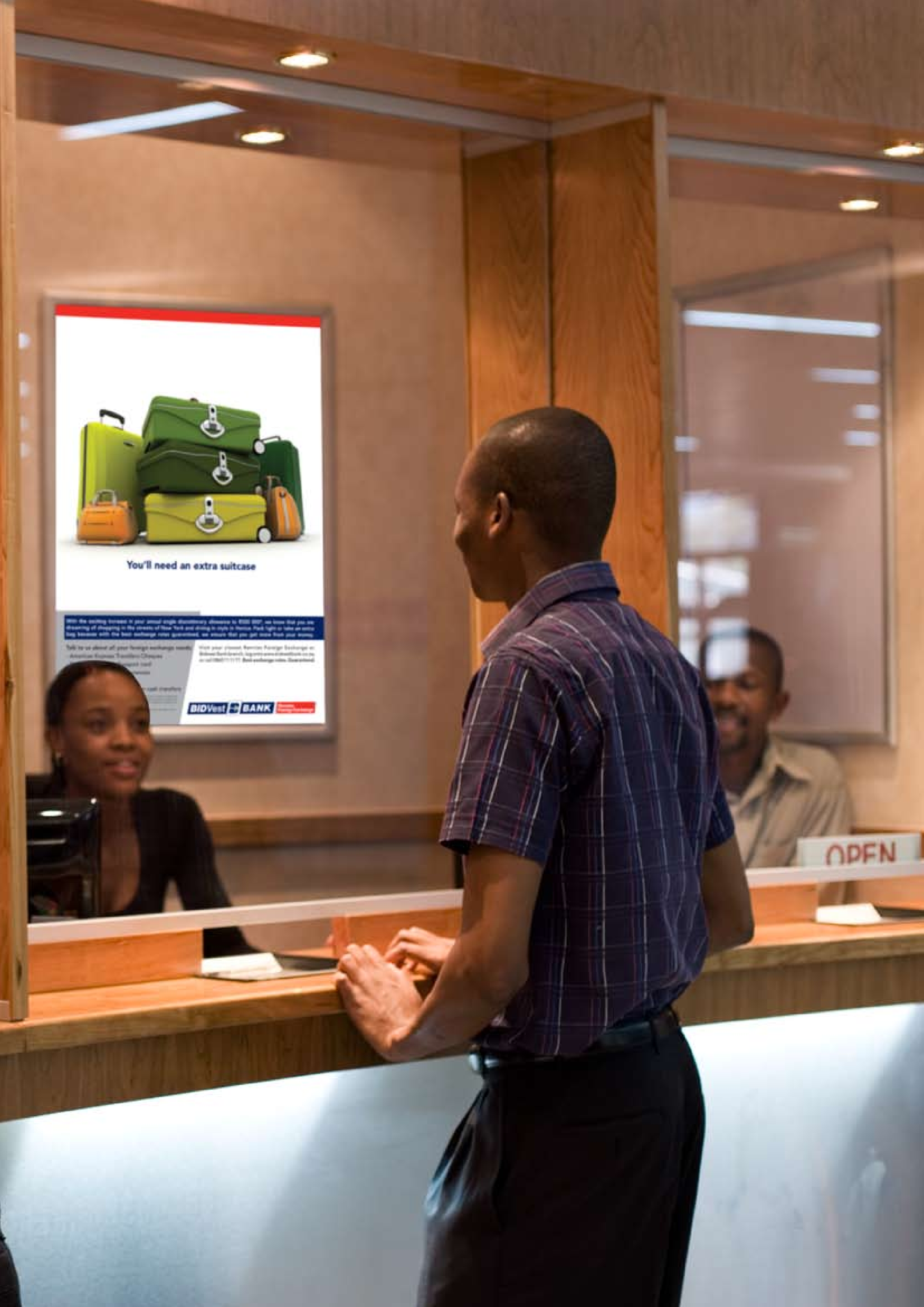
Chartered Accountant (SA)

Registered Auditor

Director

August 20 2008


Your entourage on call
BIDVest BANK


You'll need an extra suitcase
BIDVest BANK
OPEN

Directors' report

General information

Bidvest Bank Limited ("the Bank") is a wholly owned subsidiary of Bidvest Bank Holdings Limited. Its ultimate holding company is The Bidvest Group Limited ("Bidvest") which is listed on the JSE South Africa. The Bank is incorporated and domiciled in South Africa.

Nature of business

Bidvest Bank Limited is a registered commercial bank.

Financial results

The financial results are set out in the financial statements and accompanying notes for the year ended June 30 2008.

Share capital

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

Interest of directors and officers

No contracts were entered into in which directors and officers of the Bank had an interest and which significantly affected the business of the Bank. The emoluments and services of executives are determined by the 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 arranged with third parties.

Directors' meeting attendance

Details of the attendance by directors at board and board subcommittee meetings is set out in the schedule below:

Committee Attendance

	Board	Audit & Compliance	Risk	Remuneration	Directors Affairs
Number of meetings	5	4	4	4	2
LT de Waal#	4	4@	3@		
L I Jacobs*	4				1
B Joffe*	3				
P Nyman*	5	4	4	4	
J L Pamensky*	Chairman 5	3@	3@	Chairman 4	Chairman 2
J H Postmus*	5	4	4		2
A C Salomon#	5	4@	4@	4@	2@
R G H Smith*	5	Chairman 3	Chairman 4		2

* Non-executive director
\# Executive director
@ Attendance by invitation

Special resolutions passed during the year

No special resolutions were passed during the current financial year

Distribution of dividends

No dividends were declared during the current or prior financial year.

- Company secretary and registered office

  Ms M A David
  Bidvest House
  18 Crescent Drive, Melrose Arch
  Johannesburg
  2196 South Africa

  Corporate office
  11th Floor, Rennie House
  19 Ameshoff Street
  Braamfontein
  2001 Johannesburg

  Postal address
  PO Box 185
  2000 Johannesburg

  Telephone
  Corporate Office
  +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

  KPMG Incorporated will continue in office in accordance with Section 270(2) of the Companies Act.

- Post balance sheet events

  There are no material post balance sheet events that have occurred between the balance sheet date and the date of this report.

- Certificate from the Company Secretary

  In terms of section 268G(d) of the Companies Act, 61 of 1973, as amended, I certify that, to the best of my knowledge and belief, the Bank has lodged with the Registrar of Companies, for the financial year ended June 30 2008, all such returns 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.

M A DAVID

Company Secretary

Income statement

for the year ended June 30	Notes	2008 R'000	2007 R'000
Interest income		**71 978**	36 265
Interest expense		**(26 569)**	(10 619)
Net interest income	*6.1*	**45 409**	25 646
Fee and commission income	*6.2*	**144 465**	118 369
Fee and commission expense	*6.3*	**(28 928)**	(21 370)
Net fee and commission income		**115 537**	96 999
Net trading income		**174 768**	149 181
Change in fair value of investment securities		**-**	(2 324)
Other income	*6.4*	**3 073**	2 085
Net operating income		**338 787**	271 587
Credit impairment charges	*13.2*	**(5 004)**	(9 687)
Net operating income after credit impairment charges		**333 783**	261 900
Operating expenditure		**(209 136)**	(174 600)
Employment costs	*7*	**(84 925)**	(73 322)
Operating lease costs	*8.1*	**(25 211)**	(22 178)
Depreciation		**(7 151)**	(5 678)
Other operating expenditure	*8.2*	**(91 849)**	(73 422)
Net operating income before indirect taxation		**124 647**	87 300
Indirect taxation	*9.1*	**(7 987)**	(5 105)
Profit before direct taxation		**116 660**	82 195
Direct taxation	*9.2*	**(34 904)**	(23 742)
Profit for the year		**81 756**	58 453

Cash flow statement

for the year ended June 30	Notes	2008 R'000	2007 R'000
Cash flows from operating activities			
Cash generated by operations	*10.1*	**467 411**	11 538
Taxation paid	*10.2*	**(26 175)**	(18 058)
Interest received		**(71 978)**	(36 265)
Interest paid		**26 569**	10 619
Net cash flows from operating activities		**395 827**	(32 166)
Cash flows from investing activities		**(37 327)**	(31 307)
Proceeds on disposal of equipment		**26**	19
Dividends received		**1 935**	1 623
Acquisition of equipment		**(16 284)**	(6 349)
Acquisition of intangible assets		**(3 157)**	(3 560)
Purchase of investment securities	*10.3*	**(19 847)**	(23 040)
Net increase (decrease) in cash and cash equivalents		**358 500**	(63 473)
Cash and cash equivalents at beginning of year		**174 675**	238 148
Cash and cash equivalents at end of year	*10.4*	**533 175**	174 675

Balance sheet

at June 30	Notes	2008 R'000	2007 R'000
Assets			
Cash and balances with banks	*11*	**533 175**	174 675
Derivative financial assets	*12*	**9 587**	3 165
Loans and advances	*13*	**540 261**	384 071
Investment securities	*14*	**52 596**	36 787
Other assets	*15*	**37 289**	45 000
Equipment	*16*	**26 392**	17 416
Intangible assets	*17*	**4 856**	5 114
Deferred taxation	*18*	**118**	725
Total assets		**1 204 274**	666 953
Equity and liabilities			
Equity		**469 295**	389 553
Share capital	*19*	**1 800**	1 800
Share premium	*20*	**165 979**	165 979
Reserves		**301 516**	221 774
Liabilities		**734 979**	277 400
Derivative financial liabilities	*12*	**7 813**	433
Deposits	*21*	**466 935**	200 372
Other liabilities	*22*	**242 348**	65 899
Current taxation		**17 683**	10 522
Defined benefit liability	*23*	**200**	174
Total equity and liabilities		**1 204 274**	666 953

Statement of changes in equity

for the year ended June 30	2008 R'000	2007 R'000
Share capital		
Balance at June 30	**1 800**	1 800
Share premium		
Balance at June 30	**165 979**	165 979
Reserves		
Non-distributable reserves	**-**	3 824
Opening balance at July 1	**3 824**	2 484
Transfer (to) from retained earnings	**(3 824)**	1 340
Retained earnings	**300 608**	215 028
Opening balance at July 1	**215 028**	157 915
Profit for the year	**81 756**	58 453
Transfer from (to) non-distributable banking reserve	**3 824**	(1 340)
Share based payment reserve	**3 801**	1 943
Opening balance at July 1	**1 943**	1 273
Items recognised directly in equity		
- share-based payments	**1 064**	1 464
- deferred taxation effect on share based payment reserve	**-**	(794)
- reversal of deferred taxation effect on equity settled share based payment reserve	**794**	-
Fair value reserve	**(2 893)**	979
Opening balance at July 1	**979**	1 445
Items recognised directly in equity		
- fair value adjustment on investment	**(4 039)**	(545)
- deferred taxation effect on fair value adjustment	**167**	79
	301 516	221 774

for the year ended June 30 2008

1 Reporting entity

Bidvest Bank Limited ("the Bank") is a company domiciled in South Africa.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the South African Companies Act.

The Bank has made the following accounting policy elections in terms of IFRS, with reference to the detailed accounting policies shown in brackets:

- purchase and sale of financial assets are recognised and derecognised using trade date accounting (accounting policy note 3.3).
- equipment is accounted for using the cost model (accounting policy 3.5); and
- unrecognised actuarial gains or losses on post-retirement benefits are recognised over a period not exceeding the expected average remaining working life of active employees (accounting policy 3.10).

The financial statements were authorised for issue by the directors on August 20 2008.

2.2 Basis of measurement

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

- financial instruments at fair value through profit or loss
- financial assets classified as available-for-sale

2.3 Functional currency

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

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. (Refer to note 29 for key assumptions made). Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3 Significant accounting policies

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

3.1 Foreign currency

Foreign currency transactions

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

Foreign currency transactions are translated at the exchange rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Gains and losses arising on translation are credited to or charged against income, except for differences arising on the retranslation of available-for-sale equity instruments which are credited against equity.

3.2 Cash and cash equivalents

For the purposes of the cash flow statement, 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 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 balance sheet.

3.3 Financial instruments

Initial recognition and measurement

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

3.3 Financial instruments (continued)

Subsequent measurement

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

Held-to-maturity

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

Loans and advances

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

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

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

Fair value through profit and loss

Financial instruments at fair value through profit or loss consist of trading instruments that the Bank has elected, on initial recognition date, to designate as at fair value through profit or loss.

Trading instruments are financial assets or financial liabilities acquired or incurred principally for the purpose of sale or repurchase in the near term that form part of a portfolio that are derivatives. The Bank's derivative transactions include foreign exchange contracts.

Financial assets and financial liabilities that the Bank has elected on initial recognition date, to designate at fair value through profit or loss are those that meet any one of the criteria hereunder:

- the fair value through profit or loss designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from using different bases to measure and recognise the gains and losses on financial assets and financial liabilities.
- the instrument forms part of a group of financial instruments that is managed, evaluated and reported to the appropriate level of management using a fair-value basis in accordance with a documented risk management or investment strategy.

Available-for-sale

Available for sale assets or liabilities are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

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

Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method or comparison to similar instruments for which market observable prices exist.

Amortised cost measurement

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

Deposits

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

Impairment of financial assets

Identification and measurement of impairment

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

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

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

3.3 Financial instruments (continued)

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

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

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

Available-for-sale financial assets

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value less any impairment loss on that financial asset previously recognised, out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit of loss.

Offsetting

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

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

Derecognition

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

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

3.4 Financial guarantee contracts

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

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

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.

3.5 Equipment

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

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

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

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

← computer equipment	3 years
← motor vehicles	5 years
← office equipment	5 years
← furniture and fittings	3-6 years

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

3.6 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the net fair value of the identifiable assets and liabilities. When the excess is negative it is realised directly in profit or loss. Goodwill is measured at cost less accumulated impairment losses. In assessing value in use, the expected future cash flows from the purchased assets are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Goodwill is not amortised but is tested annually for impairment.

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 the income statement 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 the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

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

← computer software	2 - 10 years
← development costs	3 years

3.7 Impairment of non-financial assets

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

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

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

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

3.8 Provisions

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

3.9 Instalment finance

Bank as the lessor

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

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. The benefits arising from investment allowances on assets leased to clients are accounted for in tax.

3.9 Instalment finance (continued)

Bank as the lessor (continued)

Leases of assets under which the Bank effectively retains all the risks and benefits of ownership are classified as operating leases. Receipts of operating leases, net of any incentives given to lessees, 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.

Rental, lease and instalment sale contracts are recorded as financing transactions, with rentals and instalment receivable, less unearned finance charges, being included.

3.10 Employee benefits

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

Leave benefits due to employees are recognised as a liability in the financial statements.

The Bank has an obligation for post employment medical aid, to past and current employees. For past service, the Bank recognises and provides for the actuarially determined present value of post employment medical aid employer contributions on an accrual basis using the projected unit credit method. Independent qualified actuaries carry out valuations of these obligations every 3 years. Unrecognised actuarial gains or losses are accounted for over a period not exceeding the remaining working life of active employees.

3.11 Share-based payment transactions

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

3.12 Share capital

Share capital is carried at issued cost.

3.13 Share premium

Share premium is carried net of share issue costs.

3.14 Interest

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

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

Interest income and expense presented in the income statement include:

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

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other derivatives held for risk management purposes and other financial assets and liabilities carried at fair value through profit or loss, are presented as a change in fair value of investment securities in the income statement.

3.15 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

3.16 Net trading income

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

3.17 Dividends

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

3.18 Operating lease payments

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Operating leases, which have a fixed determinable escalation, are charged against income on a straight line basis over the period of the lease.

3.19 Taxation

Normal tax

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

Deferred income tax is provided for on the comprehensive basis, using the balance sheet method, for 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 balance sheet 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 balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax relating to items which are charged or credited directly to equity, are also charged or credited directly to equity and are subsequently recognised in the income statement when the related deferred gain or loss is recognised.

Indirect tax

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

3.20 Distributions to shareholders

Distributions to shareholders are accounted for once they have been approved by the Board. Additional income taxes that arise from distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

3.21 Comparative figures

Where necessary, comparative figures within the notes have been restated to conform to changes in presentation in the current year. Refer to note 6.2, 6.3, 15 and 22 for changes made to comparatives.

4 Financial risk management

4.1 Introduction and overview

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

- credit risk
- liquidity risk
- market risks
- operational risks
- reputational risk

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

Disclosure requirements under both IFRS 7 and Pillar 3 of Basel II are driven by an overall objective of increasing the transparency of financial institutions. Such transparency allows the reader to be more informed before making decisions.

The disclosures under IFRS 7 focus on financial instruments and provide a presentation by class of financial instrument, taking into account the nature of the information to be disclosed and the characteristics of the underlying financial instruments. The principles in IAS 32 (Financial Instruments: Presentation) and IAS 39 for recognising, measuring and presenting financial assets and liabilities are taken into account in IFRS 7.

On the other hand, the disclosures under Basel II focus on capital management and allow the reader to assess the institution's capital adequacy through a presentation by class of financial exposure. These asset classes support the supervisory review process as well as regulatory reporting requirements to the extent that underlying risk characteristics and Basel II defined risk mitigation factors are taken into account.

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, Credit Committee and Operational Risk Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in strategy 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.

4.1 Introduction and overview (continued)

Risk management framework (continued)

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.

4.2 Credit risk

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

Management of credit risk

The Board has delegated responsibility for the management of credit risk to its Credit Committee. 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 Head of Credit, Credit Committee or the Board 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 concentrations of exposure to counterparties, geographies, products and industries.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Credit Committee on the credit quality of portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Exposure to credit risk

	Note	Gross maximum exposure 2008 R'000	Gross maximum exposure 2007 R'000	Loans and advances 2008 R'000	Loans and advances 2007 R'000	Other financial assets 2008 R'000	Other financial assets 2007 R'000
Individually impaired							
Gross amount							
Grade Ba (Exceptional business credit)		**-**	-	**-**	-	**-**	-
Grade Bb (Good business credit)		**-**	2 021	**-**	2 021	**-**	-
Grade Bc (Average business credit)		**-**	2 114	**-**	2 114	**-**	-
Grade Bd (High risk credit)		**-**	4 073	**-**	4 073		
Grade Be (Marginally acceptable business credit)		**-**	-	**-**	-	**-**	-
Unrated		**852**	189	**852**	189	**-**	-
Total		**852**	8 397	**852**	8 397	**-**	-
Allowance for impairment		**(402)**	(5 497)	**(402)**	(5 497)	**-**	-
Carrying amount		**450**	2 900	**450**	2 900	**-**	-
Collectively impaired							
Gross amount							
Grade Ba (Exceptional business credit)		**70 871**	39 797	**70 871**	39 797	**-**	-
Grade Bb (Good business credit)		**95 034**	67 173	**95 034**	67 173	**-**	-
Grade Bc (Average business credit)		**45 238**	28 696	**45 238**	28 696	**-**	-
Grade Bd (High risk credit)		**10 263**	8 014	**10 263**	8 014	**-**	-
Grade Be (Marginally acceptable business credit)		**3 459**	1 993	**3 459**	1 993	**-**	-
Grade Bf (Unacceptable business credit)		**2 048**	2 349	**2 048**	2 349	**-**	-
Unrated		**16 074**	27 514	**16 074**	27 514	**-**	-
Total		**242 987**	175 536	**242 987**	175 536	**-**	-
Allowance for impairment		**(3 430)**	(661)	**(3 430)**	(661)	**-**	-
Carrying amount		**239 557**	174 875	**239 557**	174 875	**-**	-
Neither past due nor impaired							
Gross amount							
Grade Ba (Exceptional business credit)		**300 254**	206 296	**300 254**	206 296	**-**	-
Grade Ba (Banks)		**438 235**	78 859	**-**	-	**438 235**	78 859
Non rated		**127 116**	173 783	**-**	-	**127 116**	173 783
Total carrying amount	*13*	**1 105 612**	636 713	**540 261**	384 071	**565 351**	252 642
Less financial instruments not exposed to credit risk		**94 940**	95 816				
		1 010 672	540 897				
Represented by the following balance sheet items:							
Balance with banks		**438 235**	78 859				
Derivative financial assets		**9 587**	3 165				
Loans and advances		**477 316**	382 699				
Investment securities		**52 596**	36 787				
Other assets		**32 938**	39 387				
		1 010 672	540 897				

The maximum exposure to credit risk is represented by the carrying amount of each financial asset including derivatives in the balance sheet, as well as off balance sheet transactions outlined in note 25.1.

4.2 Credit risk (continued)

Impaired loans

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

Allowances for impairment

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

The past due not impaired balance equals R17 000 in 2008 (2007: R nil) up to 30 days which relates to loans and advances to customers only.

Write-off policy

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

Security held

The Bank holds financial collateral and other security against loans and advances to customers in the form of mortgage bonds over property, 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, and are reported below:

Security value

	Note	Loans and advances to customers 2008 R'000	Loans and advances to customers 2007 R'000	Loans and advances to banks 2008 R'000	Loans and advances to banks 2007 R'000
Against individually impaired					
Cash, debtors, stock		**-**	4 073	**-**	-
Property		**79**	40	**-**	-
Unsecured		**772**	4 284	**-**	-
Total		**851**	8 397	**-**	-
Collectively impaired					
Asset based finance		**80 448**	66 949	**-**	-
Cash, debtors, stock		**81 378**	34 869	**-**	-
Property		**10 425**	13 476	**-**	-
Equity		**11 024**	-	**-**	-
Unsecured		**60 698**	60 242	**-**	-
Total		**243 973**	175 536	**-**	-
Neither past due nor impaired					
Asset based finance		**39 684**	-	**21 470**	5 260
Unsecured		**238 115**	201 035	**-**	-
Carrying amount	*13*	**522 623**	384 968	**21 470**	5 260

Security valuation

Type	Tangible value
Rand cash (Cession over deposit account)	100%
Foreign cash (cession over CFC account)	90%
Pledge of Shares (JSE top 100) Quarterly statements are obtained from the customer's Broker.	50%
Cession of Unit Trusts Monthly statements are obtained from the customer's Broker.	50%
Gold coins	50% of rand value
Cession of Insurance / Endowment Policy Valued at the time the Cession is signed by obtaining surrender values directly from the Assurance company.	Extra security, no commercial value
Cession of Debtors Valued monthly upon submission of debtor lists to the Bank.	33% excluding arrears, depending on the quality of the book

4.2 Credit risk (continued)

General Notarial Bond over Stock Valued monthly upon submission of stock lists to the Bank.	33%
Mortgage Bonds over property Valuation conducted by an approved valuator for the Bank when the deal is initiated.	70%
A1 rated bank guarantee	100%

The aforementioned table represents the method applied by the credit committee in determining the value of security. It would be impractical to disclose the fair value of security based on the type and nature of the security

Credit risk by sector

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

		Loans and advances to customers		**Loans and advances to banks**		**Investment security**	
	Note	**2008 R'000**	2007 R'000	**2008 R'000**	2007 R'000	**2008 R'000**	2007 R'000
Concentration by sector							
Manufacturing		**17 494**	36 903	**-**	-	**-**	-
Construction		**25 425**	2 354	**-**	-	**-**	-
Wholesale and retail trade, repair of specified items, hotels and restaurants		**69 835**	63 118	**-**	-	**-**	-
Transport, storage and communication		**51 786**	32 920	**-**	-	**-**	-
Financial intermediation and insurance		**27 667**	41 776	**21 470**	5 260	**18 858**	20 700
Real estate		**1 523**	935	**-**	-	**-**	-
Business services		**320 052**	198 730	**-**	-	**-**	-
Community, social and personal services		**427**	2 747	**-**	-	**-**	-
Private households		**4 612**	4 381	**-**	-	**-**	-
Other		**3 802**	1 104	**-**	-	**33 738**	16 087
Total	*13*	**522 623**	384 968	**21 470**	5 260	**52 596**	36 787
Of which:							
Sovereign (central government and central bank)		**427**	-	**-**	-	**33 723**	16 072
Public sector entities		**377**	2 747	**-**	-	**-**	-
Local government / municipalities		**50**	-	**-**	-	**-**	-

The Bank also monitors concentrations of credit risk by geographical area and apart from a few small accounts at foreign banks has exposure in South Africa only.

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

It is the policy of the Bank to only invest with A1 rated Banks.

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

2008	Gross R'000	(Impairment) R'000	Net R'000	Guarantees & suretyship R'000	Pledge of assets R'000	Total R'000	Carrying value for which no collateral is held R'000
Not past due	543 989	(3 788)	540 201	248 280	241 372	489 652	50 653
Past due 0-30 days	97	(40)	57	39	14	53	5
Past due 31-180 days	6	(3)	3	-	-	-	3
Past due 181-365 days	1	(1)	-	-	-	-	1
Total	544 093	(3 832)	540 261	248 319	241 386	489 705	50 662

2007	Gross R'000	(Impairment) R'000	Net R'000	Guarantees & suretyship R'000	Pledge of assets R'000	Total R'000	Carrying value for which no collateral is held R'000
Not past due	386 110	(2 777)	383 333	233 014	100 382	333 396	49 937
Past due 0-30 days	13	(3)	10	2	-	2	8
Past due 31-180 days	4 092	(3 371)	721	-	701	701	20
Past due 181-365 days	14	(7)	7	-	-	-	7
Total	390 229	(6 158)	384 071	233 016	101 083	334 099	49 972

4.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

4.3 Liquidity risk (continued)

Management of liquidity risk (continued)

The liquidity position is monitored daily. All liquidity policies and procedures are subject to review and approval by the Asset and Liability Committee. Daily reports cover the liquidity position of the Bank and are submitted regularly to the Asset and Liability Committee. The maturities of financial liabilities are presented to the Asset and Liability Committee on a regular basis.

Residual contractual maturities of non-derivative financial liabilities

	Carrying amount R'000	Gross nominal outflow R'000	Less than 1 month R'000	1 - 3 months R'000	3 months to 1 year R'000	1 -5 years R'000
30 June 2008						
Trading liabilities	242 348	242 348	242 348	-	-	-
Deposits	466 935	466 935	416 841	25 189	24 905	-
Trading: outflow (liabilities)	5 145	190 230	2 097	1 280	1 768	-
Trading: outflow (assets)	3 374	228 305	1 479	1 346	549	-
	717 802	1 127 818	662 765	27 815	27 222	-
30 June 2007						
Trading liabilities	65 899	65 899	65 899	-	-	-
Deposits	200 372	200 372	167 519	12 127	20 653	73
Trading: outflow (liabilities)	103	27 503	-	76	27	-
Trading: outflow (assets)	2 593	170 884	202	530	1 861	-
	268 967	464 658	233 620	12 733	22 541	73

The aforementioned table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

The gross nominal inflow (outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment.

The disclosure for derivatives shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneously gross settlement (e.g. forward exchange contracts).

4.4 Market risks

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 the Asset and Liability Committee. The Risk Department is responsible for the development of detailed risk management policies (subject to review and approval by the Asset and Liability Committee) and for the day-to-day review of their 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 pre-approved limits for repricing bands. The Asset and Liability Committee is the monitoring body for compliance with these limits and is assisted by the Risk Department in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

	Carrying amount R'000	Less than 3 months R'000	3 - 12 months R'000	1 - 5 years R'000
June 30 2008				
Cash and balances with banks	533 175	533 175	-	-
Loans and advances	544 093	337 742	48 587	157 764
Investment securities	52 596	52 596	-	-
Deposits	(466 935)	(442 029)	(24 906)	-
	662 929	**481 484**	**23 681**	**157 764**
June 30 2007				
Cash and balances with banks	174 675	174 675	-	-
Loans and advances	384 071	378 811	5 260	-
Investment securities	36 787	36 787	-	-
Deposits	(200 372)	(184 962)	(15 337)	(73)
	395 161	**405 311**	**(10 077)**	**(73)**

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

4.4 Market risks (continued)

	200bp parallel increase R'000	200bp parallel decrease R'000
June 30 2008		
Cumulative impact before tax on net interest income:		
Average for the period	**339**	**(339)**
Maximum for the period	**486**	**(486)**
Minimum for the period	**100**	**(100)**
June 30 2007		
Cumulative impact before tax on net interest income:		
Average for the period	325	(325)
Maximum for the period	418	(418)
Minimum for the period	273	(273)

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

Foreign exchange rate sensitivities

Foreign currency profile

Currency profile **R'000** **2008** **Assets**	**ZAR**	**GBP**	**USD**	**EUR**	**OTHER**	**TOTAL**
Cash and balances with banks	466 702	10 673	29 402	13 300	13 098	533 175
Derivative financial assets	9 587	-	-	-	-	9 587
Loans and advances	486 431	39	53 791	-	-	540 261
Investments securities	52 596	-	-	-	-	52 596
Other assets	31 075	1 164	3 633	1 182	235	37 289
Equipment	26 392	-	-	-	-	26 392
Intangible assets	4 856	-	-	-	-	4 856
Deferred taxation	118	-	-	-	-	118
	1 077 757	**11 876**	**86 826**	**14 482**	**13 333**	**1 204 274**
2007	548 017	12 773	72 539	18 308	15 316	666 953
2008						
Equity and liabilities						
Share capital	1 800	-	-	-	-	1 800
Share premium	165 979	-	-	-	-	165 979
Reserves	301 516	-	-	-	-	301 516
Derivative financial liabilities	7 813	-	-	-	-	7 813
Deposits	380 791	14 697	38 409	31 888	1 150	466 935
Other liabilities	51 562	10 851	17 148	17 600	145 187	242 348
Current taxation	17 683	-	-	-	-	17 683
Defined benefit liability	200	-	-	-	-	200
	927 344	**25 548**	**55 557**	**49 488**	**146 337**	**1 204 274**
2007	626 578	2 743	24 755	10 058	2 819	666 953

Closing spot exchange rate	**GBP**	**USD**	**EUR**
2008	**R15,66**	**R7,85**	**R12,38**
2007	R 14,12	R 7,04	R 9,51

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.

Foreign currency sensitivity based on a 10% movement in exchange rate

	2008 **R'000**	2007 R'000
GBP	**1 367**	1 003
USD	**2 727**	4 778
EUR	**3 501**	825

4.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, and reputational risk, 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
- risk mitigation, including insurance where this is effective

4.6 Reputational risk

The reputation of the Bank is a significant asset and accounts for a large percentage of its equity. The Bank manages reputational risk by an integrated strategy, understanding the correlation between sustainable performance and reputation, and between corporate image and corporate reputation.

The following basic strategies are followed to manage reputational risk:

- fostering a reputation-conscious culture
- linking corporate social responsibility to reputation
- measuring the impact of media coverage, perceptions and stakeholder impressions
- developing plans to develop and protect reputation
- monitoring potential reputation-damaging issues
- proactively exploiting good news and having a crisis communication plan to respond in times of bad news
- transforming potential disasters into opportunities

4.7 Capital management

Regulatory capital

The Bank's regulator, the South African Reserve Bank ("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 II and calculates requirements for market risk in its banking portfolios based upon the Bank's market risk models and uses both external and internal gradings as the basis for risk weightings for credit risk.

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

- Primary capital, which includes ordinary share capital, share premium and retained earnings.
- Secondary capital, which includes collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

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

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 individually regulated operations have complied with all externally imposed capital requirements throughout the period.

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

Certain qualifying capital under Basel I no longer qualifies under Basel II, including Share based payment reserve and reserves created by the revaluation of investments.

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

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

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

4.7 Capital management (continued)

Regulatory capital (continued)

The Bank's regulatory capital position at June 30 was as follows:

	Notes	Basel II 2008 R'000	Basel I 2007 R'000
Net qualifying capital and reserves			
Primary capital		**420 112**	350 287
Ordinary share capital	*19*	**1 800**	1 800
Share premium	*20*	**165 979**	165 979
Retained earnings (appropriated profits)		**252 333**	182 508
Secondary capital		**-**	6 746
Less impairment		**(23 024)**	(20 700)
Total qualifying capital and reserves		**397 088**	336 333
Non qualifying capital and reserves		**72 207**	53 220
Profit not formally appropriated		**48 275**	32 520
Fair value reserve for available-for-sale equity securities		**(2 893)**	-
Share based payment reserve		**3 801**	-
Impairment		**23 024**	20 700
Total capital and reserves		**469 295**	389 553

Risk-weighted exposure

	Capital requirement 2008 R'000	Risk-weighted exposure 2008 R'000	Capital requirement 2007 R'000	Risk-weighted exposure 2007 R'000
Credit risk				
Retail bank, corporate bank and central treasury	254 344	2 608 647	121 266	1 212 661
Market risk				
Retail bank, corporate bank and central treasury	1 732	17 773	-	-
Operational risk				
Retail bank, corporate bank and central treasury	45 563	467 312	-	-
Equity risk				
Retail bank, corporate bank and central treasury	115	1 178	-	-
Other assets	6 694	68 653	-	-
Totals	308 448	3 163 563	121 266	1 212 661
Capital ratios				
Total capital adequacy ratio	12,55%		27,74%	
Total primary capital adequacy ratio	12,55%		28,88%	

5 Related party information

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

Related-party transactions
The Bank, 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. These transactions are governed by terms no less favourable than those arranged with third parties.

Key management personnel
Key management personnel has been defined as the Bank's board of directors and executive committee. The definition of key management includes the close members of family of key management personnel. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealing with the Bank. They may include the individual's domestic partner and children, the children of the individual's domestic partner, and dependants of the individual or the individual's domestic partner.

5 Related party information (continued)

Related party balances – outstanding at year end	**2008 R'000**	2007 R'000
Advances		
Loans to fellow subsidiaries	**75 392**	201 036
Derivative assets with fellow subsidiaries	**2 006**	706
Loans to senior Bank employees and key management	**1 208**	588
Deposits		
Deposits from fellow subsidiaries	**(94 064)**	(5 231)
Deposits from associates of The Bidvest Group Limited	**-**	(33 427)
Deposits from directors, senior employees and key management	**(14 313)**	(774)
Derivative liabilities with fellow subsidiaries	**(597)**	(10)
Accounts payable to fellow subsidiaries	**(465)**	(313)
Accounts receivable from fellow subsidiaries	**-**	165
Related party transactions – fellow subsidiaries		
Income		
Net interest income	**(24 145)**	(2 598)
Commission and fees	**(568)**	(908)
Administration fee received	**(381)**	(196)
Other	**(1 173)**	(90)
Expenses		
Administration fee paid	**241**	565
IT charges	**1 737**	5 892
Property rentals	**2 654**	1 846
Office equipment rental	**109**	106
Security fees	**6 007**	5 473
Stationery	**771**	867
Storage fees	**291**	296
Royalties paid	**2 946**	3 135
Vehicle leases	**318**	359
Related party transactions – key management		
Key management personnel compensation for the period comprises		
← Short term employee benefits	**13 401**	7 428
← Retirement and medical aid benefits	**1 284**	691
← Share-based payment expense	**1 064**	1 464
Related party off balance sheet transactions - fellow subsidiaries		
Letters of credit	**18 179**	-
Guarantees	**-**	21 110
Notional value of FECs with fellow subsidiaries (loans)	**(59 860)**	(47 952)
Notional value of FECs with fellow subsidiaries (deposits)	**49 973**	5 216

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

Executives participate in The Bidvest Group Limited's share incentive scheme (see note 26).

6 Income

6.1 Net interest income

	2008 R'000	2007 R'000
Interest income	**71 978**	36 265
cash and cash equivalents	**16 434**	9 760
loans and advances to banks	**2 237**	260
loans and advances to customers	**51 239**	24 465
investment securities	**1 945**	1 707
other	**123**	73
Interest expense	**(26 569)**	(10 619)
deposits from banks	**(2 094)**	(1 717)
deposits from customers	**(24 475)**	(8 902)
Net interest income	**45 409**	25 646
Included within various captions under interest income for the year is interest accrued on impaired financial assets.	**135**	860

Included in interest income is R1,9 million (2007: R1,7 million) relating to available-for-sale financial assets.

6.2 Fee and commission income

	2008 R'000	2007 R'000
Retail transaction fees and commission	**113 483**	98 634
Card based commission	**10 631**	7 990
Foreign currency service fees	**19 709**	11 579
Knowledge based fees	**265**	41
Electronic banking fees	**377**	125
	144 465	118 369

6.3 Fee and commission expense

	2008 R'000	2007 R'000
Retail transaction fees and commission	**12 359**	11 340
Card based commission	**6 220**	6 430
Foreign currency service fees	**10 134**	3 600
Electronic banking fees	**215**	-
	28 928	21 370

6.4 Other income

	2008 R'000	2007 R'000
Dividends received on investment securities	**1 934**	1 623
Other	**1 139**	462
	3 073	2 085

7 Employment costs

	2008 R'000	2007 R'000
Salaries	**78 611**	67 740
Contributions to the provident fund	**2 942**	2 451
Contributions to the defined contribution pension fund	**2 282**	1 874
Increase (decrease) in liability for the defined benefit plan	**26**	(207)
Share based payment expense	**1 064**	1 464
	84 925	73 322

8 Operating expenditure

8.1 Operating lease costs

	2008 R'000	2007 R'000
Property rentals	**24 105**	21 401
Office equipment	**32**	108
Vehicles	**337**	959
Straight lining of leases	**737**	(290)
	25 211	22 178

8.2 Other operating expenditure

Other operating expenditure includes:

	2008 R'000	2007 R'000
Auditors' remuneration	**1 364**	905
audit fee - current	**1 340**	900
prior year under provision	**24**	5
Consulting fees	**296**	-
Amortisation of intangible assets	**3 418**	1 337
Directors' emoluments	**6 153**	5 075
for services as non-executive directors	**405**	306
for services as executive directors	**5 748**	4 769
Loss on disposal of equipment	**125**	4 9

9 Taxation

	2008 R'000	2007 R'000
9.1 Indirect taxation		
Value added tax	7 245	4 453
Revenue stamps	4	11
Skills development levy	738	641
	7 987	5 105
9.2 Direct taxation		
South African normal taxation	(33 336)	(23 977)
Current	(33 159)	(23 977)
Prior year under provision	(177)	-
Deferred taxation		
Origination and reversal of temporary differences	(1 647)	235
Change in tax rate	(25)	-
Capital gains tax	104	-
	(34 904)	(23 742)
Tax rate reconciliation	%	%
Effective rate	29,92	28,88
Disallowed expenditure	(2,01)	(0,63)
Non-taxable income	0,18	0,75
Change in tax rate	(0,02)	-
Prior year under provision	(0,13)	-
Capital gains tax	0,08	-
Standard taxation rate	28,00	29,00

10 Notes to the cash flow statement

	2008 R'000	2007 R'000
10.1 Reconciliation of cash outflow from operations		
Profit before tax	**116 660**	82 195
Adjustments		
Depreciation of equipment	**7 151**	5 678
Amortisation of intangible assets	**3 418**	1 337
Loss on disposal of equipment	**125**	49
Change in fair value adjustments of investment securities	**-**	2 437
Interest received	**71 978**	36 265
Interest paid	**(26 569)**	(10 619)
Share-based payments	**1 064**	1 464
Dividends received	**(1 934)**	(1 623)
Operating profit before changes in working capital	**171 893**	117 183
Decrease (increase) in derivative financial instruments	**958**	(5 238)
Decrease (increase) in other assets	**7 711**	(20 996)
Increase in other liabilities	**176 475**	22 942
Increase in loans and advances	**(156 190)**	(189 182)
Increase in deposits	**266 564**	86 829
	467 411	11 538
10.2 Taxation paid		
Opening balance	**(10 522)**	(4 603)
Normal taxation charge	**(33 336)**	(23 977)
Closing balance	**17 683**	10 522
Taxation paid	**(26 175)**	(18 058)
10.3 Movement on investment securities		
Opening balance at fair value	**36 788**	16 730
Purchases during the year	**19 847**	23 040
Decrease in fair value adjustments during the year	**(4 039)**	(2 982)
Closing balance	**52 596**	36 788
10.4 Cash and cash equivalents		
Cash and balances with banks	**533 175**	174 675

11 Cash and balances with banks

	2008 R'000	2007 R'000
Cash on hand and in transit	**94 940**	95 816
Interbank investments		
current accounts	**187 467**	28 505
money on call	**242 909**	42 523
South African Reserve Bank	**546**	4 800
Restricted cash held at the South African Reserve Bank	**7 313**	3 031
	533 175	174 675

12 Derivative financial instruments

	2008 R'000	2007 R'000
Foreign exchange contracts (FECs)		
derivative financial assets	**9 587**	3 165
derivative financial liabilities	**(7 813)**	(433)
Net fair values	**1 774**	2 732
Notional amount	**890 345**	310 678

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

13 Loans and advances

13.1 Analysis of loans and advances to customers

	2008 R'000	2007 R'000
Call and term loans	**449 173**	382 405
Mortgage loans	**10 505**	1 191
Instalment sale agreements	**41 493**	1 372
Finance lease agreements	**21 452**	-
	522 623	384 968
Less impairment (note 13.2)	**(3 832)**	(6 157)
Balance at end of year	**518 791**	378 811
Loans and advances to banks		
Call and term loans	**21 470**	5 260
Total loans and advances	**540 261**	384 071

13.2 Movement in impairments

	2008 R'000	2007 R'000
Specific impairments		
Call and term loans		
Opening balance	**(5 475)**	(2 903)
Income statement	**(2 240)**	(9 066)
Bad debts written off	**7 329**	6 494
Closing balance	**(386)**	(5 475)
Mortgage loans		
Opening balance	**(22)**	(63)
Income statement reversal	**6**	41
Closing balance	**(16)**	(22)
Instalment sale		
Opening balance	**-**	(64)
Income statement charge	**-**	(2)
Bad debts written off	**-**	66
Closing balance	**-**	-
Portfolio impairment		
Opening balance	**(660)**	-
Income statement charge	**(2 770)**	(660)
Closing balance	**(3 430)**	(660)

13.3 Movement in impairments

2008	**Gross R'000**	**Unearned finance charges R'000**	**Net R'000**
Due within 1 year	**6 120**	**613**	**5 507**
Between 1-5 years	**77 454**	**20 016**	**57 438**
	83 574	**20 629**	**62 945**

2007	Gross R'000	Unearned finance charges R'000	Net R'000
Due within 1 year	-	-	-
Between 1-5 years	2 109	737	1 372
	2 109	737	1 372

14 Investment securities

	2008 R'000	2007 R'000
Securities at fair value through profit or loss		
listed preference shares	**-**	20 700
Available-for-sale securities		
investment in RSA 153 and 157 Government bonds	**33 722**	16 071
listed preference shares	**17 705**	-
listed equities	**1 153**	-
unlisted shares at directors' valuation	**16**	16
	52 596	36 787

Preference shares are held as available for sale assets. The designation was changed during the year from held for trading due to a change in classification.

Government bonds are held as available-for-sale and are valued by using the all in price. The movement in the fair value of the bonds is recognised directly in equity (refer statement of changes in equity).

15 Other assets

Accounts receivable	**14 146**	10 708
Outstanding banking	**12 186**	25 071
Payments in advance	**2 568**	4 560
Encashed travellers cheques	**2 737**	2 009
VAT recoverable	**1 783**	1 053
Other	**3 869**	1 599
	37 289	45 000

16 Equipment

	2008 R'000	2007 R'000
Office equipment	**3 567**	3 537
Cost	**8 187**	7 283
Accumulated depreciation and accumulated impairment	**(4 620)**	(3 746)
Furniture and fittings	**12 864**	9 125
Cost	**27 683**	21 544
Accumulated depreciation and accumulated impairment	**(14 819)**	(12 419)
Computer equipment	**6 306**	2 008
Cost	**13 770**	9 332
Accumulated depreciation and accumulated impairment	**(7 464)**	(7 324)
Motor vehicles	**3 655**	2 458
Cost	**4 614**	2 747
Accumulated depreciation and accumulated impairment	**(959)**	(289)
Capital work in progress	**-**	288
	26 392	17 416

Movement in equipment

	2008 R'000	2007 R'000
Carrying value at beginning of year	**17 416**	16 813
Additions	**16 284**	6 349
Office equipment	**1 213**	791
Furniture and fittings	**6 949**	2 547
Computer equipment	**6 256**	1 050
Motor vehicles	**1 866**	2 394
Capital work in progress	**-**	(433)
Disposals	**(166)**	(68)
Office equipment	**(34)**	(13)
Furniture and fittings	**(116)**	(47)
Computer equipment	**(16)**	(8)

Movement in equipment (continued)

	2008 R'000	2007 R'000
Depreciation	**(7 142)**	(5 678)
Office equipment	**(1 174)**	(1 099)
Furniture and fittings	**(3 319)**	(3 096)
Computer equipment	**(1 978)**	(1 194)
Motor vehicles	**(671)**	(289)
Carrying value at end of year	**26 392**	17 416

No impairment of assets was considered necessary during the current or prior financial years.

17 Intangible assets

	2008 R'000	2007 R'000
Goodwill at cost	**1 221**	-
Computer software	**3 045**	4 201
Cost	**16 487**	15 022
Accumulated amortisation and accumulated impairment	**(13 442)**	(10 821)
Development costs	**590**	913
Cost	**1 382**	1 264
Accumulated amortisation and accumulated impairment	**(792)**	(351)
	4 856	5 114
Movement in intangible assets		
Carrying value at beginning of year	**5 114**	2 890
Additions	**3 157**	3 561
Goodwill	**1 221**	-
Computer software	**1 819**	3 561
Development costs	**117**	-
Amortisation	**(3 415)**	(1 337)
Computer software	**(2 974)**	(986)
Development costs	**(441)**	(351)
Carrying value at end of year	**4 856**	5 114

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

Goodwill relating to acquired operations:

	2008 R'000
Purchase price	**2 540**
Net book value of acquired operations	**(1 319)**
Goodwill	**1 221**

18 Deferred taxation

	2008 R'000	2007 R'000
Balance at beginning of year	**725**	1 205
Current year movement		
charged to the income statement	**(1543)**	235
charged to equity	**167**	(715)
reversal of deferred tax on equity settled share based payment reserve	**794**	-
change in rate	**(25)**	-
Balance at end of year	**118**	725

The deferred tax asset consists of temporary differences arising from:

	2008 R'000	2007 R'000
Leased assets	**4 999**	146
Trademark	**(4)**	(4)
Fair value of investment securities	**-**	543
Provisions and prepayments	**2 134**	806
Finance leases	**(7 393)**	(155)
Operating leases	**382**	183
Share based payments	**-**	(794)
Balance at end of year	**118**	725

19 Share capital

19.1 Authorised

	2008 R'000	2007 R'000
360 000 000 ordinary shares of 1 cent each	**3 600**	3 600

19.2 Issued

	2008 R'000	2007 R'000
180 000 000 ordinary shares of 1 cent each	**1 800**	1 800

The unissued shares are under the control of the directors until the forthcoming annual general meeting of shareholders.

20 Share premium

	2008 R'000	2007 R'000
Arising on shares issued in prior years	**178 200**	178 200
Goodwill	**(11 908)**	(11 908)
Share issue cost	**(313)**	(313)
	165 979	165 979

21 Deposits

	2008 R'000	2007 R'000
Deposits from banks		
Fixed, notice and call deposits	**10 832**	15 424
Deposits from customers		
Fixed, notice and call deposits	**456 103**	184 948
	466 935	200 372

The maturity analysis of deposits and other accounts is based on the contractual period to maturity from the balance sheet as reflected in note 4.3

22 Other liabilities

	2008 R'000	2007 R'000
Trade accruals	**31 385**	21 978
Outstanding bank credits	**6 567**	3 956
Outstanding cheques	**27 115**	11 828
Straight lining of leases	**1 367**	631
Foreign suppliers and customers	**170 077**	22 205
Other	**5 837**	5 301
	242 348	65 899

23 Defined benefit liability

	2008 R'000	2007 R'000
Post retirement medical benefits		
The Bank provides post retirement medical benefits to 8 employees who were employed before January 1 1999 and joined the Quantum Medical Aid Society before January 1 2000.	**200**	174
The fund is actuarially valued every three years and the last valuation was done in June 2007.		
Opening balance	**174**	784
Actuarial loss	**-**	4
Past service costs	**114**	-
Effect of settlement	**(88)**	(614)
Closing balance	**200**	174

In order to undertake the valuation, it is necessary to make a number of assumptions. The most significant assumptions used for the current and previous valuations are outlined below:

Valuation Date	**June 30 2007**	June 30 2004
Discount rate	**7,75% p.a.**	7,5% p.a.
Increases in rand subsidy amount	**R0 p.a.**	R0 p.a.
Expected retirement age	**65**	65
Membership discontinued at retirement	**0**	0
Number of qualifying employees	**11**	122
The valuation results are based on the aforementioned assumptions. If the assumptions were to change the impact would be as follows:	**One percentage point decrease R'000**	One percentage point increase R'000
One percent movement in the discount rate:		
Accrued liability June 30 2007	**189**	161
Increase or decrease in expected retirement age:	**One year younger R'000**	One year older R'000
Accrued liability June 30 2007	**180**	168

24 Classification of assets and liabilities

Accounting classification and fair values

	Fair value through profit/loss	Loans and Receivables	Available for sale	Other amortised cost	Other non financial assets/ liabilities	Fair value
	R'000	R'000	R'000	R'000	R'000	R'000
2008						
Assets						
Cash and balances with banks	-	533 175	-	-	-	533 175
Derivative financial assets	9 587	-	-	-	-	9 587
Loans and advances	-	477 316	-	-	62 945	540 261
Investment securities	-	-	52 596	-	-	52 596
Other assets	-	32 938	-	-	4 351	37 289
Equipment	-	-	-	-	26 392	26 392
Intangible assets	-	-	-	-	4 856	4 856
Deferred taxation	-	-	-	-	118	118
	9 587	1 043 429	52 596	-	98 662	1 204 274
2008						
Liabilities						
Derivative financial liabilities	7 813	-	-	-	-	7 813
Deposits	-	-	-	466 935	-	466 935
Current taxation	-	-	-	-	17 683	17 683
Other liabilities	-	-	-	240 981	1 367	242 348
Defined benefit liability	-	-	-	-	200	200
	7 813	-	-	707 916	19 250	734 979
2007						
Assets						
Cash and balances with banks	-	174 675	-	-	-	174 675
Derivative financial assets	3 165	-	-	-	-	3 165
Loans and advances	-	382 699	-	-	1 372	384 071
Investment securities	20 700	-	16 087	-	-	36 787
Other assets	-	39 387	-	-	5 613	45 000
Equipment	-	-	-	-	17 416	17 416
Intangible assets	-	-	-	-	5 114	5 114
Deferred taxation	-	-	-	-	725	725
	23 865	596 761	16 087	-	30 240	666 953
2007						
Liabilities						
Derivative financial liabilities	433	-	-	-	-	433
Deposits	-	-	-	200 372	-	200 372
Current taxation	-	-	-	-	10 522	10 522
Other liabilities	-	-	-	65 268	631	65 899
Defined benefit liability	-	-	-	-	174	174
	433	-	-	265 640	11 327	277 400

Due to the short term nature of the assets and liabilities, the fair value is deemed to equal the carrying value.

25 Contingent liabilities and commitments

25.1 Off balance sheet transactions

	2008 R'000	2007 R'000
Guarantees issued on behalf of associate group companies	-	21 110
Guarantees issued on behalf of third parties	**28 198**	1 831
Letters of credit issued on behalf of third parties	**2 694**	8 050
Letters of credit issued on behalf of associate group companies	**18 179**	-
Corporate card clients	**1 133**	899
Unutilised loan facilities granted	**123 000**	100 394
	173 204	132 284

Guarantees are both payment and performance related guarantees on behalf of customers.

Letters of credit (LC) include documentary LCs with customers regarding imports and exports.

The amount relating to corporate card clients represents credit card balances where the Bank bears the credit risk in the event of default. This amount does not form part of the Bank's loans and advances.

25.2 Future operating lease commitments

	2008 R'000	2007 R'000
Property leases		
payable within one year	**26 540**	13 628
payable between one and five years	**105 038**	26 316
payable after five years	**3 498**	303
Motor vehicles leases		
payable within one year	**115**	408
payable between one and five years	**155**	177
	135 346	40 832

26 Share-based payments

The Bidvest Share Incentive Scheme ("Scheme") grants options and advances loans to employees of the Bidvest Group to acquire shares in The Bidvest Group Limited. Both the share schemes hereunder have been classified as equity-settled schemes, and therefore an equity-settled shared-based payment reserve has been recognised.

Share options scheme

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

The terms and conditions of the options are as follows:

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

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

The fair value of services received in return for shares allotted is measured based on a binomial method. For additional disclosure relating to the movement of shares refer to The Bidvest Group Limited annual financial statements.

Share purchase scheme

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

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

Options acquired, valid for 3, 4 or 5 years, by the Scheme to buy back shares are offset against share premium. No options were acquired during the period.

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

The fair value of services rendered is calculated with reference to the discount on the share price in relation to the share's market price on the date of allotment and is expensed over the period that the loan is payable.

	2008 R'000	2007 R'000
Share-based payment expense recognised relating to the share options and share purchase Scheme	**1 064**	1 464

27 Business acquisition

Name of acquisition	**Foreign exchange branches**
Date of acquisition	**May 30 2008**
Percentage of voting equity instruments acquired (%)	**100**
Contribution to net profit since acquisition (R'000)	**320**

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows:

	Fair value R'000	Carrying amount R'000
Cash and balances with banks	**889**	889
Equipment	**359**	359
Other assets	**115**	115
Other liabilities	**(44)**	(44)
	1 319	1 319
Goodwill	**1 221**	
Total purchase consideration paid	**2 540**	
Less: Cash and cash equivalents acquired	**(889)**	
Cash outflow on acquisition	**1 651**	

Starting during May 2008, the Bank acquired certain foreign exchange branches from The Bidvest Group Limited. The purchase price is based on an earnings valuation and the goodwill is calculated as the excess over the net book value.

28 Capital commitments

Authorised and contracted for	**2 198**	272

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

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. Refer to note 14 for change in intention. An impairment of an investment security will be considered if there is an indication of permanent diminution of value in the security.

29.1 Credit impairment losses on loans and advances

Performing loans

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

Non-performing loans

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

29.2 Income taxes

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

29.3 Impairment of non financial assets

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

30 Standards and interpretations issued but not yet effective

The Bank is yet to assess the impact of this interpretation which will be effective for the Bank's 2009 financial statements.

- IFRS 2 Share-based Payment – Vesting Conditions and Cancellations

- The amendment to IFRS 2 clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment agreement should be treated as non-vesting conditions and should be included in the grant date fair value of the share-based payment. It also specifies that cancellations by parties other than the entity should be accounted for in the same way as cancellations by the entity. This amendment is not expected to impact the Bank's results significantly.

- IFRS 8 Operating segments replaces IAS 14 Segment Reporting and aligns segment reporting with the requirements of SFAS (Statements of Federal Accounting Standards) 131 (US standard). This standard requires an entity to adopt the "management approach" when reporting on the financial performance of its operating segments. The reporting would be based on the information that management uses internally for evaluating segment performance and when deciding how to allocate resources to operating segments. The statement which is effective for the Bank's 2010 financial statements will therefore not impact the results of the Bank but will impact the format of disclosure and measurement of the results of reportable segments.

- IAS 1 Presentation of Financial Statements

  The revised IAS 1 supersedes the 2003 version of IAS 1. The main change in the revised IAS 1 is the requirement to present all non-owner changes in equity in either:

  - a single statement of comprehensive income which includes income statement line items; or
  - a statement of comprehensive income which includes only non-owner equity changes. In addition, an income statement is also disclosed.

  A statement of financial position, preferred term for "balance sheet", also has to be presented at the beginning of the comparative period when the entity restates the comparatives as a result of a change in accounting policy, the correction of an error, or the reclassification of items in the financial statements. The revised IAS 1 will not impact the results of the Bank but will impact the format of the income statement and statement of changes in equity.

- IAS 23 Borrowing Costs
  The revision of IAS 23 requires the capitalisation of borrowing costs that relate to qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale. It does not require the capitalisation of borrowing costs relating to assets measured at fair value, and inventories manufactured or produced in large quantities on a repetitive basis. This standard will change the Bank's existing policy of expensing all borrowing costs as incurred. The impact is not expected to be material but is dependent on the number and value of projects undertaken after the effective date.

Contact details

BUSINESS UNIT	NAME	OFFICE No.	E-MAIL ADDRESS
MANAGING DIRECTOR	Alan Salomon	011 407 3000	alan.salomon@bidvestbank.co.za
FINANCIAL DIRECTOR	Lydia de Waal	011 407 3000	lydia.dewaal@bidvestbank.co.za
RETAIL OPERATIONS	Craig MacFarlane	011 407 3262	craig.macfarlane@bidvestbank.co.za
LENDING	Gary Bloch	011 407 3028	gary.bloch@bidvestbank.co.za
DEPOSITS & INVESTMENTS	Darren Abrahams	011 407 3020	darren.abrahams@bidvestbank.co.za
CARD DIVISION	Neil Capazorio	011 407 3035	neil.capazorio@bidvestbank.co.za
CORPORATE & INT. BANKING	Gavin Bower	011 407 3266	gavin.bower@bidvestbank.co.za
TRADE SERVICES	Richard Harvey	011 407 3053	richard.harvey@bidvestbank.co.za
ENTERPRISE WIDE RISK	Andries Vermaak	011 407 3037	andries.vermaak@bidvestbank.co.za

BUSINESS UNIT	NAME	OFFICE No.	E-MAIL ADDRESS
HUMAN RESOURCES	Duncan Nkosi	011 407 3258	duncan.nkosi@bidvestbank.co.za
FORENSIC & SECURITY	Erica Gibbons	011 407 3033	erica.gibbons@bidvestbank.co.za
CREDIT	Erik Mathiesen	011 407 3390	erik.mathiesen@bidvestbank.co.za
PAYMENTS & SETTLEMENTS	Jill Murtagh	011 406 3346	jill.murtagh@bidvestbank.co.za
INFORMATION TECHNOLOGY	Russell Fogg	011 407 3260	russell.fogg@bidvestbank.co.za
INTERNAL AUDIT	Rosemary Bereczky	011 407 3019	rosemary.bereczky@bidvestbank.co.za
COMPLIANCE	Brett Jury	011 407 3023	brett.jury@bidvestbank.co.za
MARKETING	Jodi Raviv	011 407 3040	jodi.raviv@bidvestbank.co.za

The Foreign Exchange Specialists

Visit your closest Rennies Foreign Exchange or Bidvest Bank branch, log onto www.bidvestbank.co.za, or call 0860 11 11 77.

Annual Report for the year ended June 30 2008. Registration No. 2000/006478/06