



THE Bidvest GROUP LIMITED

Bidvest Banking and Insurance Services

Material issues

- Ensuring full and current compliance with all regulations and responsible banking practices, across all levels of the company
- Finding ways to continue to diversify our revenue streams and broaden our customer-base
- Continued focus to reduce losses to crime
- Attracting and retaining senior historically disadvantaged individuals
- Improved efficiency, productivity and the elimination of expense waste
- Succession planning
- Challenging trading conditions in a strong rand, low-interest-rate environment
- Slow economy due to impact of worldwide recession

Business context

At Bidvest Financial Services, we understand that sustainable business means returning to the basics and ensuring sound business policies and practices.

The core of our business has always been foreign exchange, in which we have a 150-year history, itself a demonstration of long-term sustainability. Acquiring our banking licence in 2000 signified entry into a highly regulated environment with associated costs and administrative commitments.

In 2005, we extended our offering into specialist fields of operation by supplying foreign corporate exchange services through the internet leading to rebranding as Bidvest Bank. This enhanced new image enabled the business to move into more traditional banking, growing its deposits and specialist lending business, a process that has gained momentum over the last three years. The growth and new product offerings of our insurance business have also been an area of focus.

Our core revenue generators and competencies remain in corporate foreign exchange. We have developed our own sales force, of almost 100 people, to drive our penetration of this large market. We have developed a card division that offers a range of products linked to foreign exchange, including our world currency card. We recognise significant market opportunities in our core activity areas and rather than look to other types of banking, we drive this core potential in a way that broadens our revenue streams.

With effect from 1 June 2010, the Reserve Bank approved the R650 million acquisition of the financial service interests of Bidvest Automotive, creating a challenge for management to bed down the acquisition smoothly while scrupulously adhering to all regulatory requirements. This challenge was successfully met, thanks to appropriate training investment and adaptable teams.

Corporate governance

The bank is committed to conducting its business in accordance with the highest ethical standards, as expressed in the Code of Ethics. We require all employees to confirm annually that they adhere to the Code of Ethics and to report any instances of non-compliance. A report on this issue is submitted to the audit committee and board of directors. The board is satisfied that ethical standards are adhered to in the bank's operations and that the ethics programme is effective.

The board recognises the importance of the principles of good corporate governance and conducts itself in accordance with the bank's statutes, the Banks Act, the Companies Act, the King Report and Code on Corporate Governance for South Africa ("King III") and its own code of conduct. The board's objectives are the development and sustainable growth of the bank's business in accordance with applicable regulatory requirements, for the benefit of all stakeholders. The achievement of these objectives is dependent on the adherence to good corporate governance throughout the organisation.

Risk Management

The bank's risk management policies are overseen by the board and are established to identify and analyse the risks faced by the bank and to set and monitor appropriate risk limits. The board is satisfied that the risk management system will identify and enable it to take adequate action against any unexpected or unusual risks. During the year, no such risks were identified. A documented and tested business continuity plan ensures continuity of business-critical activities.

Compliance and the legislative environment

The economic downturn since 2008 has demonstrated the crucial importance of good corporate governance and compliance. The downturn has been accompanied by a trend towards increasingly stringent regulation of many sectors, banking in particular. Bidvest Bank is deeply committed to ensuring its compliance with *all* acts and regulations and to establishing the infrastructure and expertise to make this ongoing. We recognise that compliance with all national and international regulations is critical for our business sustainability. To this end, we have built solid foundations, including a team of over 70 governance and compliance specialists.

The bank complies with the South African regulatory requirements based on the Basel II Accord. Following the international financial crisis that started in 2007, a Basel III framework has been developed that includes an enhanced Basel II and apparatus to limit system-wide financial distress.

Bidvest Bank already complies with Basel III, demonstrating strong compliance commitments as the requirements only come into force in 2015 and 2018. We maintain a strong relationship with our key regulator, the Bank Supervision Department (BSD) of the South African Reserve Bank. Communication and transparency are key factors in this relationship.

We strive to promote a strong culture of good compliance governance throughout Bidvest Bank. Adherence to legislation and regulations is ensured through the documentation of all legal requirements in internal policies that are published on the intranet and updated annually. Employees receive regular training on all policies and procedures relevant to their roles and responsibilities. Line management is responsible for ensuring compliance by employees with laws, regulations, policies and procedures. Compliance is monitored by the Compliance, Internal Audit and Forensic Investigations and Security departments. All instances of non-compliance are reported and appropriate corrective and disciplinary action taken.

Performance

The division put in an exceptionally strong performance, benefiting from a much-expanded range of activities.

We achieved significant diversification without taking on bad debt. By year-end, the division had emerged as one of the largest corporate vehicle and asset leasing businesses in South Africa as well as a leading foreign exchange specialist.

Our operating income of R862 million (2010: R485 million) showed pleasing growth of 78% while profit before taxation rose by 44,6% to R253,5 million (2010: R175,3 million). There were no significant write-downs or write-offs.

Deposits showed pleasing growth to R1,36 billion (2010: R1,18 billion), reflecting the success of efforts to widen the customer-base. Our business customers include growing numbers of listed companies.

Our teams were tasked with achieving stronger marketplace positioning and by year-end the business enjoyed increasing recognition for creating the most effective pre-paid foreign currency debit and ATM card for overseas travellers, providing the sector's widest range of foreign bank notes and offering the lowest cost bank account for unlimited banking transactions.

Our reputation as the bank offering the longest banking hours became a strong differentiator.

Bidvest Bank won the ACSA Feather Award as best landside retailer at Johannesburg's O.R. Tambo International Airport – one of the most coveted awards in the airports industry. The bank also took the ACSA Feather Award as best financial services provider at Cape Town International Airport.

The bank currently carries the Moody's rating of A3.za/P-2/za, with a stable outlook.

Innovation and investment

Strategic widening of the scope of our business was the major change, initially driven by the integration of the fleet services business from Bidvest Automotive. The process was reinforced by the Bidvest South Africa restructure which positioned us as an autonomous banking and insurance services business.

Capital expenditure increased to R768,0 million (2010: R689,6 million), reflecting the increased size of the business after the acquisition of the financial services interests of Bidvest Automotive. The number of retail banking branches rose from 88 to 90.

The bank made substantial investment in information technology during the year in the form of technical skills, infrastructure and systems. Disaster recovery was enhanced and successfully tested.

Expansion of the product range continued. Bidvest Bank became the first South African financial institution to include Chinese yuan as a standard offering in its range of foreign banknotes. Our range of currency cards was continually expanded while a growing number of depositors opened seven-day call accounts.

We also launched a private client foreign exchange service, taking advantage of the quality profile of our core customer-base.

The bank built on its lead as the South African pioneer of internet-based foreign payment and receipt technology by further collaboration with our global payments partner at Travelex. By year-end, we were preparing to launch a re-branded, updated web-based corporate settlement service – Bidvest Bank Global Payments Online™.

People, training and skills

Our workplace environment continues to expand as our business grows. Our staff complement rose from 1 023 to 1 228. We launched a successful effort to create a unified culture as the business moved from its Rivonia premises to larger offices in Braamfontein. To support our people, our human resources function was significantly strengthened.

We engage with staff primarily through training and development. Training investment rose from R15,1million to R16,4 million. Training includes refresher courses and new material, focusing on on-the-job skills with strong emphasis on computer skills. In addition to SETA-aligned training, we increasingly provide familiarisation courses and informal coaching to capture ideas from all operations and drive team integration. In addition, managers receive one-on-one exposure to senior executives, enabling direct feedback while the manager is introduced to strategic dynamics.

Teams from an automotive asset-based finance and insurance background rapidly adjusted to a much broader role. Without losing the benefits of their vehicle retailing roots, they increasingly grasp the wider potential offered by new positioning as providers of a wide range of insurance services to a broader customer-base.

Transformation

We progressed from BEE Level 4 status to Level 3. Bidvest Bank's BEE rating is among the best in the banking industry. We have set ourselves the challenge of achieving Level 2 in a year's time. Our main areas of success were in enterprise development, skills development and preferential procurement. Investment in enterprise development rose to R14,3 million while total social investment reached R2 million. We also launched an executive development programme to provide six months of intensive training in financial services to university graduates.

Product responsibility

Our commitment to customer confidentiality is absolute. The protection of customer information is embedded in our company culture and we do not tolerate any deviance from this.

Product responsibility is one of our primary concerns. We offer specialist products and services that may not be provided by a customer's mainstream banking company. Our products therefore undergo lengthy research and development until they demonstrate the level of competitive advantage that will encourage clients to move their custom to us from their mainstream bank. The reliability of our products and their value to our customers are paramount to our business. Every product's functionality and performance are examined critically and every complaint and criticism thoroughly investigated. All complaints reach the CEO. Customer satisfaction is constantly monitored. This feedback contributes to continual product refinement and improvement.

Preventing fraud and corruption; maintaining security

Our Forensic Investigation and Security Department operates throughout our organisation to prevent unlawful activity. Integrity is integral to our reputation. In addition to pre-empting internal fraud, we

recognise the need to protect our clients' interests. The department head is the bank's money laundering control officer. There were no significant incidents of fraud during this reporting period. Among its activities, the department conducts surprise cash counts and runs a 24/7 card fraud monitoring division.

Our business involves the physical movement of large quantities of cash. Stringent security is therefore essential. Our teams continually re-examine operational security and follow best international practice. Extensive protective measures not only ensure the security of our assets, but the protection of our clients. A vehicle-tracking system enhances the security of bank vehicles.

Various measures enable the detection and investigation of money laundering. These measures include a risk-based approach to customer identification and enhanced due diligence.

Environmental impact

Bidvest Financial Services is conscious of its environmental responsibilities. While the business has a fairly low direct impact, we are working towards paperless administrative systems as we develop new products in our niche markets. We recycle waste paper.

We experienced a 188% increase in our total electricity usage in 2011. In addition, we experienced a 121% increase in our total carbon emissions. These increases reflect increased business activity.